



**STANDING COMMITTEE
OF
TYNWALD COURT
OFFICIAL REPORT**

**RECORTYS OIKOIL
BING VEAYN TINVAAL**

**PROCEEDINGS
DAALTYN**

**ECONOMIC
POLICY REVIEW COMMITTEE**

Gambling Supervision Commission

HANSARD

Douglas, Thursday, 11th April 2019

PP2019/0093

EPRC-GSC, No. 1/18-19

All published Official Reports can be found on the Tynwald website:

www.tynwald.org.im/business/hansard

Members Present:

Chairman: Mr C R Robertshaw MHK
Mr T Baker MHK
Mr J Moorhouse MHK

Clerk:

Mr J D C King

Assistant Clerk:

Miss E Gaines

Contents

Procedural.....	3
EVIDENCE OF Mr Ron Spencer, Chairman and Mr Steve Brennan, Chief Executive, Gambling Supervision Commission.....	3
<i>The Committee sat in private at 3.38 p.m.</i>	19

Standing Committee of Tynwald on Economic Policy Review

Gambling Supervision Commission

*The Committee sat in public at 2.30 p.m.
in the Legislative Council Chamber,
Legislative Buildings, Douglas*

[MR ROBERTSHAW *in the Chair*]

Procedural

The Chairman (Mr Robertshaw): Good afternoon. Welcome to this public meeting of the Economic Policy Review Committee – a Standing Committee of Tynwald. I am Chris Robertshaw MHK and I chair the Committee. With me are Tim Baker MHK and Jason Moorhouse MHK.

Please ensure your mobile phone is off, or on silent, so that we do not have any interruptions. For the purpose of *Hansard*, I will ensure that we do not have two people speaking at once.

The Economic Policy Review Committee is one of three Standing Committees of Tynwald Court established in October 2011 with a wide scrutiny remit. We have three Departments to cover: Cabinet Office, Treasury and Department for Enterprise.

By a Tynwald resolution of May 2014, we are also required to scrutinise the work of the Financial Services Authority and the Gambling Supervision Commission.

Welcome and good afternoon.

EVIDENCE OF

**Mr Ron Spencer, Chairman and
Mr Steve Brennan, Chief Executive,
Gambling Supervision Commission**

Q1. The Chairman: Gentlemen, could you possibly introduce yourselves for *Hansard* and your positions in the Gambling Supervision Commission.

15

Mr Spencer: Good afternoon, Mr Chairman. My name is Ron Spencer and I am the Chair of the Commission.

Mr Brennan: I am Steve Brennan and I am the Chief Executive of the Gambling Supervision Commission.

20

Q2. The Chairman: Thank you. Before we commence our questions, have you any opening remarks you would like to make or do you want to go straight into questions?

Mr Brennan: If you do not mind, we would go straight into questions.

25

Q3. The Chairman: That is fine. Thank you very much indeed.

Well, I do not expect our session this afternoon to be particularly protracted, but we do have a number of areas that we are interested in talking to you about. I suppose the first question has got to be, do you consider that the Isle of Man remains a competitive and attractive jurisdiction?

Mr Brennan: An attractive jurisdiction for online gambling? Yes, I do. And I think that is reflected in the applications that we see come towards us and the interest that is being expressed in the Island. So in the last 12 months we have had a number of licensees that have come towards us. We have had 12 licensees come towards us. They come, they are either start-up businesses that are new to the gambling sector generally, coming with an idea of what they would like to do and how that would fit within the framework we have on the Island. But we have also seen a number of businesses coming from other jurisdictions, mainly Malta. We have had one from the UK and one from Gibraltar as well.

40

Q4. The Chairman: To what do you put down the transfer from Malta?

Mr Brennan: It is not so much a transfer. What we are seeing in the online world now ... Traditionally an operator would go to a jurisdiction, would take a licence and then would operate from that jurisdiction in other areas of the world. What we are seeing now are operators taking as many licences as they can to give them access to differing markets. So some operators will have an Isle of Man licence. That operator would also take a licence in other jurisdictions such as the UK where licences are offered, maybe France, Italy – but also in Malta and Gibraltar. We are seeing more of that occur now. So a Malta licence holder may come to the Isle of Man and taken an Isle of Man licence. It may also search for other licences in other jurisdictions as well.

45

50

Q5. The Chairman: So this sort of granulation and increased interest in jurisdictions adopting the sorts of arrangements that the Isle of Man has been so successful in – is it having the effect of making the whole area much more competitive and perhaps therefore limiting future options for us?

55

Mr Brennan: I think it is going to make – it is making – the online gambling sector more competitive. But the online sector where Isle of Man licensees are offering their products across the globe, there is still plenty of opportunity for Isle of Man operators to sell their products into other jurisdictions. So while we may have rival jurisdictions who are offering a very similar product, there are still plenty of businesses out there that either come into one jurisdiction, the other jurisdiction or possibly both jurisdictions to obtain licences.

60

Q6. The Chairman: I think I saw it in your report late last year – your annual report – that there were even significant developments in places like Africa and the like, or have I read that somewhere else?

65

Mr Brennan: We will have touched upon that in the report. We generally look at the geographical locations where our licensees are prevalent and that is usually around Europe and Southeast Asia. But we are seeing licences now and activity taking place in Africa. Again, looking at the jurisdiction there, that has not got quite the infrastructure that Europe has in terms of the online infrastructure that allows online gambling to happen, but the mobile industry is changing all of that. Mobile play is becoming a big part of online operators' businesses and mobile is the entry point into these types of markets where that traditional infrastructure may not necessarily be there just yet.

70

75

Q7. The Chairman: Thank you.

80 Both in your comments to us previously and in your report, you do emphasise the importance of the staff team you have got in the Commission and the difficulties you are having keeping the numbers up. On your last report, you said you had two vacancies. Is that a significant impediment to your operation?

Mr Spencer: Perhaps I can answer that, Mr Chairman, before Steve has a contribution.

85 I think in part, back your first question, one of the reasons the Island remains competitive is the work that Steve and his colleagues have done, you read in the report, in the international forums. There is an element of people going where their friends are. So I think the fact that the Commission is pragmatic, we have legislation that works – is quite flexible – and our mantra has always been, ‘That is an interesting idea, come and talk to us about it.’

90 I think within the team we have some incredibly good people. We had a big review, as you know, at the back-end of last year, which has given us a much more rigorous framework to improve the skillset of our people, giving them more career opportunities. One of the problems we have is that we are a flat structure, we are relatively small. They are all frighteningly young, all frighteningly clever, and it is a very competitive market out there for good people.

95 So we hope that some of the arrangements we have put in place are going to redress that real haemorrhage that we had before. We have two vacancies: we have filled one of them; the other, I think, is under offer. (**Mr Brennan:** Yes.) So for the first time in a while we are at full complement. The nature of the beast, though, is that demands on our resource are growing, along with everything else. So there is a fine balance. But I guess at the moment the balance has moved in our favour.

100 Steve, do you want to fill in?

Mr Brennan: Yes, we spoke to you last year and the report was on the way. The report has since come out with the support of Treasury and obviously the Board. There were a number of recommendations that were made in the report and we are starting to action those recommendations now. The remit of the report really was to provide a strategic opportunity to retain the staff that we were losing. So job and role grading was done, and that was looking at the roles that the staff do; where are we losing our staff to? What types of roles are we losing our staff to? And then benchmarking those roles against the private sector.

110 We had to create additional roles as well. It was recognised that we did not have as many staff as we would need to undertake the duties that we have, our inspectors’ duties. We were able to recruit Senior Inspector role and an Inspector role. The creation of those two new roles has been really quite good as well from a retention point of view because it has created opportunity for existing staff. So we are fairly small. The opportunity to move through the organisation is limited because there are only two or three senior roles. So the creation of Inspector role, Senior Inspector role allowed a promotion; that creates a vacancy below, etc.

115 So as we get to the end of all of those changes now I think, as my Chairman has just said, we have got one vacancy left to fill. That is currently under offer and we are hoping that that person will start possibly at the beginning of May. That will be the first time in a good number of years that we have not been carrying a vacancy and we will be up to a full complement of staff.

120 Now, there is a competence question that needs to be addressed, which is we have got to get those new members of staff up to speed, but at least we have got the people to work with now. What the HR report also pointed out was that there are a number of other things that we will need to do, training and development was one area in the report, where it would provide us with an opportunity to bring our staff up to speed, but also to enable them to develop and grow and start to get some skills.

125 That is part of the relationship of being within the GSC. So you will work within the organisation, you will be rewarded for the organisation, but we will also give you knowledge and skills within that organisation. We recognise we are not going to be able to compete with the private sector, but if we can get the right staff in, get them to the right level of competence and

130

ability within the organisation and keep them for as long as we can, then we will get some value out of those before they move on.

135 **Q8. Mr Baker:** In terms of the source for your recruitment, is that on Island or do you have to go off Island to find the right people?

Mr Brennan: No, we have not had any recruitment from off Island. All the recruitment we have taken is from is from on Island, and when the job adverts do go out we do get a very, very healthy response to the advert. So the positions are, I will not say 'sought after', but they do attract a lot of attention and interest. On the last post we advertised, I think we had over 30 applications for it.

Q9. Mr Baker: And what is the type of profile of the people that you are recruiting?

145 **Mr Brennan:** They are generally coming from an AML/CFT compliance background. So they are people who have been involved in a compliance aspect of their career and they are coming towards the GSC, they are bringing something in terms of the knowledge they have from how they have applied AML/CFT in the particular sector that they previously worked and they are bringing that in. It is a transferable skill, but they are bringing that into the Gambling Supervision Commission as they come. That is really quite helpful for us.

150 One of our recruits has come from the charity sector and that employee has been able to bring a different skillset into the organisation.

Q10. Mr Baker: Part of the attraction for them will be getting an exposure to a fast-growing, well-rewarded sector of the economy which inevitably is effectively going to be a continued revolving door. So I hope that you enjoy the period of stability once you are at full complement, but I think it is unlikely to last.

160 **Mr Brennan:** It is an expected situation that we have grown up with, and part of what we have talked about within the retention process is how do we hang onto our staff longer? That is about investing in those staff and getting them on a programme of development. We recognise we are developing them and they may then be much more attractive to go out. But if they are on a programme of our development and we are going to get to three or four years out of them from that, then that is something that we are prepared to take.

165 **Mr Spencer:** There was some early discussion about might we be in the nature of the accountants, where you become a box-ticker for a few years and then you move up the ranks so you become an accountant or you move outside. We felt, ideally, that was not the way we wanted to operate. And if we can get specialisms amongst a team then there is opportunity – it was suggested, for example – of buddying. There are a lot of other things coming towards us which are not connected with the gaming sector, so there is an opportunity to make our staff have a broader portfolio of skills and hopefully we will not necessarily get into this treadmill.

175 **Q11. Mr Baker:** I think you make an interesting point there, Mr Spencer, about the breadth of the role and the degree to which it fits with other sectors. We have raised this previously around the relationship between the GSC and the FSA, where you are, in some areas, probing into similar situations and equally you have got your own specialist areas of focus as well. I was very interested to note, in the very helpful memo that Mr Brennan provided to the Committee, about some good collaborative work with the FSA. I would be interested to learn a little more about how that came about and how beneficial that has been?

180

Mr Brennan: Over the last 12 months, we have embarked on two rather large, significant pieces of work with the FSA. The first is a collaboration for an IT system, I think we touched on that last year, and that has moved on over the last 12 months, as you would expect.

185 And the other aspect that we have been working closely with is as a result of MONEYVAL. There were some changes that both regulatory authorities needed to make to their AML/CFT codes, and it made sense to make sure that we did those codes. We undertook the review of both those codes together so that we could align the terminology. We are recognising that separate codes are needed for both sectors, but the terminology that is used in those codes
190 should be consistent wherever it can be. So that is the second collaborative exercise that we have done.

The first one, if I can just talk a little bit in detail about the IT systems that we have been working on with them: that came about really out of the ability to bring two budgets together and have more clout when we went to look for a developer. That is what we have been able to
195 do. We would not have got this type of system that we are envisaging on the budgets we had as the GSC. Likewise, the FSA would not have been able to do theirs ... So bringing that together, we have got one regulatory system. It will be separated obviously for security reasons into a part for the FSA and a part for the GSC. Those two parts will not meet. But the underlying functionality that sits within the system, both of the Authorities have got that common
200 functionality. Where it is not common functionality, where we may look at something ever so slightly different or the FSA look at it ever so slightly different, that is where those compromises have been coming in and we have been reviewing our internal procedures and our approaches, both Authorities', to try and align them wherever possible.

205 **Q12. Mr Baker:** Is that indicative of a longer-term direction of travel between the two Authorities?

Mr Brennan: They are very different sectors that we regulate, and the approaches that we regulate them under are different as well. We are both consumer protection regulators, but if I
210 can speak for the GSC on this particular matter, we look at our businesses and the transactions that get taken within those businesses to be retail transactions. So they are entertainment, leisure industry, generally small transactions that are taking place.

The FSA, which is dealing with banking and finance, I would say that those transactions are going to be a very different make-up than we see within the GSC.

215 With that as the backdrop, our approach to regulation versus the approach of the FSA to regulation, they will be different. I think that has been reflected in the AML/CFT codes that we have done as well.

Mr Spencer: You might argue that it was very prescient of us, but I think it came out of the need that we have a vast number of transactions through some of our major licence holders.
220 Our people were doing an awful lot of what is euphemistically called 'end-user computing' – spreadsheets to you and me – and I said to Steve that even though we have a comparatively modest number of licence holders, the volume of data that is going through that process is enormous. Because of the fragmented nature of the various bodies involved too, there seemed
225 to me to be a real lack of complete data. Different people had different bits of data.

So we very much hope that the outcome of this project will be we will have, for the first time I think, some really very good quality data. It will be available painlessly both to the licence holder and to us. We will just take their computer-driven files, and that will enable real management information interrogation, which I think will stand us and the jurisdiction in very
230 good stead.

Q13. The Chairman: Chairman, you were saying a few minutes ago – and I share your sentiment absolutely – about how frighteningly young (*Laughter*) a lot of your people are. I absolutely share that.

235 But I think I have also been – I would not say frightened or even alarmed – but really almost shocked when I did a little bit of study work behind the concept of what blockchain is going to deliver. When you mentioned it in your report, I thought I had better bring myself up to speed. It sort of follows a little bit what Tim has been talking about and that is this sort of bleeding across more and more sectors as technology changes at a frightening pace. The banks themselves are
240 now migrating – I understand Barclays are migrating particularly heavily towards blockchain. We are seeing something that, to my mind, verges on something of a revolution in this whole area, and I just wondered to what degree you guys are assessing these new challenges as they roll out?

245 **Mr Spencer:** Well, can I just reply for myself? I think as a Commission, we are agnostic in the sense of the blockchain influence on gaming, providing they comply with the rules – the big boys’ rules – then it is a currency, it is a means of wagering. I think the exciting thing, though, is where the technology may lead, and I think that is something that everyone is looking really very carefully at.

250 Going back to some of the Commission’s role in the international fora, we have heard comments like, why do we not just outlaw it? Our view is that that is a nonsense: the genie is out of the bottle and it is a very exciting development.

We have got some incredibly clever people in the executive and it is I think it is fair to say that these guys are really up there with the best, which is why a number of people come to our
255 door. So I think, perhaps Steve can talk to this more specifically, but there is a healthy interest now from other agencies in Government – because I am with you: I think this is going to be quite revolutionary (**The Chairman:** Absolutely.) and none of us know where the destination is going to be. But we are very anxious to be part of that ride, provided that all these guys can satisfy those ordinary expectations we would have of regulated businesses.

260

Q14. The Chairman: One of the fears a number of us have, in terms of our jurisdiction developing successfully in the broadest sense of the word, is our strategic capacity. You seem to suggest that in this area you are pretty confident that we are sort of up there. But what about
265 other areas of Government that will progressively migrate to having to understand the implications of blockchain disruption to traditional systems?

Mr Spencer: Well, let me ask Steve to put a bit more flesh on that and then we can perhaps follow that through.

270 **Mr Brennan:** I will answer about other areas of Government a little bit later on.

I think it is worth just taking a little bit of a step back. When we talk about the blockchain, it is not to get mixed up between the blockchain which is the underlying technology that supports –

The Chairman: That is what I am referring to.

275

Mr Brennan: Yes, so the underlying technology, as my Chairman has said, we are agnostic about how an operator comes to us and says what platform their system is going to sit on to operate. We are a consumer protection authority, and so we are interested to ensure that the principles that we require them to do to make sure the games are fair and keep out under-18s,
280 the young and the vulnerable, etc., whatever the platform that they are offering their operation on, we are looking to make sure that those principles are adhered to.

Virtual currencies, which typically are a means of payment with which to play on a lot of this blockchain technology – but not all of it – that is where our regulatory challenge lies. It lies in a

285 number of areas around the use of virtual currencies, particularly within the gambling environment. So we have to look at virtual currencies in a slightly different way than we do look at cash and fiat finance.

We have to look at how we can protect those players' funds. That is one of the requirements that we have for our licence holders. If that was Sterling, then the protection mechanisms are fairly traditional. They would be in a bank account. If it is a virtual currency, it is not in a bank account. It is somewhere else. It is in a wallet, so what protections and security are around that wallet? So that is one of the challenges that we will get from cryptocurrencies.

290 The other challenge that we will get from cryptocurrencies is the fluctuating value of the currency. So a pound today will probably be probably be a tomorrow. One bitcoin today valued at a pound may not be valued at a pound tomorrow. So if I deposit a value, one bitcoin, and I have a bet that is going to come out in two weeks' time, the operator has got to be good to be able to pay that bet if there has been a real fluctuation in the value of the bitcoin. So there is a hedging risk that the operators will need to consider.

So they are things that we would be looking at when the operator comes to us and says, 'I am looking to offer virtual currencies as part of my play mechanism.'

300 Beyond just the mechanism and the ability to pay, we are looking at how operators are funding these enterprises. So we you will be aware of initial coin offerings that have been raising large value of capital for operators or businesses to start – to get underway. That presents an AML/CFT challenge, because when anybody is investing in these ICOs we have got to understand who the people are who were investing in those companies. So regardless of it being a new type of approach to funding, the old principles of AML/CFT still apply. So we will need to know who those investors are, what the source of funds were, what the sources of wealth were. In the online world, in the crypto world, in the blockchain world, that presents some other challenges that we will have to get through and we will have to manage.

310 **Q15. The Chairman:** It is some challenge, though, isn't it, really?

Mr Brennan: It is very difficult and we talked right at the start of this evidence hearing about staff numbers and what type of skillsets we are getting. Technologists are not the skillsets that we are getting. We are getting AML/CFT compliance people. But if we are to really take up this challenge of new technologies, emerging technologies, coming into our space then that technology skillset is going to be needed. We are very fortunate, I think the Chairman has alluded to it already, we have somebody who has got an interest in this technology and works for the GSC already, who has become quite an expert in this particular area. We rely heavily on that person. If we go back to our staffing matters, there is a key man dependence that we have grown up with there.

320 More broadly – and I said I would answer the question about other Government Departments – I cannot speak for how they can embrace this, whether they should embrace this new type of technology, but there may be a requirement within Government that there is somebody with that technological expertise that could become the adviser to regulators like myself certainly, possibly the FSA or any other Government Department that is being presented with these new technology challenges for business opportunities or regulatory requirements. It is a difficult one.

330 **Q16. The Chairman:** In the research that I was doing, prior to this meeting, it seemed to me that blockchain has the potential to disrupt all sorts of areas including medical data issues and patient control of data, and it goes on and on and on. I think I was just asking are we at the cusp of trying to form a broader understanding of blockchain? That it does not just sit with cryptocurrencies, but actually it is that revolution that the Chairman touched on? I think people only would be encouraged to think that there was a thought process going on, perhaps across

335 Government, beginning to try to get a focus on it and you guys, for all the many things you try to do, I think you might have an important contributory role there.

Mr Spencer: I think what is interesting to though, is the nature of our client base, our licence holders. It is a very collaborative relationship we have with the licence holders. We get a lot of intelligence from them. We invite them to come and talk to us when they see new developments: 'Don't write *War and Peace*, just pick up the phone and come and talk to us.'

340 We have got some first-class, world-leading licence holders here, who are really at the cutting edge of this stuff. So in that sense it is a helpful conduit to understand what is going on, and I think the Department too is taking this on board.

345 We have got someone coming to talk to us about – Steve mentioned the whole question of where do you safely put all this cryptocurrency? For example, we have got an interesting idea that has come to us, it is beyond our compass and we are getting some good response from Departments about this being an opportunity, maybe, for the Isle of Man. So I think we are a helpful conduit. People come to talk to us because we are pragmatic and I think there is a developing interest in Government.

The Chairman: Thank you. Jason?

Q17. Mr Moorhouse: Just thinking back to the technology, historically, as a regulator, you turn up once a year and then do the checks and then leave. Is the technology allowing you have more week-by-week, month-by-month assessment of the situation or are we not there yet?

Mr Brennan: So just to be clear, we do not just turn up once every year. **(Mr Moorhouse: Yes!)** *(Laughter)* So we have an ongoing review programme. I think the point the Chairman was making was that we get such a wealth of information that comes through that; the method of gathering that information and putting that information into our systems currently carries a huge burden and an overhead. The IT system that we are developing in conjunction with the FSA is going to remove or reduce that considerably. So that data will be a requirement and an obligation on our licence holders to be provided to us on whatever frequency the risk-based approach that we have for that operator determines. But certainly the overhead of getting that data into our system will be much reduced because that will be led by the operator itself.

365 So the idea or the development is looking to provide a portal that every licence holder has access to, and they will go in and they will work within the portal to provide that information. That portal will effectively be our system and that information will be in there.

370

Q18. Mr Moorhouse: In terms of analysing individual firms' data, **(Mr Brennan: Yes.)** is that ongoing **(Mr Brennan: Yes)** or is that spot checks?

Mr Brennan: So the approach that we have taken, as I said, is a risk based approach. But what we will also develop within the system is the ability to do the analysis. So when that data is input into there, we will be running our requirements against that data automatically and that will be spitting out exceptions. It is the exceptions that the inspectors will be picking up where there is a deviation from what we expected from the norm, and it will be that information that the inspectors will be picking up. As that information comes in, those exceptions are put out. Then they will get picked up by the inspector and they will get queried.

380

Q19. Mr Moorhouse: And given these kinds of multi-licence holders throughout the world, are we acting in isolation or are we working with other regulators around the world to look at this data?

385

Mr Brennan: So to be clear the data that will come to us will be the data that is attributable to the Isle of Man licence. (**Mr Moorhouse:** Right.) If they have got a licence in France, I do not expect to see that data. I would imagine the French regulator would be interested in that.

390 Taking a step back, do we work with our regulatory colleagues in other jurisdictions where we do hold the same licence holder? The answer is, generally, yes we do. It is not a structured collaboration but there are gateways that we have with our regulatory colleagues that allow us to talk to each other about issues or concerns that we might have. It does not happen very frequently, I will add, but the opportunity is there.

395 **Q20. Mr Moorhouse:** From our point of view, hearing that regulators are doing this is fantastic. Are businesses equally enthusiastic at having these checks on what they are doing day to day?

400 **Mr Brennan:** I think it is an accepted part of the regulatory environment. Those checks are always going on, so because we are introducing IT into it does not mean that that is a whole raft of new checks. It just means we will be able to do them more efficiently and more effectively. So we are not introducing a new IT system with a completely new regulatory framework and outlook. We are putting our current framework into an IT system to drive those benefits out for us and for the licence holders.

405 **Mr Spencer:** I wonder if I might just add, there are two other issues. I think we have a landscape of premier division licence holders. It is in all of our interests and theirs and the jurisdictions' that everything stands up to close scrutiny. I think everybody recognises the cost of doing good business, because none of us can afford one of our licence holders to go outside the accepted norms. So I think everybody accepts it as a given. It is our job to try and make it as painless and fruitful as possible, which we are trying to do.

410 In terms of the blockchain, though, you may remember two or three years ago there was a conference here, people were almost evangelical about the idea. Our gaming licence-holder community felt that if there was sufficient demand from their clients, then clearly they would look to embrace it. At that point, they, like we, were agnostic. What is interesting now is that there is still a huge business in fiat currencies of one kind or another, but slowly there is a trend that either newcomers are coming to us with the idea of a blockchain- or crypto-based offering, and some of the existing licence holders are beginning to look in that direction. I do not think that the momentum is there yet where it is going to entirely replace the pound and the euro; but certainly there is a trend. So to that extent, I think we are all alive to the prospect, but I think the movement is slow and progressive, and there is not an avalanche of interest yet.

420 **Q21. Mr Moorhouse:** Just shifting the emphasis slightly, 'know your customer' regulations have become more and more important to business on the Island. For companies you are regulating, they are dealing with people off Island and many very small individuals and some quite huge individuals. How can we actually ensure that those regulations are being adhered to?

430 **Mr Brennan:** The business that is imposing those requirements on its customer base is based in the Island. The GSC then has its AML/CFT code. The code has to be implemented by the on-Island operator and the GSC will be doing its compliance checks against the operator to make sure that the requirements of the code, the obligations that the operator has with regard to AML/CFT are being undertaken. We will do that in a number of ways. We have a quarterly report, a quarterly return that the operator has to provide to us; there is an AML/CFT component to that. There are a number of questions and declarations that they will make within that. We can do spot checks on our operators at any time, their window is on our computer screen.

440 The other thing that we do is an annual review. So we will go to each of the operators on an annual basis and we will take a dip sample of their database and will take a dip sample of the AML/CFT documentation that they have got for their clients, and we will go through and have a look to see if the AML/CFT obligations are being adhered to. So we will look at high-risk clients and we will see if they followed the requirements. We will look at low-risk clients and see if they have followed requirements. We will make sure that the AML/CFT training for the operator is up to date, which is a requirement of the code.

445 So it does not really matter where the client is, the licence holder is on-Island. The obligation for undertaking AML/CFT falls with the licence holder and the regulator has got the opportunity to go in there and have a look at any of the records at any time to understand and review to make sure that they are meeting those obligations.

450 **Q22. Mr Moorhouse:** Again, from the regulator's point of view, this is fantastic, but for the individual business it can be quite a challenge. Is that something you are seeing or are the businesses able to meet your expectations and possibly go beyond them?

455 **Mr Brennan:** It might be a challenge, and there are other jurisdictions that those businesses could go and operate in if that challenge was not something that they wanted to meet. So any business that is on the Island is here because they are getting some benefit from the Island and they are prepared to undertake the obligations that are required for being here on the Island.

But there was a second part to your question and I cannot recall it.

460 **The Chairman:** The second part?

Mr Brennan: There was a second part of your question?

465 **Q23. Mr Moorhouse:** Yes, in terms of going forward, are we going to have increased scrutiny in this area, and are you as regulator able to ensure we meet those expectations so companies can move ahead with you? Or is there going to be a movement to other areas?

470 **Mr Brennan:** So as a jurisdiction I think we have been under quite a lot of scrutiny in this particular area for the last 24 months. We have had MONEYVAL come towards us, we have had the TAX3 Committee come to us, we have had EU Substance and we have had a number of supra-regulatory organisations come towards the Island and talk about AML/CFT.

475 I think the code that we have got in place at the GSC is ... We did not get any criticisms in the MONEYVEL report about our code. There were some remedial action ... some residual parts that needed to be amended, but there was nothing fundamentally wrong with that code. It met with FATF's requirements, which is the benchmark for any AML/CFT code.

480 We have just gone through a consultation with our stakeholders about the changes to the code that we made, and to answer the point of the second part of your question that we were talking around, what do our licence holders think and how do they view these changes? Largely, we have done the consultation, we did quite a lot of outreach to our licence holders – so we did a pre-consultation exercise, we went out to them and we told them what was coming and why, and we told them some of the areas that we would be looking at. We have met with them, we have done a couple of MLRO forums, so we have invited all the money laundering reporting officers to those forums, and then during the course of the consultation process we did another money laundering reporting officers' forum to go through any particular issues that have now manifested because they can now see the consultation in there.

485 I will not say everybody was largely positive about the changes we were looking to introduce – what they thought of those changes. But the majority of those changes have gone in, the businesses recognise why they have gone in, but I will say that also the business was able to provide good feedback to us where we were putting some things in the code and they said

490 that actually we would need to really understand what that means. So if you are going to put that in the code then we will need some considerable guidance in this area to make sure that we are absolutely clear on what is the obligation, or what is the requirement within the code.

495 So I think we have worked closely with our sector to introduce those changes. We have listened to our sector, we have done our consultation document. We have got our consultation response back – we had 20 of our 40 licence holders respond, which is a good return. So I think that we have listened and we have incorporated what we can within the code, but with our mind's eye on making sure that we are maintaining that international standard.

500 **Q24. Mr Baker:** You touched on, in your response there Mr Brennan, the obligations that the licence holders have to operate within, but also the benefits of being regulated on the Island. So it would be useful, I think, if you could give us an overview of the key benefits that are really working for the licence holders, and secondly, if you could just paint a picture across the wider international perspective of where we sit relative to other jurisdictions and any significant changes in that landscape that either –

505 **Mr Spencer:** Before Steve does that, I wonder can I just ... There a couple of other things that I think are happening globally. The bad guys are getting squeezed to a smaller and smaller part of the planet. We are also seeing culturally there were those areas where perhaps they had a more *laissez-faire* approach to KYC. I think that is becoming the norm. And we are seeing, interestingly, now operators who are in the Far Eastern environment applying those same standards and recognition that actually because they are dealing with a regulated licence holder then their funds are secure.

510 Culturally it was never the case that ... you will remember in the good old days in the City, 'my word is my bond'; well, that has long since gone in Western civilization, but that is still very much the mantra in other cultures.

515 But even now the sense we get is that there is an opportunity for licence holders who are well-regulated – and demonstrably well-regulated – their balances, their customer funds are secure, that now is gaining currency. So in that sense I think there is – I would never have imagined this was going to be the case – but that seems to be an unlooked for benefit. There is a cost, as you rightly identify. But I do believe there is a sea-change going on, and in fact the Isle of Man is noted for its rigour and I think that does have some value.

520 But Steve, you can give the global picture.

525 **Mr Brennan:** Well, if I just talk to the benefits, I think there are a number of benefits of being regulated within the Island. First of all, we do have a robust framework. We have been in the online gambling business now for the best part of two decades. So in that time we have learnt an awful lot about, and we have grown up with, online gambling. But we have learned an awful lot about the environment in which online operators can flourish. That is not anything that you can particularly train for or learn. It is experience that is going to give you that, and that is what the GSC does have.

530 In that time also, we have built up a very good reputation as a regulatory authority that understands its business, understands its business online, and more recently – and we have already touched on this – understands the business of emerging technology, such as crypto and such as blockchain. So we do not necessarily trade on that reputation, but it is very, very helpful and very, very useful for when licensees are looking for a jurisdiction to come to.

535 So we have a good reputation and it meets the international standards that organisations should be looking for.

540 The other thing that that then drives is if you are licensed in the Isle of Man then that helps with other relationships. So being in a reputable jurisdiction facilitates the other business relationships that operators need. They need payment service providers to help the flow of funds from the player to the operator and back. They need banking arrangements to be in place

and we are aware that banking is difficult; nonetheless those banking arrangements do need to be made and having licence in a reputable jurisdiction helps.

545 There are other relationships that operators are going to need in order for them to be able to perform their services for their clients. The other side of it as well is all of that then gives consumer confidence, gives the customer confidence, and we, as the regulator, do not necessarily do too much in the way of research in this. So most of this is anecdotal from the lawyers in the space or the operators who are coming towards us, but consumer confidence in the organisation and where that organisation is regulated is another key aspect of being regulated in the Isle of Man. Those companies that want to come towards us want to instil that
550 confidence that they will be able to get those relationships, they are in a reputable jurisdiction and they are adhering to that framework. So all of that melded together is, I would suggest, probably one of the bigger benefits of being within the jurisdiction.

Q25. The Chairman: You touched in passing on the well-recognized issue that there are
555 certain difficulties with regard to banking. I wonder, are you able to report that this has moved at all in the last year or two towards a more helpful situation or are we pretty well where we were last time we spoke?

Mr Brennan: I would say nothing has moved in the last 12 months since we last spoke.
560 Banking for the online gambling sector, which I can talk about, is still really quite difficult. When you layer on what we have talked about in terms of new and emerging technologies, that makes it more difficult still.

The Chairman: Yes. Jason?
565

Q26. Mr Moorhouse: The groundwork is being done to create an additional banking licence for the Island. In terms of that banking licence, it may focus on e-business. Have you had any involvement with that development?

Mr Brennan: I am aware that there is an alternative banking regime and there are some
570 interesting applications going forward. I understand one of those applications will be looking at e-business as one of its main sources of business. Whether that is e-business and e-gaming remains to be seen.

But beyond that, we have not had much in the way of a discussion of where that is within the
575 process and on how that appetite has been maintained.

Q27. The Chairman: Thank you.

If I can just pluck out a couple of points that you have raised in your reporting process to us,
580 you say – unless I have misunderstood it – there are types of gambling which are legal in the UK but not in the Isle of Man. Just out of interest, what are they?

Mr Brennan: Sorry, could you repeat that?

The Chairman: You say in your report there are types of gambling that are legal in the UK, but
585 not in the Isle of Man. Have I misunderstood?

Mr Brennan: I think you are making reference to the raffles and the likes. Over the last 12
590 months we have seen various attempts to raffle property or other prizes within the Isle of Man. We do not have the legislation in the Island for that type of activity to take place; but there is legislation in the UK for that type of activity to take place. So that is the difference. And I think that was a reference to a fairly high profile incident.

Q28. The Chairman: Would you wish to stay away from that sort of legislation being developed in the Isle of Man?

595

Mr Brennan: I am fairly agnostic if I am perfectly honest, because if that is something that is going to be politically acceptable as an activity on the Island, then we would put the appropriate framework around that. At the moment we just do not have that appropriate framework. The legislation does not allow for it. So it is illegal because the framework is not there, not because I have a particularly strong view as to whether or not it should be an activity that we regulate.

600

Mr Spencer: And we also do not have the opportunity to be proportionate. So if it is the Guides running a snail race, the law does not differentiate between that and selling your house via a lottery. So it would be helpful to have some more nuance. But as it is we deal with the hand we have got.

605

Q29. The Chairman: Okay. You touch again on what I think you are suggesting might be a proliferation of match-fixing syndicates in sports betting. Is that becoming an area of increased concern for you?

610

Mr Brennan: I think there has always been an element of match-fixing within sport. I think the rewards now are potentially greater, the ability... the proliferation of that can be greater as well. But coming with that rise is also the attention of the regulatory authorities and the sports governing bodies to try to combat match-fixing. So there are lots of efforts around the globe, some of which the Island is involved in. So we are involved with the expert group of the IOC, for example, and their initiative to try to minimise match-fixing.

615

My question when I was invited to go and join the IOC and have that conversation with them was: you are not exactly the governing body of any sport – what power do you have to try to influence? And their answer was really quite a good one, which is every sport wants to be an Olympic sport – (**The Chairman:** Yes.) and they will get in if we approve it. So they have got real clout with these match-fixing initiatives.

620

We as a regulatory authority have access to all of the operators who may have data that when aggregated together can start to get those patterns out and we can start to see whether there has been any erratic betting behaviour on any particular incident. So collaboratively, with our operators, through the regulators, through the sports governing bodies and through law enforcement, there is an initiative and a momentum to try to bring that all together to be able to have a sharper focus on match-fixing.

625

Mr Spencer: But you might be interested that that is one of the unlooked-for benefits. There was a very helpful conversation with a representative of the IOC over a dinner at the International Association of Gaming Regulators, bemoaning the fact that there is nothing that we can do, or the individual sports can do, and it seemed an intractable problem, which had a very elegant solution, which is the one that Steve alluded to. So that is the value of building good relationships with other regulators and other informed individuals.

630

635

Q30. The Chairman: Thank you for that.

I notice that you say in your report – I am interpreting them so forgive me, I am not literally repeating your words – where you say that we were fairly late in licensing software and that initiative is now in place. Was there any particular reason why we were late to market on that?

640

Mr Brennan: We had a slightly different view on ... So take the step back and we are a consumer protection authority primarily, and we had a different view of how to ensure that the software that was being consumed by players was fair, which is what our mandate is. The approach that we take – we took – is that any game that is going to be offered by any operator

645 to any player, we would want to ensure that that game has been tested to make sure it is fair.
There are a number of testing facilities around the globe that will do that testing for you and we
have got relationships with them all. So we would expect to get a test certificate from one of the
10 or 12 test houses that we have approved and once we have got that test certificate we can
say to the operator, that game can go out on the estate now and players can play that.

650 It is quite a long process to market for the operator who has got that new game. As I say, it
comes to us and we go, 'Yes, get it tested, bring it back,' and it is slow. Other competitor
jurisdictions have a slightly different approach to that. They license the software operators and
the software operators under that licence will get their game tested once, because they develop
the game, and then they would be able to make that game available to all of the operators
655 within that particular jurisdiction. So there was only one test, and that game then could go off to
ten operators, whereas in our approach we were looking at the operator. The obligation was on
the operator to make sure that the game was fair, not the software supplier.

So we have introduced software regulations whereby we can now license the software
operator and we put the obligation on the software operator. You get your game tested once,
660 you can post that game on our website and say that that game has been tested, and then any of
our licence holders can take that game without going through the slower process of getting that
test certificate and providing that to us. It is much faster access to market for the software
developer to get the game to the market and for the operator to be able to pick games, change
the games and change the game offers that they have got.

665 **Q31. The Chairman:** So there is bound to be a limited number of organisations that create
trust in the market, who are going to examine these games and pass their view of that particular
game onto you. Otherwise is a game builder not going to find that they have got a whole myriad
of different jurisdictions that they have got to license their particular game with?

670 **Mr Brennan:** Yes, that is absolutely case and the balance for them really is whether or not I
could take a licence with one particular jurisdiction because I am going to get more benefit than
offering my suite of games. At the moment the licence holders would be ... Traditionally they
used to have to go to each ... every time they sold a game to an operator, that operator would
675 have to go and get that test certificate. (**The Chairman:** Yes.) So it is a more streamlined
approach. It allows faster access to market and it will provide greater benefit for our operators
because they will have a much broader suite of games to be able to choose from, because all the
games that then appear on our site as approved will then be available without any further
interference by the regulator – for want of a better phrase.

680 **Mr Spencer:** And we should say it is discretionary. So if licence holders prefer the ordinary –
(**Mr Brennan:** Traditional.) traditional model, that is fine. (**The Chairman:** Yes.) It is interesting
that we are seeing some very large software developers now coming to us, and they are going,
'This provides an opportunity'. It seems to me that, again, if the Island can demonstrate the
685 quality of its offering in a whole variety of spheres, then hopefully they might say, 'You know
what? Actually we could do x, y, z here as well.'

Mr Brennan: And I think it goes to a point really that Mr Moorhouse made about the benefits
of coming to the Island. When we first started to consult on the potential for software licences
690 we got a number of very, very positive replies. In fact we had been getting lobbied by a number
of the biggest software houses saying, 'This is what we need', because there was a value in the
software house having an Isle of Man licence for when it wanted to sell software in other
jurisdictions as well, particularly the Asian jurisdictions.

So when the software developer was looking to sell elsewhere they were asked, 'Have you
695 got a licence? Have you got an Isle of Man licence?' And if the answer was no, they said, 'Can

you get one?' They would come to us and say, 'Will you license us?' and we said, 'We have not got the requirements or the legislation to do that.'

700 So we did make that change. We have lined ourselves up with all the other jurisdictions who we would consider to be our competitor jurisdictions who have got the same approach. The licensing came in in February and so far four software licences have been approved, we have got three applications in, and I was speaking with the Department for Enterprise this morning, who deal with most of the inward investment that comes towards us, and they have got six applications that they are in dialogue with about looking to get a licence over the next number of months. So it is proving really quite a popular licence, shall we say.

705

Mr Spencer: I should say by way of reassurance, it has long been our mantra that we cannot define what good taste is, but our licence holders know if they cross the boundary, (**The Chairman:** Yes.) then we take a very dim view of that. Personally I am very pleased with this development, and my nervousness was always that there would be someone in a bedroom somewhere in one of the country districts of the Island writing some incredible software which would embarrass all of us. So we are paranoid about the good name of the jurisdiction and I think this helps support that.

710

Q32. Mr Moorhouse: At the moment these licences are tremendously attractive and the firms that get them often become incredibly successful. As a Government we do not tax these companies. Would there be any mileage in looking at the corporate social benefits they are providing and creating an actual social fund? Would companies contribute to such a thing? Or would it be seen as something completely unattractive and separate from what they are doing?

715

Mr Spencer: So when you are talking about not taxing them, you are talking about corporation tax as opposed to gambling duties?

720

Q33. Mr Moorhouse: Well no, I am looking at the opportunity that those companies could provide a financial gift that could go into a fund that could then be used to benefit the Island and make it more attractive, because a tax as an entity would be unattractive and make us less competitive. But will there be an appetite for these companies, in your opinion, to actually contribute funding for something quite unique in that area?

725

Mr Brennan: I think that may be a question for another body if you do not mind me dodging that one.

730

Q34. Mr Moorhouse: Well, just seeing the corporate social responsibility –

Mr Brennan: If you are talking about corporate social responsibility, (**Mr Moorhouse:** Yes.) then that is one of the obligations that our licence holders do have, and that is about demonstrating that they are making a difference in the areas of either research or help or education for problem-gambling. So they do make contributions each year and they are mandated to make those contributions each year under their licence. So the contributions are going to where their target markets are, or they can make the contribution to a local charity that deals with addiction on-Island. So last year – and I think I mentioned that in the report – they did make a contribution of £282,000 to charitable organisations that deal with addiction or research and education, of which £133,000 was maintained on the Island.

735

740

Mr Spencer: And over and above that, I think, if you look increasingly at the licence holders in our estate, they want to be good citizens. It is good for their business that their employees feel good about the person they are employed by, and I think we would be very chary about putting in some strictures about what we decided was a demonstration of good citizenship,

745

750 *(Mr Brennan: Yes.)* and the more successful our licence holders become, the more employees they have. I think there is a groundswell that people want to work for a firm that is regarded well in its community

755 **Q35. Mr Moorhouse:** When they are contributing to these support schemes for addicts are there specific requirements we expect in terms of a proportion of profits or revenue, or is it left to the individual firm?

760 *Mr Brennan:* We have a calculation that is based on their gross gaming yield, which is effectively their gaming profit, and we would be looking for a contribution up to a maximum that we would like to see from them. They can go beyond that maximum if they want to, and some of our bigger operators certainly choose to go beyond that maximum. They have got a number of target markets and they will make contributions in a number of those target markets, whereas we have got other operators that do not have the same scale. They do not have the same type of profit, so they will be paying within the calculation, as it were.

765 *Mr Spencer:* But what I am also saying is even if you look at the numbers that we are talking about, you all know as well as I do, there are companies out there who do a tremendous amount in contributing to the wider community. That is not reflected in these figures at all. So I think we are about – aren't we? – trying to drive good quality businesses that have a social conscience, a very real social conscience, because they live here, they work here and they are as interested as we are in the betterment of our community. It would be disappointing if that had to be a regulatory requirement – would be my view.

775 **Q36. Mr Baker:** That part of the discussion has led me on to a couple of closing points. One was around Mr Brennan's report where you talk about the problem-gambling funding, and also reference a Joint Strategic Needs Assessment being undertaken. I appreciate that is being done by other Government agencies, but it would be interesting just to learn a little more about that.

780 Finally from me, you also touch on something which has had quite social implications in the UK, which is the fixed-odds betting terminals, where that has been quite controversial, as I understand it, in the UK. Again, I am just interested in thoughts on that. I presume that is a far more minor issue on the Island, but I do not know.

785 *Mr Brennan:* So I will talk to the JSNA first. We have had a long history – we as a gambling sector – with the charitable organisations on the Island and the donations that the sector makes to them. But those donations were made to Mental Health Services in the first instance, and it was Mental Health Services who decided where that money would be distributed to, because they were far better placed than the regulator to recognise who could provide the service that they were looking for.

790 I understand that there was a change at Mental Health Services because what they wanted to do was to understand what was the extent of problem-gambling on the Island, and that is what the Joint Service Needs Assessment was there to do. It was to undertake a review to understand the extent of the problem and therefore understand what interventions are going to be required, and Mental Health Services are running that assessment as we speak.

795 It has taken more time to complete, simply because I think the original person that was leading that has left the organisation and that has slowed the assessment down. So we understand the Joint Needs Assessment is ongoing. We do not know what the outcome of that is going to be. Once that outcome is known then a more appropriate approach by Mental Health in terms of how to manage addiction services on the Island will come to pass. That is work in progress.

In the meantime for our licence holders we have still got an obligation to them, and put the onus on them – our licence holders – to say, 'You have got to be a good corporate socially

800 responsible operator. Look to your target markets, make whatever contributions within that
framework and the criteria that were specified – you make those contributions into that target
market.’ Whether that changes when the JSNA report comes out and there is another review of
how that hangs together, remains to be seen.

805 Talking to your other point of the review of the fixed-odds betting terminals, the review in
the UK was a long time coming. It was a very, very politicised environment within the UK, and
when that change came we, as the GSC, undertook a review of our own to have a look at the
circumstances around fixed-odds betting terminals in the UK and whether those circumstances
were prevalent within the Island. We have made that report available to Treasury. Treasury is
810 currently reviewing that. So there is a position that there is a review report with Treasury and
Treasury is considering what action to take in the near future on that.

I will say that the report did highlight the circumstances in the UK and the proliferation of
gambling machines in the UK and that we are a very, very different environment on the Isle of
Man. But as I said, that report currently sits with Treasury and we are expecting to hear the
direction of travel on that imminently.

815

Mr Baker: Thank you.

The Chairman: That is you finished now?

820

Mr Baker: That is me finished, thank you.

Q37. The Chairman: Jason? (**Mr Moorhouse:** Thank you.)

825 Well, actually the fixed-odds betting machine question was going to be my last. Having
whizzed around the world two or three times, I thought we would end up in that particularly
area, but Tim has finished it off very nicely.

Before we close then, just one quick question, how long do you think before the JSNA report
comes out?

830 **Mr Brennan:** I am reading from an email so ... The last update I got, which was the beginning
of April, is that the report is nearing completion and it needs to be signed off by the steering
committee. Once that is done it will get published, so I would imagine it is fairly imminent. I
would hope to see it in the next month or two. I do not know how frequently that steering
committee meets.

835 **Q38. The Chairman:** We will keep an eye out for that one. That concludes our questions,
gentlemen, so thank you very much for coming this afternoon. We have enjoyed the exchange.
Have you any closing remarks that you want to make before we complete?

840 **Mr Spencer:** I wonder from our part if we might also say thank you for the opportunity to
meet with you today. We remember that we had a very modest – because that is the nature of
our expenditure – sandwich lunch, where the discussion was quite broad ranging. It is a
fascinating sector that we have the privilege to regulate and we would be very pleased to invite
you again. Equally modest, but from our part I think we are very grateful for the opportunity to –

845 **The Chairman:** So we look forward to inspecting the menu then? (*Laughter*)
Thank you again, that closes and we will now sit in private.

Mr Brennan and Mr Spencer: Thank you very much.

The Committee sat in private at 3.38 p.m.