



**Written submission to the  
consultation on the green paper on  
online gambling in the  
Internal Market**

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## Table of Contents

<b>Introduction.....</b>	<b>3</b>
<b>Response to the consultation on the green paper on online gambling .....</b>	<b>4</b>
(2) Are you aware of any available data or studies relating to the nature and size of the black market for on-line gambling services? (Unlicensed operators) .....	4
(13) Are players' accounts a necessary requirement for enforcement and player protection reasons? .....	5
(14) What are the existing national rules and practices relating to customer verification, their application to on-line gambling services and their consistency with data protection rules? How do you assess them? Are there specific problems associated with customer verification in a cross-border context?.....	5
(27) Are you aware of studies and/or statistical data relating to fraud and on-line gambling? .....	6
(29) What, in your opinion, are the best practices to prevent various types of fraud (by operators against players, players against operators and players against players) and to assist complaint procedures? .....	7
(30) As regards sports betting and outcome fixing - what national regulations are imposed on on-line gambling operators and persons involved in sport events/games to address these issues, in particular to prevent 'conflicts of interest'? Are you aware of any available data or studies relating to the magnitude of this problem? .....	9
(31) In your view what issues should be addressed as a priority? .....	10
(32) What risks are there that a (on-line) sports betting operator, which has entered into a sponsorship agreement with a sports club or an association, will seek to influence the outcome of a sports event directly or indirectly for profitable gain? .....	12
(33) What cases have demonstrated how on-line gambling could be used for money laundering purposes?.....	13
(35) Do you have experience and/or evidence of best practice to detect and prevent money laundering? .....	13
(37) Are there national on-line gambling transparency requirements? Do they apply to cross border supply of on-line gambling services and are these rules enforced effectively in your view? .....	14
(41) What are the proportions of on-line gambling revenues from sports betting that are redirected back into sports at national level? .....	14
(42) Do all sports disciplines benefit from on-line gambling exploitation rights in a similar manner to horse-racing and, if so, are those rights exploited? .....	15
(43) Do on-line gambling exploitation rights that are exclusively dedicated to ensuring integrity exist? .....	16
(49) Are you aware of such enhanced cooperation, educational programmes or early warning systems that are aimed at strengthening integrity in sport and/or increase awareness among other stakeholders? .....	17
<b>About ESSA.....</b>	<b>19</b>
<b>List of Annexes.....</b>	<b>20</b>

## Introduction

The European Sports Security Association (ESSA) is delighted to share its thoughts with respect to the consultation launched by the European Commission on online gambling. As an early warning system set up by European licensed betting operators to monitor betting patterns, we have focused our contribution on the issues related to protecting the integrity of sport in the face of corruption and money laundering.

The European Sports Security Association was established in 2005 with the sole mandate to identify, track and report suspicious betting patterns in sport. We consider that sports integrity is essential and that the fight against corruption has to remain the priority of all the stakeholders involved in the sporting world. This is why, over the past six years, we have built a network of robust relationships with some of the leading sport federations and regulators.

ESSA believes that the discussion launched by the Green paper on online gambling should be seen as an opportunity to set up a regulatory framework for online gambling that will help in the fight against corruption and illegal activities, while recognizing the role that licensed and regulated betting operators have been playing and will continue to play in it.

We are grateful to the Commission for launching this discussion on the future of online gambling within the internal market. Nevertheless, we urge the Commission to avoid drawing a link between regulated online gambling and the risk of corruption in sports. It is a fact that the vast majority of betting-related corruption is heavily linked to illegal bookmakers and these actors are the ones that stand to prosper from the current lack of regulation at the EU level. At the same time, we should recognize that licensed betting operators' existing controls to prevent betting related match-fixing in every jurisdiction in which they operate are robust and effective.

Furthermore, we believe that the Commission must take seriously the need to ensure that any future European internal market does not place licensed, regulated bookmakers at a disadvantage to unlicensed, illegal ones. In certain markets, licenses levied on legal operators have had the effect of creating a competitive advantage for illegal counterparts, which has had an undesirable effect in terms of protecting integrity.

Equally, ESSA believes that the Commission and regulators should take care not to link money laundering to online gambling. Despite protestations to the contrary by certain interested parties, the evidence gathered on this subject clearly demonstrates that the EU licensed online gambling industry is not a major channel for money laundering. It should also recognize that the flow of sponsorship from the bookmaking sector to sport in no way compromises integrity, and on the contrary represents a valuable contribution to the sustainable development of sport.

Lastly, we believe any new legislation should ensure that all stakeholders, from betting operators to sports federations and regulators, work hand in hand to fight corruption and promote best practices that protect integrity and promote sustainable development of sport.

Khalid Ali  
Secretary General, European Sports Security Association

## Response to the consultation on the green paper on online gambling

### (2) Are you aware of any available data or studies relating to the nature and size of the black market for on-line gambling services? (Unlicensed operators)

There are a number of studies that point to the nature and size of the ‘black market’, however, we would rather use the term ‘illegal gambling’ as defined by the Spanish Presidency in their Progress Report of May 2010, which states that: *“Illegal gambling may be defined as gambling in which operators do not comply with the national laws of the country where they offer services provided those national laws are in compliance with EU Treaty principles”*.

The following studies are of note:

- A 2011 MAG study on the French online gaming market found that black market websites are estimated to number about 15,000, and approximately 10% feature a French language version. The study mentions a December 2010 interview with ARJEL head Jean-François Vilotte, who stated that prior to the opening of the online market in 2010, the black market was worth around 96% of the overall market, or around €1 billion – in the six months following liberalisation, about 90% of this shifted to the legal market. MAG estimated that the black market’s revenues totalled €13.4 billion in 2010, or 57% of a total €23.6 billion market. Illegal revenues were highest in casino games, bingo and skill games (100%) and lowest in poker (5%) and horse betting (50%), while sports betting accounted for 75% (see Annex 1, MAG Study on French Online Gambling);<sup>1</sup>
- In April 2010 study by Goldmedia suggested that, in 2009, unregulated operators represented 1/5 of the German gambling market; this number is set to reach almost a third in 2015. Germany’s black market represents around €1.0bn in revenue (see Annex 2, Goldmedia Study on German Online Gambling - Press Release);<sup>2</sup>
- A 2008 MAG report suggests that the illegal market in Italy was worth between 10% and 20% of a total market of €42 billion in 2006 (see Annex 3, MAG Italy Study);<sup>3</sup>
- In Norway, the Norwegian Gaming Authority’s preliminary evaluation six months after the introduction of a payment blocking ban showed that 52 percent of Norwegian online gambling players still managed to use credit or debit cards with foreign websites (see Annex 4, Gambling Compliance, Norway’s Payment Blocks Fail To Deliver For Norsk Tipping);<sup>4</sup>
- Interpol has estimated the size of the illegal gambling market at \$500bn in Asia alone (see Annex 5, Remarks by Ronald K. Noble, Interpol Secretary General, on illegal sports betting).<sup>5</sup>

Although it is always going to be difficult to measure the size of the market for illegal gambling in exact terms, it is possible to point to evidence that underlines the fact that the nature of the illegal market is more conducive to illegal activity. One example here is the

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<sup>1</sup> [http://www.mag-ca.it/Download\\_k\\_files/%22Jeux%20en%20ligne%E2%80%9D%20in%20the%20French%20Market\\_2011.pdf](http://www.mag-ca.it/Download_k_files/%22Jeux%20en%20ligne%E2%80%9D%20in%20the%20French%20Market_2011.pdf)

<sup>2</sup> [http://www.goldmedia.com/uploads/media/Press\\_Release\\_Goldmedia\\_study\\_Betting\\_Gambling\\_01.pdf](http://www.goldmedia.com/uploads/media/Press_Release_Goldmedia_study_Betting_Gambling_01.pdf)

<sup>3</sup> [http://www.mag-ca.it/Download\\_k\\_files/Gennaio%202008%20-%20MAG%20Report%20-%20Evoluzione%20Mercato%20giochi%20in%20Italia%202003-2007.pdf](http://www.mag-ca.it/Download_k_files/Gennaio%202008%20-%20MAG%20Report%20-%20Evoluzione%20Mercato%20giochi%20in%20Italia%202003-2007.pdf)

<sup>4</sup> <http://www.gamblingcompliance.com/node/46229>

<sup>5</sup> [http://www.interpol.int/Public/ICPO/speeches/2011/SG\\_IOC20110301.pdf](http://www.interpol.int/Public/ICPO/speeches/2011/SG_IOC20110301.pdf)

scandal in 2010 involving the Pakistani cricket team, when one alleged perpetrator was taped telling undercover reporters that he avoided online gaming because it was too well regulated (see Annex 6, Euractiv, Only a true licensed gambling market can prevent corruption).<sup>6</sup>

**(13) Are players' accounts a necessary requirement for enforcement and player protection reasons?**

Yes. Online payment methods make it necessary for customers to be registered. With responsible online gaming providers, customers have to prove their identity before the first payout at the latest. This allows operators to exercise strict limit policies on individual bets and maximum stakes as part of internal risk management procedures, as well as using 'know your customer' technologies and other fraud protection tools. Also it should be stressed that under licence conditions an account has to be linked to an identifiable person and moreover this is a requirement not just for gaming law but also anti-money laundering purposes.

ESSA members are committed to player protection and enforcement. In fact, a 2008 study carried out by eCOGRA, the leading standards and player protection body in the online gaming industry, showed that 67% of the consumer facing responsible gaming standards implemented by licensed, regulated private operators match or even exceed those applied by 10 of Europe's largest gambling monopolies (see Annex 7, eCOGRA EGBA Benchmarking Study).<sup>7</sup>

**(14) What are the existing national rules and practices relating to customer verification, their application to on-line gambling services and their consistency with data protection rules? How do you assess them? Are there specific problems associated with customer verification in a cross-border context?**

At present, national rules vary greatly from one country to another. While ESSA's members comply willingly with all national regulations, some national rules are less conducive to encouraging legal online betting – an example is France where customers must submit a hard copy version of their identity card to the operator. Their account will then be opened on a temporary basis (they will be able to deposit money but not withdraw) until the verification of their identity is completed within a specified time period. What this means in practice is that the operator has to send a "code de validation" by postal mail to the address the customers gives at the registration. The customer will then have to enter this code within 30 days in order to confirm their account (from temporary to permanent). This process is not only cumbersome but increases the risk of customers being pushed to use unlicensed websites.

In addition to strict legal requirements imposed by law, the sector as a whole, through member-based associations, has put in place additional clear rules on customer verification. These include:

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<sup>6</sup> Original article revealing the scandal and quoting the fixers on online gambling:  
<http://www.newsoftheworld.co.uk/.../news/.../Trio-arrested-by-Customs-officers-investigating-betting-scandal.html>  
<sup>7</sup> <http://www.egba.eu/en/studies/benchmarkstudy>

- The EGBA code of conduct, which imposes age controls and know-your-customer technology (see Annex 8, EGBA Code of Conduct);<sup>8</sup>
- The CEN Workshop Agreement on “Responsible Remote Gambling Measures” (see Annex 9, CEN workshop agreement).<sup>9</sup>

However, customer verification can, at times, be a challenge for a number of reasons. These include:

- Data protection regulations and laws that make it difficult to process data;
- A limited number of effective, fail-safe third party verification solutions;
- And banks not sharing data outside of their industry and/or jurisdictions.

If customer verification is to be truly effective, there needs to be greater access to public data, notably eID schemes, and/or mutual recognition of know your customer requirements. It is clear that, at present, despite the best efforts of the sector, the system is being exposed to unnecessary risk from customers who are able to take advantage of less stringent rules in certain jurisdictions.

### **(27) Are you aware of studies and/or statistical data relating to fraud and on-line gambling?**

According to a study commissioned by the European Parliament in 2008 into the integrity of online gambling there is *‘little hard evidence that EU consumers of online gambling are defrauded on EU-licensed websites’* (see paragraph 8, page 2 of Annex 10, European Parliament Study on Online Gambling).<sup>10</sup>

This assessment is supported by two studies on money laundering:

- Money Laundering Risks and E-Gaming: A European Overview (2009, Michael Levi, Cardiff University; see Annex 11, Levi Study on Money Laundering and E-Gaming);<sup>11</sup>
- The threat of money laundering and terrorist financing through the online gambling industry (2009, MHA Consulting; see Annex 12, MHA Study Money Laundering).<sup>12</sup>

With regard to regulated online operators being defrauded through match-fixing, it is also a rare occurrence. In 2010 the European Sports Security Association (ESSA), an industry body created to identify, track and report suspicious betting patterns in sport, was able to identify four incidences of suspicious betting patterns which were sent to the relevant governing and regulatory bodies. If you consider that each ESSA member offers around 10,000 separate sports books across Europe each week, with millions of separate bets taken, then the number of suspicious betting patterns is relatively small (see Annex 13, ESSA Integrity Report 2011).<sup>13</sup>

Focusing on in-play betting (also known as in-running betting or live betting), which has been the focus of much discussion in recent months and years, the UK Gambling Commission

<sup>8</sup> <http://www.standupca.org/gambling-industry/internet-gambling-1/EGBA%20FRAMEWORK%20%20PRINCIPLES%20Approved%20June%202007>

<sup>9</sup> <ftp://ftp.cen.eu/CEN/AboutUs/Publications/GamblingMeasures.pdf>

<sup>10</sup> <http://www.europarl.europa.eu/activities/committees/studies/download.do?file=23191>

<sup>11</sup> [http://www.egba.eu/pdf/Levi\\_Final\\_Money\\_Laundering\\_Risks\\_egaming%20280909.pdf](http://www.egba.eu/pdf/Levi_Final_Money_Laundering_Risks_egaming%20280909.pdf)

<sup>12</sup> [http://www.rga.eu.com/data/files/final\\_mha\\_report\\_june\\_2009.pdf](http://www.rga.eu.com/data/files/final_mha_report_june_2009.pdf)

<sup>13</sup> <http://www.eu-ssa.org/LinkClick.aspx?fileticket=E0VM1o%2bfCCA%3d&tabid=36&mid=372>

recently found that, despite much speculation about theoretical risks, “*there have been relatively few incidents reported of concern over betting patterns and even fewer that still appear suspect after initial examination*” (see Annex 14, Gambling Commission In-Play Betting Position Paper).<sup>14</sup>

**(29) What, in your opinion, are the best practices to prevent various types of fraud (by operators against players, players against operators and players against players) and to assist complaint procedures?**

### **1. Best practices to prevent various types of fraud**

ESSA has instituted a number of measures to prevent fraud, all of which are enshrined in its code of conduct, which calls on members to have correct tools and processes in place to ensure adequate risk management and a risk-based approach to their operations.

In the context of available technology and national licensing requirements, this means members having – without limitation – the tools in place to do the following:

- Monitor incoming bets;
- Adhere to the highest Know-Your-Customer (KYC) and Know-Your-Transaction (KYT) requirements;
- Be aware of risks for potential match fixing;
- Not allow individual customers to place high stakes without manual approval;
- Escalate any potential issue to the appropriate levels within their organisation;
- Due to the potentially continuous character of the operations, have sufficient numbers of employees covering risk management, working 24 hours a day, 7 days a week, 365 days a year when appropriate;
- In the event of any betting or market behaviour giving grounds for suspicion, to suspend the betting market in question and share information with other members for a thorough investigation.

A range of technical and practical measures are also employed by bookmakers to ensure that outcomes of betting on sporting events have not been manipulated. These include:

- Identification and Scrutiny: Licensed, regulated bookmakers invest heavily in know-your-customer technology and other security and fraud prevention software. When customers bet online, they leave an indelible “digital fingerprint” containing their identification verification, deposit and payment details as well as time-stamped details of all their betting activity;
- Fraud Prevention: Licensed and regulated bookmakers employ highly skilled personnel and systems to identify, track and trace any attempts to manipulate results. Apart from their license conditions and the regulatory requirements, it is clearly in the bookmaker’s own commercial interests to do this;
- Sharing information and reporting: Bets are fully documented and all betting activities can be traced, monitored and proven. Once an operator becomes aware of suspicious betting patterns, this information is shared, via ESSA with other leading bookmakers. Coordinated by ESSA, each suspicious incident is then investigated and then, if necessary, passed on to the relevant sporting and law authority for further

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<sup>14</sup> <http://www.gamblingcommission.gov.uk/pdf/In-running%20betting%20position%20paper%20-%20March%202009.pdf>

investigation. Through memorandums of understanding (MoUs) with leading sports federations, ESSA cooperates and shares information with organisations like FIFA, UEFA, the ATP and the IOC (see attached references).

Thanks to these controls, monitoring and use of high-tech tools – all of which have a deterrent effect on fraudsters – only four incidents of suspicious activity were registered by ESSA members in 2010.

ESSA further believes best practice in combating fraud could be extended to working with regulators and law enforcement bodies to stamp out fraud and target unlicensed operators that tend to be key actors nurturing fraud and corruption.

## **2. Fraud perpetrated by players**

Regarding the perpetration of fraud by players, ESSA believes in a two-pronged approach:

- First of all, sports federations need to ensure that strict ethics rules are followed by all athletes. This means investigating all fraud and match fixing alerts, suspect activity, and applying sanctions to those who do harm to the integrity of sport. As Rick Parry pointed out in the 2010 report published by the UK's Sports Betting Integrity Panel, this is not currently the case (see Annex 15, Report of the Sports Betting Integrity Panel).<sup>15</sup> Currently, while some sports governing bodies systematically act on ESSA alerts, others have a more questionable record;
- Secondly, a grass-roots approach needs to be taken to tackle fraud through education. ESSA has teamed up with the European Gaming and Betting Association (EGBA) and EU Athletes to train athletes, referees and other sports professionals in sports integrity. Together, the partnership is expected to reach 3,000 athletes in 2011, while a related programme run by the Remote Gaming Association (RGA) is set to educate another 5,500 (see Annex 16, ESSA Press Release, New betting campaign to educate 8,500 athletes).<sup>16</sup>

## **3. Fraud by operators against players**

Licensed betting operators in Europe have built their reputations on trust and in this respect, ESSA shares the assessment of a study conducted for the European Parliament (see Annex 10, European Parliament Study on Online Gambling) stressing that it *"found limited hard evidence of gambling operators defrauding consumers. We do not say that it does not happen, but there is little evidence in the public domain and prima facie it happens on a very small scale"*.

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<sup>15</sup> [http://webarchive.nationalarchives.gov.uk/+http://www.culture.gov.uk/images/publications/reports\\_sports\\_betting\\_integrity\\_panel.pdf](http://webarchive.nationalarchives.gov.uk/+http://www.culture.gov.uk/images/publications/reports_sports_betting_integrity_panel.pdf)

<sup>16</sup> <http://www.eu-ssa.org/LinkClick.aspx?fileticket=YGyuNONZHYY%3d&tabid=62&mid=372>

**(30) As regards sports betting and outcome fixing - what national regulations are imposed on on-line gambling operators and persons involved in sport events/games to address these issues, in particular to prevent 'conflicts of interest'? Are you aware of any available data or studies relating to the magnitude of this problem?**

**1. National regulations imposed on on-line gambling operators and officials to prevent conflicts of interest**

Licence requirements by some national regulators impose conditions where the licensed operator must report suspicious activity to the regulator and that it is also reported to the sport governing body if it relates to a breach of a rule on betting applied by that sport governing body (article 15.1, UK Gambling Commission Licence conditions; see Annex 17, Gambling Commission Licence Conditions and Requirements).<sup>17</sup>

However, these rules are not consistent across Member States. One area of concern is the lack of rules in place within sport federations to deal with integrity issues. This in turn promoted ESSA and its industry partners to establish a code of conduct with EU Athletes to educate players about sports betting (see Annex 18, EU Athletes Code of Conduct).<sup>18</sup>

This code of conduct lists among its guiding principles:

- That players should never bet on themselves or their opponents;
- And that, to play it safe, players should avoid betting on their sport at all.

In 2010, a similar set of rules and guidelines was put forth by the Sports Betting Integrity Panel, chaired by Rick Parry. This panel set out a strong code of conduct that was aimed at all sports governing bodies, clearly stating that players and sportspeople should refrain from any bets related to any competition in which they are involved, and should not solicit or facilitate others to do so. It also set forth in no uncertain terms the need to end the use of 'insider information', impose strong sanctions and encourage information sharing. The panel's report also pointed out that while some sports had made serious efforts to protect sports integrity with regards to betting, others had done little or nothing (see Annex 15, Report of the Sports Betting Integrity Panel).

France's ARJEL has also supported strengthening rules that prevent conflicts of interest, calling on the French Parliament to reinforce laws preventing sportspeople and sporting professionals from betting on matches to which they have ties, and expressing a desire for greater information sharing (see Annex 19, ARJEL Integrity Study).<sup>19</sup>

More generally, as ESSA's position paper on sports integrity points out (see Annex 20, ESSA Position Paper on Sports Integrity),<sup>20</sup> there exists a fundamental contradiction with sports bodies self-regulating on issues of integrity. When faced with a conflict of interest between protecting the reputation of their sport and applying effective sanctions, sports bodies tend far too often to lean in favour of the former. This is amply demonstrated in the recent Formula One decision, where the World Motor Sport Council (WMSC) found that the Renault team had not only "*compromised the integrity of the sport*" but also "*endangered the lives of*

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<sup>17</sup> <http://www.gamblingcommission.gov.uk/pdf/Licence%20conditions%20and%20codes%20of%20practice%20-%20consolidated%20March%202011.pdf>

<sup>18</sup> [http://www.euathletes.info/uploads/media/Sports\\_Bettung\\_-\\_Code\\_of\\_Conduct\\_for\\_AthletesEN.pdf](http://www.euathletes.info/uploads/media/Sports_Bettung_-_Code_of_Conduct_for_AthletesEN.pdf)

<sup>19</sup> <http://www.sports.gouv.fr/IMG/pdf/RAPPORT.pdf>

<sup>20</sup> <http://www.eu-ssa.org/LinkClick.aspx?fileticket=%2bf3080k6hzA%3d&tabid=62&mid=395>

*spectators, officials [and] other competitors*”, yet they were only given a two year suspended sentence.

Therefore making fraud in sport a criminal offence, which would fall under the enforcement of public law bodies, needs to be given due consideration. In Malta there is a legal provision which makes match-fixing a criminal offence. Yet in France, where a statutory levy has been introduced to protect sports integrity, there is no legal basis to prosecute criminals who have manipulated matches.

## 2. Studies available

According to a study prepared by Oxford Research in April 2010 (see Annex 21, Oxford Research Study on Threats to the Integrity of Sport),<sup>21</sup> betting related match fixing is only one among ten threats to the integrity of sports. The other threats are as follows:

- Doping;
- Illegal performance enhancing technology;
- Espionage;
- Sporting related financial irregularities;
- Sporting motivated match fixing;
- Cheating;
- Management related financial irregularities;
- Money laundering;
- Cross border transfer of young players.

More recently, ESSA’s 2011 Integrity Report (see Annex 13, ESSA Integrity Report 2011), revealed following trends in 2010:

- There were almost twice as many incidences of non-betting related match fixing last year than there were betting-related ones. This is match fixing for winning’s sake: whether it is for silverware, avoiding relegation or helping out a team mate;
- There were other integrity issues; extortion, cheating, illegal use of technology, financial mismanagement, that – together – again equalled more incidents than betting-related match fixing.

### **(31) In your view what issues should be addressed as a priority?**

The following measures should be addressed as a matter of priority:

#### **1. Prevention, enforcement and deterrents for breaking the rules**

ESSA has set out an ambitious code of conduct, as well as rules that make it mandatory for its own members to control, monitor, and report suspicious activity at all points along the betting process. An important first step would be to apply these rules to the entire sector.

ESSA reports all suspicious activity to the relevant authorities, with the expectation that procedures exist within sports governing bodies and disciplinary bodies to investigate further and punish infractions. ESSA has no means to impose legal

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<sup>21</sup> <http://www.eusportsplatform.eu/Files/Filer/examination%20of%20threats%20to%20sports%20integrity.pdf>

sanctions and fully to investigate alleged crime, and thus relies on sports governing bodies to pursue allegations. It is clear from past experience that many such bodies have been reluctant to progress further with investigations.

While ESSA and the licensed, regulated betting sector have done their part in putting in place strict ethical rules, controls and information sharing techniques and channels, sports governing bodies are not always as proactive in fighting corruption and match fixing, as well as more institutional corruption, in their disciplines. ESSA believes that all stakeholders must accept and live up to their responsibilities by investigating any alert passed on to them. This position is shared by the UK's Sports Betting Integrity Panel, which recommends that "each individual [sports governing body] has effective mechanisms in place to ensure compliance with its own rules, investigate potential breaches and impose sanctions" (see Annex 15, Report of the Sports Betting Integrity Panel);

- ESSA also agrees with the Sports Betting Integrity Panel on the need for common codes of conduct across the sporting world. ESSA has worked with other stakeholders to create a model code of conduct for athletes. The Sports Betting Integrity Panel has created its own draft code of conduct for sports governing bodies (see Annex 15, Report of the Sports Betting Integrity Panel). Other, similar documents have been drafted by other bodies. Yet many sports federations still lack strong, binding ethics rules backed up by sanctions. It was reported recently that only 13 of the 105 members of Sport Accord, the umbrella organisation of International sports federations, currently have rules in place to fight corruption. This is despite the IOC developing a 'cut and paste' set of rules that are available to the federations free of charge (see Annex 22, Gambling Compliance, Sports Slow To Move on Match-Fixing).<sup>22</sup>
- ESSA also believes that governments and sports governing bodies need to work with the licensed betting sector to create supportive regulatory environments for online operators that enable them to invest in the technology and systems needed to prevent match fixing. The sector is already investing sizeable sums in such technologies and systems – additional unwarranted costs or procedures, such as government levies, would only serve to reduce the competitiveness of the licensed, regulated operators and drive consumers to unregulated markets.

## 2. Non-betting related scandals

There needs to be a realisation that match fixing is not only betting-related, but has many causes, and must be combated through a global approach that includes both stringently enforced rules (with the requisite sanctions) and education and training for sports professionals. According to both a study prepared by Oxford Research in April 2010 (see Annex 21, Oxford Research Study on Threats to the Integrity of Sport),<sup>23</sup> and ESSA's 2011 Integrity Report, suspicious betting activity is only a fraction of the many threats to sports integrity– (see Annex 13, ESSA Integrity Report 2011).

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<sup>22</sup> <http://www.gamblingcompliance.com/node/46659/hl/search/ioc%3B>

<sup>23</sup> <http://www.eusportsplatform.eu/Files/Filer/examination%20of%20threats%20to%20sports%20integrity.pdf>

**(32) What risks are there that a (on-line) sports betting operator, which has entered into a sponsorship agreement with a sports club or an association, will seek to influence the outcome of a sports event directly or indirectly for profitable gain?**

There have been no recorded instances of licensed, regulated operators attempting to influence the outcome of a sports event. No study of which we are aware has shown any risk of this occurring.

ESSA members are bound by a strict code of conduct in terms of integrity in sports betting. Members must avoid ethical conflicts and observe at all times the necessary precautions to preserve integrity in sports (see Annex 23, ESSA Code of Conduct).<sup>24</sup>

In addition, ESSA believes that manipulation is unlikely to arise as a result of any reputable sponsorship arrangement with a properly regulated gambling operator. It is always in the commercial interests of betting operators that sports competitions be fair. To our knowledge there has not been a single instance of a licensed betting operator seeking to influence an event for commercial gain.

Sponsors require a high degree of integrity in the sportsmen and teams that they sponsor, as is evidenced by the speed with which they abandon tainted subjects. ESSA shares the position of the European Sponsorship Association (ESA) that *“it is a matter for sports clubs, event organisers and sponsors to decide whether or not to enter into a sponsorship arrangement. In particular... sports governing bodies and other sports organisations are best placed to decide if a properly regulated gambling operator is an appropriate sponsor for them or not, and that they should be free to make that decision without unnecessary interference in their commercial activities.”* ESA goes on to point out that match fixing *“is most unlikely to arise as a result of any reputable sponsorship arrangement with a properly regulated gambling operator, which complies with all laws, regulations and codes. Those codes include the ICC International Code on Sponsorship, which states that sponsors should avoid any abuse of their position which would damage the identity, dignity or reputation of the sponsored party or the sponsorship property”* (see Annex 24, ESA Position Statement on Gambling Sponsorship).<sup>25</sup>

The reality is that sponsorship by betting operators helps the sporting world. According to the RGA study on Sports Betting: Legal, Commercial and Integrity, the gambling industry contributed €3.4bn to EU Sport, with €2.1bn of this coming from the private sector. This figure would have been higher if certain member states had not banned sponsorship and advertising from private sector gambling operators (see Annex 25, Sport Betting, Legal, Commercial, and Integrity issues).<sup>26</sup>

Furthermore, it has been shown that companies that sponsor sports teams and competitions actually have a record of acting swiftly to cut ties with clubs and organisations suspected of corruption, and have a very low tolerance for accusations of wrongdoings. This was most recently shown in the FIFA corruption scandal, where sponsors like Adidas, Coca-Cola, Emirates and Visa suggested that they might stop supporting the top football organisation (see Annex 26, BBC, Fifa corruption allegations worry sponsors).<sup>27</sup>

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<sup>24</sup> <http://www.eu-ssa.org/CodeofConduct/tabid/57/Default.aspx>

<sup>25</sup> [http://www.sponsorship.org/content/policy\\_papers/ESA\\_Gambling\\_Sponsorship\\_Policy\\_Paper\\_160311.pdf](http://www.sponsorship.org/content/policy_papers/ESA_Gambling_Sponsorship_Policy_Paper_160311.pdf)

<sup>26</sup> [http://www.onlinecasinonews.com/ocnv2\\_1/article/article.asp?id=23203](http://www.onlinecasinonews.com/ocnv2_1/article/article.asp?id=23203)

<sup>27</sup> <http://news.bbc.co.uk/sport2/hi/football/13598982.stm>

**(33) What cases have demonstrated how on-line gambling could be used for money laundering purposes?**

As already spotted by the Commission, there is very limited evidence to suggest that the EU's licensed operators are subject to money laundering. This was confirmed by the Financial Action Task Force (FATF) that emphasised numerous sources of money laundering (including illegal gambling) in its last Global Money Laundering & Terrorist Financing Threat Assessment report published in July 2010, but didn't mention licensed operators as a source of money laundering (see Annex 27, FATF, Global Money Laundering & Terrorist Financing Threat Assessment).<sup>28</sup>

Thanks to the advanced customer identification controls and other safeguards put in place by the industry as well as betting operators' strict limit policy on individual bets, independent studies have found that in a regulated sector, the risks and amounts associated with online gaming are modest in comparison to other sectors.

In June 2009, a report entitled 'The threat of money laundering and terrorist financing through the online gambling industry' prepared by MHA Consulting (see Annex 12, MHA Study Money Laundering) had already stressed that the strong fraud prevention measures in place within all remote gambling operators are being used successfully to prevent and detect money laundering, in particular the risk of identity theft and fraud through the use of stolen credit cards.

Another study carried out by criminology professor Michael Levy (see Annex 11, Levi Study on Money Laundering and E-Gaming) revealed that betting operators were much less subject to money laundering attempts than other sectors such as money transmission firms or bureaux de change. The report even stated that the licensed and regulated online gaming industry was a highly unattractive environment for money laundering due to the high traceability of transactions and customer identification controls. As a consequence, the risks and amounts associated with online gaming are also modest in comparison to other sectors.

**(35) Do you have experience and/or evidence of best practice to detect and prevent money laundering?**

As the early warning system regrouping some of the major licensed betting operators in Europe, ESSA ensures a daily exchange of best practices within its members to ensure that they remain ahead of the curve in the fight against match-fixing and money laundering.

To tackle fraud and ensure that consumer accounts are not used for money laundering purposes, bookmakers operate a range of controls over the bets they accept. These range from the high tech – 'know your customer' technologies which flag up suspicious activity, for example – to common sense measures such as maximum stakes and winnings for individual betting content. More generally, the traceability of the online sector allows EU-based licensed operators to monitor all transactions from when a customer signs up through to when he cashes out in a systematic and holistic manner.

Moreover operators will have also have Money Laundering Reporting Officers in place, who ensure compliance with the reporting regimes of the Jurisdictions in which they operate.

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<sup>28</sup> <http://www.fatf-gafi.org/dataoecd/48/10/45724350.pdf>

They also have responsibility for the provision and maintenance of adequate systems and controls in relation to AML and Counter Terrorism Financing.

**(37) Are there national on-line gambling transparency requirements? Do they apply to cross border supply of on-line gambling services and are these rules enforced effectively in your view?**

EU-licensed operators are required by their existing licensing requirements to file any suspicious activity reports (SAR) with the local financial investigation units (FIU) in all member states in which they have a license. Given today's multi-licensing regimes, this becomes complicated not to mention inefficient as it is not always clear to which jurisdiction one must report and what they must report. For this reason, we believe there is a need to review the 3<sup>rd</sup> AML Directive to bring some clarity and better fit the evolution of the current market situation: For example the development of multi-licensing regimes and the multiplication of transparency requirements coming from diverse jurisdictions, there is a need to review the third AML Directive in order to improve the clarity of the reporting and avoid potentially overlapping/contradicting reporting duties.

**(41) What are the proportions of on-line gambling revenues from sports betting that are redirected back into sports at national level?**

The gambling industry is already heavily financing sports federations. According to the RGA study on Sports Betting: Legal, Commercial and Integrity issues, the gambling industry contributed €3.4billion to sport, with €2.1billion of this amount coming from the private sector. The figure would even have been higher if certain member states had not banned sponsorship and advertising from private sector gambling operators.

Although this income plays a significant role in the funding of professional sport, in general, broadcasting revenues are sports' primary income stream, with sports expected to receive €20bn globally in 2010 (see Annex 28, The Business of TV Sport – Summary).<sup>29</sup>

In 2010, the gambling sector was ranked number 7 in the top 10 list of sponsors of sports teams and events in Europe. In 2008, gambling companies (this includes private companies and lotteries) were involved in \$96.6 million of reported deals in Europe. This figure could have been much higher if they were allowed to operate in more markets (see Annex 29, How Gaming and Betting operators help drive sponsorship).<sup>30</sup>

Moreover, the development of online betting and gaming does not jeopardize existing revenue streams, whether through tax income of central government or the revenue of certain national lotteries that are redirected to professional and grassroots sports in certain Member States. For instance, in Italy, the sports betting industry contribution to the financing of sports is guaranteed by governments/regulators allocating a percentage of the taxes that the industry pays to the financing of professional and grassroots sports.

Last but not least, more money could flow to sports through the actual enforcement of internal market and competition rules. Indeed, prohibition and restrictions in certain countries of online gambling means less money for sports in general.

<sup>29</sup> <http://www.tvsportsmarkets.com/reports/coming-soon-business-tv-sport>

<sup>30</sup> <http://www.egba.eu/pdf/EGBA-News-Issue8.pdf>

**(42) Do all sports disciplines benefit from on-line gambling exploitation rights in a similar manner to horse-racing and, if so, are those rights exploited?**

No, not all sports disciplines benefit from on-line gambling exploitation rights in a similar manner to horse-racing. Such a system has been developed in France, where the regulator, ARJEL, has imposed a 'sports betting right'. Evidence to date suggests that this has stymied investment, deterred operators from entering the market, encouraged consumers to continue using offshore betting companies and reduced the amount of sponsorship funding from the licensed betting sector: despite positive declarations from the French authority ARJEL, unlicensed betting operators keep attracting 15% of French online players as their offer remains more attractive than the one licensed operators are allowed to make. As a result, the number of active accounts for sport bets has even decreased since July 2010 (see Annex 30, ARJEL, Bilan chiffré 2010, and Annex 31a, Le Figaro, La cote des paris sportifs sur Internet plonge).<sup>31 32</sup> The lack of competitiveness was even recognised by ARJEL President Jean Francois Vilotte (see Annex 31b, Le Figaro, Un an après, le succès mitigé des paris en ligne).<sup>33</sup> According to ARJEL, the total volume of sports bets dropped 26% during the first trimester of 2011 (€ 147 m) compared to the fourth trimester 2010 (€ 200 m).

Furthermore, there has been no evidence to date that such a system has had any impact in on improving integrity in sport.

We believe however that the French gambling exploitation rights remains largely inappropriate as gambling companies have to adapt to a less competitive market in the wake of the recent introduction of fair return and a new very business unfriendly legislation. This has eventually forced gambling companies to reduce sponsorship budgets.

As for financing grassroots sports, a study published by Sportsbusiness in November 2008 (see Annex 32, Contribution of the Gambling Industry to the Funding of Sports)<sup>34</sup> revealed that levels of grass-roots sport funding were not reduced in an open and regulated market like the UK.

An average of €4.8m per annum in lottery funding was received by each of the French Federations analysed, with 33.3% of this sum allocated for grass-roots sport and 66.7% on performance. In the UK, NGB benefited by a higher amount at €6.4m each - with 56.3% allocated to grass-root sports, and 43.7% on performance without distorting the competitive forces of the gambling market through the imposition of a levy.

On top of this, the Commission has already expressed its concerns about the French system and the French state aid procedure on horse betting levy (see Annex 33, Official Journal of the European Union - State aid C 34/10).<sup>35</sup> The Commission dismissed in quite strong terms the qualification used by France of a service of general economic interest to try to justify the levy of 8 % that was introduced by the online gambling law in 2010. The Commission

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<sup>31</sup> <http://www.arjel.fr/IMG/pdf/20110121doc.pdf>

<sup>32</sup> <http://www.lefigaro.fr/societes/2011/06/07/04015-20110607ARTFIG00737-un-an-apres-le-succes-mitige-des-paris-en-ligne.php>

<sup>33</sup> <http://www.lefigaro.fr/conjoncture/2011/04/10/04016-20110410ARTFIG00180-la-cote-des-paris-sportifs-sur-internet-plonge.php>

<sup>34</sup> [http://www.egba.eu/pdf/Final\\_study\\_Nov\\_2008.pdf](http://www.egba.eu/pdf/Final_study_Nov_2008.pdf)

<sup>35</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:010:0004:0014:EN:PDF>

concludes that it is not convinced as to whether the notified measure can be declared compatible with the single market.

**(43) Do on-line gambling exploitation rights that are exclusively dedicated to ensuring integrity exist?**

No. In France a specific right was created, however, there are number of concerns with this model.

A year after its implementation, the betting right has clearly proven not to be an efficient tool as it has not achieved what it was designed to set out to do (namely serve integrity) as it is only limited to three actions and didn't lead to any kind of additional controls (see Annex 19, ARJEL Integrity Study):

- The establishing by ARJEL of a list of sports competitions and results on which betting operators are allowed to offer bets;
- The prevention of conflicts of interest between betting operators, organizers of sports events, and athletes;
- The recognition of organizers' property rights on sports events.

Moreover, the system has proven very complicated to put in place as each licensed sports betting operator needs to negotiate the payable fee separately with each French sports event organizer. Then ARJEL's approval must be obtained. Sometimes, no agreement is reached, and no or only few operators eventually offer bets on certain sports events. As a result, the market offer becomes less competitive, possibly prompting players to turn to the black market, reducing the income of sports event organizers, especially the smaller ones, and jeopardizing fraud control since there are fewer online sports bets operators to monitor the events.

The French system has even caused unintended harm to secondary sports: with event organizers entitled to ask for very high amounts – an average of 1% of the stakes, i.e. 10% of Gross Gaming Revenue (the operator's actual turnover) many online gaming operators have refrained from offering bets or reduced their offer on a number of sports and focused only on the sports that generate the most income, i.e. soccer, tennis and motor sports, or focused on international events of certain sports, reducing the visibility of French events, i.e. U.S. basketball instead of the French basketball.

From June to December 2010, event organizers in all sports generated an income of no more than €530,000, with around 60% going to the Professional Football League (see Annex 34, JF Vilotte, Cérémonie des vœux de l'ARJEL).<sup>36</sup>

Such a system also has a direct impact on the consumers as it increases the price customers have to pay, as bookmakers have to integrate the 1% in the odds to manage their risk.

It also has an impact on the operators: they have reduced their marketing and sponsorship spending. Today no more than five Ligue 1 football teams have betting partners, compared with more than half of all Premier League and Serie A teams in the UK and Italy.

Last but not least, event organizers did not increase their efforts in the fight against corruption. A lot of small event organizers, that run only a limited number of events per

<sup>36</sup> <http://www.arjel.fr/IMG/pdf/20110121voeux.pdf>

year, clearly said they would not spend their limited resources on integrity but on commercial success.

**(49) Are you aware of such enhanced cooperation, educational programmes or early warning systems that are aimed at strengthening integrity in sport and/or increase awareness among other stakeholders?**

### **1. Education Programmes**

In 2010, a one-year pilot campaign jointly developed and carried out by EU Athletes, the European Gaming and Betting Association (EGBA) and the European Sports Security Association was rolled out in France, Spain and Germany across seven different sports associations. The campaign benefitted around 200 teams and 2500 athletes. A code of conduct provided the foundation for the education programme by setting out simple, brief guidelines for professional sportsmen on how to avoid, or how to deal with, specific risks that they may face in relation to their sport and betting.

The Code of conduct focused on five main messages to professional sportsmen (see Annex 18, EU Athletes Code of Conduct):

- Match-fixing is a crime;
- The odds are that you will be caught;
- Report anything suspicious;
- Play safe – don't bet on your own sport;
- Be careful with sensitive information.

In the UK, another one-year pilot also reached four sports associations and three sports: the Professional Footballers Association (PFA), Professional Cricketers Association (PCA), Rugby Players association (RPA) and the Scottish Football Players Association (PFA Scotland)

Altogether the first pilot year clearly showed very encouraging results and allowed to draw key conclusions for the upcoming years:

- There is a real information problem on the ground;
- Some sports federations have no rules on sports betting, or fail to communicate them to athletes;
- Players' associations are well placed to provide guidance to sportsmen;
- Direct, locker-room level contact with athletes is key.

In 2011, by consolidating this initiative with a similar one funded by the Remote Gaming Association, this scheme has been extended to reach at least 8,500 athletes from across the EU. The new campaign will span 6 European sporting nations, 4 of the largest EU Member States (UK, Germany, France and Spain), 7 sports and target 8,500 athletes.

The campaign will operate through a number of different channels (website, posters, wallet cards, to name but a few). In order to ensure the highest visibility, the campaign will also use ex-players and top athletes to go into the dressing rooms and have face-to-face discussions with their peers about how to behave properly in relation to sports and betting.

The campaign has already had major cut-through with players and is thus helping to keep sport clean. And this short, real-time feedback loop from players to EU Athletes representatives will help to ensure continued success in year two.

## **2. Early Warning Systems**

The European Sports Security Association (ESSA) was established in 2005 by some of Europe's leading sports book operators in Europe in response to monitor unusual betting patterns or possible insider betting relating to sport across its membership, fostering a new spirit of cooperation among the industry and, crucially establishing firm lines of communication with sports governing bodies and regulators.

ESSA's early warning system works firstly by coordinating security and scrutiny efforts among individual members and secondly, by delivering any information on suspected abuses in real time to the relevant sports governing body. To this end, ESSA has already signed over 20 memorandums of understanding with leading international sports governing bodies, including FIFA, UEFA, the IOC, the ATP and other sporting regulators (See Annexes 35a to 35 d).

## About ESSA

The European Sports Security Association (ESSA) was established in 2005 by the leading sports book operators in Europe to monitor any irregular betting patterns or possible insider betting from within each sport. To achieve this goal ESSA implemented an early warning system between its members that highlights any suspicious betting activity. The early warning system allows ESSA to work with the sports regulators and their disciplinary and legal department, ensuring that when an alert is given the regulator is informed immediately which may prevent the possibility of any game manipulation on a given event. ESSA members include: Betcltic; Bet-at-Home; Bet365.com; Bwin.Party; Digibet; Expekt; Goldbet; Interwetten; Ladbrokes, Paddy Power, PartyGaming; Sportingbet; StanJames; Stanleybet, Unibet and William Hill.

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## List of Annexes

**(2) Are you aware of any available data or studies relating to the nature and size of the black market for on-line gambling services? (Unlicensed operators)**

MAG Study on French Online Gambling	Annex 1
Goldmedia Study on German Online Gambling - Press Release	Annex 2
MAG Italy Study	Annex 3
Gambling Compliance, Norway's Payment Blocks Fail To Deliver For Norsk Tipping	Annex 4
Remarks by Ronald K. Noble, Interpol Secretary General, on illegal sports betting	Annex 5
Euractiv, Only a true licensed gambling market can prevent corruption	Annex 6

**(13) Are players' accounts a necessary requirement for enforcement and player protection reasons?**

eCOGRA EGBA Benchmarking Study	Annex 7
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**(14) What are the existing national rules and practices relating to customer verification, their application to on-line gambling services and their consistency with data protection rules? How do you assess them? Are there specific problems associated with customer verification in a cross-border context?**

EGBA Code of Conduct	Annex 8
CEN workshop agreement	Annex 9

**(27) Are you aware of studies and/or statistical data relating to fraud and on-line gambling?**

European Parliament Study on Online Gambling	Annex 10
Levi Study on Money Laundering and E-Gaming	Annex 11
MHA Study Money Laundering	Annex 12
ESSA Integrity Report 2011	Annex 13
Gambling Commission In-Play Betting Position Paper	Annex 14

**(29) What, in your opinion, are the best practices to prevent various types of fraud (by operators against players, players against operators and players against players) and to assist complaint procedures?**

Report of the Sports Betting Integrity Panel	Annex 15
ESSA Press Release, New betting campaign to educate 8,500 athletes	Annex 16
European Parliament Study on Online Gambling	Annex 10

**(30) As regards sports betting and outcome fixing - what national regulations are imposed on on-line gambling operators and persons involved in sport events/games to address these issues, in particular to prevent 'conflicts of interest'? Are you aware of any available data or studies relating to the magnitude of this problem?**

Gambling Commission Licence Conditions and Requirements	Annex 17
EU Athletes Code of Conduct	Annex 18
Report of the Sports Betting Integrity Panel	Annex 15
ARJEL Integrity Study	Annex 19
ESSA Position Paper on Sports Integrity	Annex 20
Oxford Research Study on Threats to the Integrity of Sport	Annex 21
ESSA Integrity Report 2011	Annex 13

**(31) In your view what issues should be addressed as a priority?**

Report of the Sports Betting Integrity Panel	Annex 15
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Gambling Compliance, Sports Slow To Move on Match-Fixing	Annex 22
Oxford Research Study on Threats to the Integrity of Sport	Annex 21
ESSA Integrity Report 2011	Annex 13

**(32) What risks are there that a (on-line) sports betting operator, which has entered into a sponsorship agreement with a sports club or an association, will seek to influence the outcome of a sports event directly or indirectly for profitable gain?**

ESSA Code of Conduct	Annex 23
ESA Position Statement on Gambling Sponsorship	Annex 24
Sport Betting, Legal, Commercial, and Integrity issues	Annex 25
BBC, Fifa corruption allegations worry sponsors	Annex 26

**(33) What cases have demonstrated how on-line gambling could be used for money laundering purposes?**

FATF, Global Money Laundering & Terrorist Financing Threat Assessment	Annex 27
MHA Study Money Laundering	Annex 12
Levi Study on Money Laundering and E-Gaming	Annex 11

**(41) What are the proportions of on-line gambling revenues from sports betting that are redirected back into sports at national level?**

The Business of TV Sport – Summary	Annex 28
How Gaming and Betting operators help drive sponsorship	Annex 29

**(42) Do all sports disciplines benefit from on-line gambling exploitation rights in a similar manner to horse-racing and, if so, are those rights exploited?**

ARJEL, Bilan chiffré 2010	Annex 30
Le Figaro, La cote des paris sportifs sur Internet plonge	Annex 31a
Le Figaro, Un an après, le succès mitigé des paris en ligne	Annex 31b
Contribution of the Gambling Industry to the Funding of Sports	Annex 32
Official Journal of the European Union - State aid C 34/10	Annex 33

**(43) Do on-line gambling exploitation rights that are exclusively dedicated to ensuring integrity exist?**

ARJEL Integrity Study	Annex 19
JF Vilotte, Cérémonie des vœux de l'ARJEL	Annex 34

**(49) Are you aware of such enhanced cooperation, educational programmes or early warning systems that are aimed at strengthening integrity in sport and/or increase awareness among other stakeholders?**

EU Athletes Code of Conduct	Annex 18
UEFA Reference Letter	Annex 35a
Reference Letter IOC	Annex 35b
Reference Letter TIU	Annex 35c
Reference Letter UEFA	Annex 35d