

2011

ANNUAL REPORT & ACCOUNTS



ALDERNEY
GAMBLING CONTROL COMMISSION



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ALDERNEY

GAMBLING CONTROL COMMISSION

31 May 2012

The Chairman
Policy and Finance Committee
States of Alderney
PO Box 1
Alderney
GY9 3AA

Dear Mr Beaman,

I have pleasure in presenting the Report of the Alderney Gambling Control Commission for the period 1 January to 31 December 2011.

Yours sincerely

John Godfrey
Chairman

Members: John Godfrey (Chairman), Raymond Birdseye, Isabel Picornell, Jeremy Thompson

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Mission Statement



To ensure and maintain the integrity of the electronic gambling industry in Alderney.

Objectives

To protect the reputation of Alderney as a first tier jurisdiction by seeking to ensure that:

- all electronic gambling in Alderney is conducted honestly and fairly;
- the funding, management and operation of electronic gambling in Alderney remains free from criminal influence; and
- electronic gambling is regulated and monitored so as to protect the interests of the young and the vulnerable.

Chairman's statement

2011 has been a year of continuing development for the Commission but it was also a challenging year in which we imposed the highest level of sanction against a licensee and generated some controversy in doing so.

In June the Commission suspended the four licences of companies trading as Full Tilt Poker and, after conducting regulatory hearings, revoked three of them. Our investigations had revealed a shortfall of funds in the group caused by third party theft and by covert seizure of funds by US authorities, both of which had been concealed from us. Many players held accounts with Full Tilt Poker that could not be cleared, bringing the quality of our regulation into question.

Accordingly, we commissioned an independent review of our actions by Peter Dean CBE, a former Chairman of the British Gambling Commission, in order to expose our processes to an informed and objective review and to learn where improvements could be made.

His report is available in full on our website. It is particularly pleasing that the main conclusion is that our actions were 'appropriate, timely and fair' and that he described the way in which the matter was dealt with as 'an example of regulation working as it should'.

The report included a number of helpful recommendations of which the most significant related to the manner of conducting hearings and the protection of player funds. Significant progress has been made on both of these issues.

The establishment of effective relationships of co-operation and trust with other regulators is crucial in regulating a global cross border industry. We made good progress in this area in 2011, entering into Memoranda of Understanding with the Nevada Gaming Control Board and with the Danish Gaming Authority. A further agreement was completed with

the State of Ontario shortly after the year end. We consolidated a productive relationship with the European Commission where we are now assisted by the new Channel Islands' office in Brussels, and we have continued to enjoy a close and productive relationship with the British Gambling Commission.

I am pleased to note that, despite the difficult economic conditions and regulatory uncertainties in both Europe and the USA, the number of AGCC licensees remained steady compared to 2010, with new licensees replacing those that lapsed. More significantly, a number of previously inactive licences commenced operation in 2011 so that we ended the year with the highest number of operational licensees since the Commission was established.

The increase in active licensees required an increase in staff and a modest increase in accommodation. We are grateful to the States of Alderney for granting the consents to extend St Anne's House.

I wish to recognise the exceptional contribution of two of my colleagues on the Commission, namely, Isabel Picornell and Jeremy Thompson, who formed the tribunal in the Full Tilt Poker hearings. They conducted their task in an exemplary manner over a lengthy period that must have severely disrupted their other commitments. We are grateful to Advocates Laura De Lisle and Jason Hill of the Law Officers of the Crown in Guernsey for their support throughout the process.

I also wish to thank Richard McMahon for his invaluable support and advice to us since our inception and to congratulate him on his appointment as Deputy Bailiff of Guernsey. Richard drafted all of the initial laws and regulations by which we are governed and, in doing so, enabled us to establish the principles and practices that continue to guide our activities.

John Godfrey
Chairman

The Commission

The Alderney Gambling Control Commission ('the Commission') is independent and non-political. It includes people with experience of gaming, regulation and licensing. The Commissioners are:



John Godfrey

Chairman of the Commission (seated right)

John Godfrey is a specialist in gambling regulation. He was re-appointed as Chairman of the Commission for a third term of office in 2009. He was consulting accountant to the Gaming Board for Great Britain for almost 30 years and an adviser to the Government of The Bahamas. For much of this time, John was also an expert witness for the Metropolitan Police. John chaired the eGambling Working Group of the International Association of Gaming Regulators from its inception until 2007.

Isabel Picornell

Commissioner (seated left)

Isabel Picornell is a certified fraud examiner with 20 years investigative research experience, specialising in forensic linguistics in a corporate intelligence context. Prior to moving to Alderney in 2001, she served as a Justice of the Peace in the UK and worked in local government. She is a Dame of the Order of Isabel la Catolica in recognition of services to Spain.

Raymond Birdseye

Commissioner (standing right)

Raymond Birdseye held the position of President of Barclays Bank Corporate Division in North America for a number of years before joining the Board of the Civil Aviation Authority (CAA) as financial regulator for United Kingdom Airline Companies and Air Travel Organisers Licences. Additionally, he was Chairman of the CAA Audit Committee and several other committees. He was re-appointed as a Commissioner for a third term in 2009.

Jeremy Thompson

Commissioner (standing left)

Jeremy Thompson is a business consultant who joined the Commission in 2010. He lives in Guernsey where he provides consulting services and holds several non-executive director roles for Channel Islands based funds. He has a background of senior management roles within the telecoms, engineering and oil sectors and was one of the first private sector members to attend the Royal College of Defence Studies.

The Commission (continued)

The Commission has a staff complement of 18 people. The Executive consists of Andre Wilsenach, Michael Ellen and Jorn Starck.



André Wilsenach Executive Director (centre)

André Wilsenach has a long history in gambling regulation. He served on both the national and provincial gambling boards in South Africa. Subsequently, he became the first CEO of a South African company which was established to render electronic monitoring services to the National Gambling Board of South Africa. He was chair of the International Association of Gaming Regulators for 2009 and is a member of the International Masters of Gaming Law. André is the Commission's Executive Director.

Michael Ellen Director, Licensing and Strategy (right)

Michael Ellen is a qualified chartered accountant with extensive experience in the financial services industry both in the UK and internationally. Michael joined the Commission in 2005 as a senior inspector and was promoted to Chief Inspector in 2006, becoming Director, Licensing and Strategy in March 2011.

Jorn Starck Director, Compliance (left)

Jorn Starck, has a long standing senior management background in the gambling industry, specifically in the areas of sports betting and customer services. Jorn joined the Commission in December 2007 becoming Director, Compliance in March 2011.

THE WORK OF THE COMMISSION

The operational responsibilities of the Commission were divided into two broad areas of activity: licensing (which includes investigations) and compliance activities at the start of 2011 following a re-organisation.

LICENSING – this involves the investigation of any new applicants to determine that they are fit and proper to be issued with a licence or certificate, as well as the maintenance of all required records regarding licensees and certificate holders. As part of an initial investigation, all aspects of an organisation and their key personnel are subject to rigorous and thorough probity reviews.

COMPLIANCE – this includes the approval of licensees' gambling equipment and internal controls and operating procedures, the ongoing review of routine financial and operational reports, the monitoring of operational and game changes and a comprehensive programme of annual inspections of licensees' operations.



The Commission (continued)

The licensing directorate is split into two sections, investigations and licensing.

Investigations, which is staffed by Michael Ellen and Darin Oliver, supported by members of the compliance team when appropriate as well as external experts in due diligence, undertakes the work necessary to enable the Commissioners to determine whether an applicant is fit and proper.



Licensing, which is headed by Michael Ellen and staffed by Kelly Spencer and Christie Crawford, handles the administration of all incoming applications as well as a range of administrative functions. The team attends in large part to the personal suitability appraisals undertaken by the Commission and maintains the Commission's records of licensees, associates and approved sites.

The **Compliance** team oversees licensee compliance with all laws, regulations and guidelines, assisting applicants into compliant operating structures, approving their documented operational procedures and then subsequently assessing the correct implementation of these procedures in routine annual physical inspection of the licensee's operations.

The Compliance team also ensures that all licensees meet and maintain the required technical standards. The team deals with the assessment of operating systems and changes to those systems - both hardware and software. This involves analysis, test scoping, liaison with external test laboratories and subsequent annual on-site review of operating systems.



- **Mark Archbold**, Deputy Director, who has experience in casino and sportsbook operations in Australia;
- **Konstantinos Despotakis**, Deputy Director, who has a senior management background in the betting and gaming industry.
- **Neil Howard**, Deputy Director, who has been with the Commission for five years and prior to that had a background in eGambling software development and appraisal systems and network design;
- **Bruce Florance**, Deputy Director, who has experience in land based casino operations in Australia.
- **Paresh Rughani**, Deputy Director, who has a background in data centre operations and worldwide lottery system implementations;
- **Ian Haywood**, Assistant Director, who has systems networking experience;
- **Antony Rebanks**, Senior Officer, who has progressed from the trainee scheme;
- **Lisa Sanders**, Officer, providing administrative support.

The Commission (continued)



RELATIONSHIP MANAGEMENT

Each licensee is assigned a designated relationship manager, who is the licensee's prime point of contact for all Commission issues, including regulatory approval of internal processes and associated documentation, technical approval, inspections and general guidance on all matters relating to their licensing. This structure helps to foster an effective working relationship between each licensee and the Commission. Every licensee can draw on the guidance and support of someone who understands their corporate structure and business model, their technical requirements and the industry's commercial imperatives.



The directorates are supported by a corporate services team consisting of:

- **Philip Taylor**, in-house legal counsel, who is an English qualified solicitor with experience in the fields of white collar crime and information rights;
- **Nicky Burland**, financial controller, who has experience in financial and human resource management;
- **Rowie Gaydon**, administration officer, who has experience in administration within the hospitality and retail industries;
- **Paula Moore**, corporate services officer, who has administrative experience in the financial services sector.

Approach to Regulation

The Commission's key objective is to provide a regulatory environment which offers robust, enlightened, active regulation while also being responsive to the needs of a changing industry. In this way, the Commission aims to protect players, to ensure the continuing high reputation of Alderney as a jurisdiction and to establish a regulatory environment which attracts operators who seek a comprehensive and tightly controlled regime.

The dynamic nature of the eGambling industry means that the Commission frequently needs to review regulations and legislation. Where changes to the regulations or the legislative framework are required, the Commission will advise the States of Alderney's Policy and Finance Committee on the introduction or amendment of legislation.

REGULATORY CHANGES

2011 saw one amendment made to the Alderney eGambling Regulations, 2009.

The Alderney eGambling (Amendment) Regulations, 2011 were made on 30th March, 2011. Their purpose was to require licensees to incorporate such software as might be specified by the Commission with a view to progressing a "virtual" licensing system enabling players to identify approved games upon a licensee's website. In addition the regulations were amended to give effect to the new staffing structure put in place at the Commission which took effect on 1 March 2011.

PLAYER PROTECTION

The Commission attaches great importance to player protection and therefore continues to work with its licensees and other stakeholders to develop measures to minimise the risks associated with eGambling. Such risks may include fraudulent or under-age activity, which licensees are expected to prevent through stringent player identification and appropriate customer due diligence. Licensees are also required to have in place procedures for identifying and assisting problem gamblers, whether through access to support and advice, or through play limitations.

All licensees are required to contribute financially to an appropriate body involved in conducting research into, or providing education about, the risks of gambling or the treatment of problem gamblers. During the year licensees and associated companies made donations to appropriate charities including GamCare and the GREaT Foundation.

The Commission continues to give serious consideration to issues relating to the protection of player funds. During the year, further discussions were held with licensees as to how best to provide some clear level of security to players. The Commission takes the view that in this area transparency is paramount and that licensees should be encouraged to protect player funds. Furthermore, related procedures should be fully documented in each licensee's internal control system and clearly set out in published terms and conditions so that players are fully informed as to how their funds are held. In addition the Commission devised a new risk profiling matrix to identify those licensees who require additional scrutiny. This "risk monitor" was trialled on new applicants in late 2011 and is being rolled out in respect of all licensees in early 2012. It sets out to identify those licensees who, through their methods of holding customer funds or other operational practises, require additional levels of Commission engagement and will subject them to additional financial and compliance monitoring.

WORKING WITH A GLOBAL INDUSTRY

The Commission is aware that developments in eGambling legislation elsewhere in the world may impact on the ability of Alderney licensees to access those markets and so expand and develop their businesses. The Commission is therefore in discussion with regulators in various countries so as to be kept fully informed on relevant legislative developments and also makes use of specialist consultants to keep the Commission informed of relevant legislative proposals.

Approach to Regulation (continued)

During the year the Executive Director worked towards developing more formalised working relationships with other regulators, and successfully concluded agreements with those in Nevada, Denmark and in early 2012, Ontario.

The Commission has also sought active working relationships with regulators in EU jurisdictions that regulate eGambling in order to facilitate Alderney licensees' entry into regulated EU jurisdictions. It remains the case that there is not as yet an EU-wide consensus on a regulatory approach to eGambling; such agreements need to be negotiated and agreed on an individual jurisdictional basis and may therefore take some time to come to fruition. However in March, 2011 the European Commission issued a "Green Paper" and commenced a consultation exercise. As part of the process the EU held a number of workshops with key stakeholders to which the Commission was invited. These covered the prevention of fraud and money laundering and national enforcement measures and co-operation.

The Commission contributed to a joint "Channel Islands" response to the EU consultation whereby Guernsey and Jersey worked collaboratively through the Channel Islands Brussels Office to present a single response.

REGULATORY AND LEGISLATIVE COOPERATION

The Commission liaises with other international regulatory bodies and often acts as an advisor to regulators and law-making entities in other jurisdictions. In the past year, the Commission has worked with the British Gambling Commission as well as gaming regulatory bodies around the world in connection with probity, due diligence investigations and common international practices. The Commission also works closely with non-gaming regulators such as the Guernsey Financial Services Commission and Guernsey's Financial Intelligence Service.



John Godfrey and Mark Lipparelli, Chairman of the Nevada Gaming Control Board, sign a Memorandum of Understanding.

Alderney has proven experience in establishing and maintaining a robust, business-friendly online gaming jurisdiction and plays an active role in international regulatory bodies such as the Gaming Regulators European Forum and the International Association of Gaming Regulators. The Commission also shares this expertise with others through participation in the major industry conferences. During the course of the year, members of the Commission participated in various regulatory and industry conferences:

- In January, members of the Commission and its staff attended and spoke at the International Gaming Expo in London, a key forum for gaming and gambling operators from around the world.
- In March the In-house Counsel attended a technology update seminar in London.
- In April, Director of Licensing was a speaker at the World Gambling Briefing in Malta. He was also on the panel at the Canadian Gaming Summit and was the Alderney Representative at the Gaming Regulators European Forum. The Executive Director attended the Expert Symposium for online gambling in Germany.

Approach to Regulation (continued)



- During May, the Director of Licensing attended the Gaming Laboratories International conference in Budapest as a speaker and was on the panel at iGaming North America and the Executive Director attended the Westminster eForum Seminar, Global iGaming Summit and Expo in San Francisco and the International Masters of Gaming Law Spring Conference in California. The In-house Counsel attended an update on poker in the light of activity elsewhere in the world.
- In June the Executive Director attended the European Casino Association annual conference.
- In July the Executive Director attended the Gambling Executive Summit and a conference on Player Retention Strategies in London. The In-house Counsel attended the EU workshop on the prevention of fraud and money laundering in Brussels.
- In September the Executive Director attended the EU workshop on national enforcement measures and administrative co-operation in on-line gambling in Brussels and the European iGaming Summit in Milan. He also attended a meeting of International Association of Gaming Advisors in Las Vegas which was followed by Global Gaming Expo in October.
- At the Eastern European Gaming Summit in October the Director of Licensing attended as a speaker. The Executive Director attended the International Association of Gaming Regulators conference in South Africa.
- The In-house Counsel attended the International Gambling Law Summit in November as a speaker.

During 2011, the Commissioners had a number of meetings with representatives of active licensees. These meetings allow licensees to discuss matters of mutual concern with the Commission, and to share valuable information relating to a rapidly changing industry.

Anti-Money Laundering/Combating The Financing of Terrorism



The Commission takes seriously all issues relating to anti-money laundering and combating the financing of terrorism. The Commission is keen to ensure that internationally agreed standards are maintained and that the anti-money laundering / combating the financing of terrorism (“AML/CFT”) framework for eGambling remains harmonised with other sectors in the Bailiwick.

The Commission follows closely the guidance of the Financial Action Task Force (“FATF”), an inter-governmental body, whose purpose is the development and promotion of national and

international policies to combat money laundering and terrorist financing. In order to meet FATF objectives, organisations are required to maintain comprehensive statistics regarding the effectiveness and efficiency of systems for combating money laundering and terrorist financing. The Commission particularly notes and takes record of suspicious transaction reports by the Commission or its licensees, the details of onsite inspections, as well as any formal requests for assistance relating to AML/CFT issues. During the year, 35 suspicious transaction reports were submitted by Alderney licensees, with 2 being submitted by the Commission itself.



Anti-Money Laundering/Combating The Financing of Terrorism (continued)



The Commission continues to be involved in a number of initiatives aimed at raising awareness of these issues with licensees and the public. During 2011 these included briefing and training sessions for staff and licensees, as well as consultation with other regulatory bodies. The Commission is regularly represented at meetings of the Bailiwick's AML/CFT Strategy Committee.

All active licensees are inspected within one year of the approved start of their live operations, and then annually thereafter. All inspections incorporate a careful examination of a licensee's AML/CFT procedures to ensure that they are robust. Each inspection is preceded by a mystery shopping exercise testing the site from the perspective of a player. An inspection will include reviews of player registration, payment systems, player due diligence and other controls used to prevent money laundering and to combat terrorist financing.

Licensing & Compliance Activity



It is a vital part of the Commission's licensing regime that holders of eGambling licences and associate certificates, as well as key individuals, are approved as being fit and proper. All applicants – organisations, their owners and key personnel - are therefore carefully and rigorously scrutinised to confirm that the individual or organisation applying for approval is likely to operate effectively and within both the spirit and the letter of the Commission's regulations.

After an application has been received, an initial information meeting will discuss in some detail the background to the application, the nature of the proposed eGambling activities and how the eGambling will be conducted. The discussion will also incorporate issues such as the financing, the individuals involved, and the software being used. This is to ensure that the Commission has a full and clear understanding of the proposition and addresses

early on any contentious or problematic areas. The Licensing directorate will then investigate each corporate and individual applicant, looking at their business history and relevant experience, associated principals and business associates. The Commission may outsource certain elements of the investigation to suitable third parties where geographical or language constraints make it difficult to obtain the necessary confirmation of an applicant's fitness and propriety.

As at 31st December, 2011, there were 51 registered licensees, consisting of 18 holders of Category 1 licences only, nine holders of Category 2 licences only and 24 holders of Category 1 and 2 licences. In addition there were eight FGACs in issue. 12 new licensees and additionally five new FGACs were registered in the year.

Licensing & Compliance Activity (continued)

Details of the licences and certificates issued are as follows:¹

1. Orinic Limited (1)
2. Aragon Technologies Limited (2)
3. Intellectual Property & Software limited (1&2)
4. Sportech Alderney Limited (1)
5. FairplayGames Limited (1)
6. Kambi Sports Solutions (Alderney) Limited (2)
7. Global Betting Exchange Alderney Limited (1&2)
8. VF 2011 Limited (1)
9. SE Asia Gaming Limited (1)
10. Play n Go Alderney Limited (2)
11. Triplebet Limited (1&2)
12. Monte Carlo Limited (1&2)
13. Arkin Sports & Leisure Limited (2) *
14. GameDuell GmbH (FGAC)
15. Bubble Group BV (FGAC)
16. PT Network Management Limited (FGAC)
17. Entwine Technology PTE Limited (FGAC)
18. Global Technology and Sports Limited (FGAC) #

* these were granted to existing eGambling licensees or certificate holders

A FGAC was granted but not taken up by Global Technology and Sports Limited.

One application for a Category 2 eGambling licence was refused by the Commission. This is currently the subject of an appeal to the Court of Alderney.

During 2011, 9 licensees allowed their licence(s) to lapse and 3 licensees had four licences revoked

As at 31st December, 2011 1 category 1 eGambling licence remained suspended.

Associate certificates were issued to the following:

1. Viaden Gaming Limited
2. Barcrest Group Limited
3. Cayetano Technologies (IOM) Limited
4. Soccer Millionaire Limited
5. Games Warehouse Limited
6. SkillKash Limited
7. RCT Racing
8. Genesis Software International Limited

Three holders of core services associate certificates allowed their certificates to lapse. This brought the number of associate certificates in issue at the end of the year to 28.

A complete list of holders of eGambling licences and foreign gambling associate certificates at the end of 2011 is set out at Appendix A.

Alongside licence applications, the Commission also approved 45 key individual applications. Key individuals are those who are deemed to be "in a position to control or exercise significant influence over the operations conducted under an eGambling licence". In order to be approved, key individuals are subject to a rigorous probity investigation involving the examination of professional and personal histories, financial records, as well as appropriate checks through financial intelligence records.

¹ Details in parenthesis are as follows:-

(1) Category 1 eGambling licence

(2) Category 2 eGambling licence

(1+2) Categories 1 and 2 eGambling licences

(FGAC) Foreign Gambling Associate Certificate

Licensing & Compliance Activity (continued)

HOSTING CERTIFICATES

Holders of eGambling licences are required to house their gambling equipment in approved premises. Where gambling equipment is housed in the Bailiwick of Guernsey, it must be accommodated by a company which holds a hosting certificate. The first hosting certificates were issued in 2006 to Cable & Wireless, Itex and Newtel (now trading as JT).

Under the 2009 Regulations, foreign hosting premises used by an Alderney licensee must be approved, although they need not hold a hosting certificate. The Commission believes that this regulatory structure more adequately serves the operational needs of an increasingly multi-jurisdictional gambling industry.

During 2011, a hosting certificate was issued to Conet E-Commerce Services N.V.. No hosting certificates lapsed in 2011.

TEMPORARY LICENCES

A temporary licence allows a company to run eGambling operations from Alderney/Guernsey for a strictly limited period of time: no more than 30 days continuously, or for an aggregate of 60 days in any six month period. This type of licence is designed to serve the needs of operators requiring short term use of Guernsey-based gambling equipment, whether for disaster recovery periods or perhaps for a period of transition from one location to another. Two temporary licences were granted in 2011. Seven temporary licences were in place at the end of 2011.

FURTHER APPROVAL

Following the Commission's approval of a licence, a licensee will then be required to obtain full approval of their gambling equipment and their internal control system (ICS). All gambling equipment – including random number generators and all relevant software and hardware - will be rigorously tested by an independent testing house to ensure compliance with the Commission's published technical standards.

An ICS is a system of administrative controls and procedures used by a licensee when operating eGambling. Each ICS should be designed to provide:

- administrative control;
- accounting and financial control;

- controls over the operation of customer accounts and player funds;
- safeguards in relation to the security of the licensees' systems;
- comprehensive and appropriate anti-money laundering procedures;
- procedures for identifying fraudulent, problem or underage gambling.

Fifteen initial ICS approvals were made in 2011.

INSPECTIONS

It is an important element of the regulatory regime that active licensees are inspected on a regular basis to ensure that they are operating in full compliance with the Commission's regulations and guidelines, and that they adhere to the procedures set out in their internal control systems. Licensees can generally expect to be inspected once a year. However, an inspection can be instigated at any time where the Commission has concerns regarding a licensee's ownership or operations.



Konstantinos Despotakis on an inspection visit.

The inspection team will closely examine a broad range of the licensee's operations, including

- corporate structures, staffing and staff training;
- financial reporting;
- player registration, verification and associated banking procedures;
- anti-money laundering / combating financing of terrorism procedures;
- games fairness and player protection;
- security policies and procedures;
- operation of approved games and gambling equipment.



Licensing & Compliance Activity (continued)

Following an inspection, a full report is prepared which will address any issues arising which need attention. Where serious issues arise, a further inspection or a formal sanction may be required.

During 2011, the regulatory and technical teams carried out 34 inspections. In the main, these demonstrated a high level of regulatory compliance by licensees and reaffirmed the importance of active operational controls. One licensee was inspected on two occasions.

SPECIAL INVESTIGATIONS

The Commission has the power to conduct a special investigation into a licensee at any time. This may be deemed necessary to confirm or review a licensee's operation, or where there are concerns regarding operational issues. While some of these may be conducted by visiting the licensee's premises, they can also be carried out remotely. The findings from a special investigation may lead to a speedy resolution of any underlying causes for concern, or in some instances the issuance of further sanctions. One special investigation was instigated in 2011.

SANCTIONS

The Commission has a range of sanctions at its disposal, including financial penalties and, for the most serious regulatory breach, suspension or revocation of a licence or certificate. The Commission can also issue a "proposal to rectify" which can then be followed by a "direction to rectify" – in other words, instructions that the regulatory breach must be rectified within a specified time. During the year, the Commission issued 3 rectification proposals and 2 directions to rectify, both of which were complied with speedily and efficiently, as well as 2 cautions regarding more serious matters.

Where a breach of the regulations continues or becomes more serious, a regulatory hearing may be called as an opportunity for the licence or certificate holder to make representations and present their case to the Commission. One regulatory hearing was held during 2011.

The hearing into the activities of Vantage Limited, Oxalic Limited, Filco Limited and Orinic Limited (collectively trading as Full Tilt Poker) followed a special investigation commenced on 20th April, 2011. The licences were suspended on 29th June, 2011 and a regulatory hearing commenced on 26th July, 2011. A Determination notice was issued on 29th September 2011. 17 allegations were found to have been proved by the Commissioners acting as the tribunal. Three Category 1 eGambling and one Category 2 eGambling licences were revoked (Filco Limited (1+2), Oxalic Limited (1) and Vantage Limited (1)) and one Category 1 eGambling licence was suspended for a period of six months with strict conditions being imposed upon reactivation thereafter.

FINANCIAL MONITORING

All licensees are required by the regulations to ensure that they meet, on a continuous basis, the following three prudential ratios:

- Cash must always exceed player balances;
- Current assets must always exceed current liabilities;
- Total assets must always exceed total liabilities (excluding capital) by at least 25%.

These requirements seek to ensure that licensees have sufficient resources to pay out players' funds at any time. The Commission must be satisfied that acceptable arrangements to satisfy these requirements are in place before the licensee can gain approval for full activation of their operations.

Licensees are required to submit quarterly financial reports and regular operational reports covering matters such as player activity, suspicious transactions, significant player deposits or losses. These are closely reviewed by the Commission, with any potentially contentious issues being flagged for further consideration. Licensees are also required to carry out a fully independent financial audit each year and to submit their audited accounts to the Commission.



Licensing & Compliance Activity (continued)

THE ALDERNEY GAMBLING LICENSEES' FORUM

The Alderney Gambling Licensees' Forum (AGLF) exists to allow Alderney licensees and the Commission to discuss matters of mutual interest. Topics discussed include legal and regulatory developments in Alderney and elsewhere, technological issues and wider gambling matters.

Malcolm Graham, CEO of PKR Limited and the current chairman of the AGLF, has said "The AGLF creates an opportunity for licensees and the Commission to meet and discuss those issues affecting the industry. It allows licensees to communicate with the Commission and vice versa. The Commission has been building on its previous activity regarding agreements with other regulators and the forum allows licensees to be updated as well as giving licensees the chance to offer their comments and thoughts. The forum is a valuable feature in Alderney's eGambling regime."



Malcolm Graham, Chairman of the AGLF.

The AGLF met once during 2011 to discuss the United Kingdom's review of remote gambling, the EC Green Paper, player fund protection and the actions of the Commission in the EU and USA.

TRAINING AND INFORMATION SESSIONS

In December 2011 a training and information session was held for licensees. This was the fourth such session organised by the Commission and is now becoming a regular fixture in the Commission's calendar. Representatives from newly operational

licensees were required to attend; representatives from all other licensees could attend on a voluntary basis. The meeting was attended by 46 delegates from 31 licensees.

Delegates met with representatives of the Guernsey Financial Intelligence Service, were introduced to their work and given the opportunity to ask questions. This session was followed by a specialist training seminar focussing on recent changes to the Bailiwick's AML/CFT regime, anti-bribery and corruption, employee fraud, alternative remittance systems and interpreting body language.

REGULATORY ACTIVITY – COMPLAINTS

The Commission has in place a complaints procedure to address player issues which cannot be satisfactorily resolved by a licensee. During 2011, 1626 complaints were received and dealt with by the Commission, an increase on the previous year reflecting significantly increased activity among Alderney's licensees. 410 of these related to Full Tilt Poker. Complaints arose for various reasons, including:

- claims of unfair, "fixed" or "biased" gaming;
- bet disputes;
- ID requirement concerns;
- technical malfunctions;
- poor customer service;
- unfair game rules, terms and conditions or bonus requirements;
- unfair account closures;
- cash withdrawal issues;
- voided bets.

One complaint was escalated to the Executive Director for a preliminary determination in accordance with the regulations; the complaint was resolved satisfactorily at this level without being escalated further.

The Commission aims to work closely with licensees on resolving issues related to customer complaints, and also liaises with relevant industry bodies. During the year Commission staff attended the annual conference of GamCare, a UK based charity providing support, information and advice to problem gamblers, and also attended a GamCare training session.

Technical Activity

One of the ways the Commission seeks to ensure that all eGambling is conducted fairly is by requiring full approval of each licensee's gambling equipment, both hardware and software, following Commission approval of a licence. The licensee's gambling equipment including random number generators and all relevant software and hardware will be rigorously tested by an independent testing house to ensure operational worth and game fairness.

Following such approval, the Commission then aims to control any significant subsequent changes using an automated change control system which allows licensees to enter and upload relevant information using a secure online portal. During the year, this system was upgraded and developed so that it now stores more detailed information on licensees' approved games and is easier for licensees to use. The greater clarity of the information processed also ensures a significant increase in operational efficiency. The Commission intends to build upon the success of this system in 2012.

TESTING HOUSES

Testing of licensee games and gaming activity is contracted out to independent specialist testing houses. The Commission does not formally licence

or certificate testing houses, but has developed ongoing relationships with a range of organisations approved as appropriate for Commission use. The number of testing houses approved for Commission use decreased slightly during 2011 and now stands at 11. When considering the use of a testing house, the Commission will examine closely their ownership and industry reputation as well as their technical capabilities and operational history.

VIRTUAL LICENSING

All licensees are required to state clearly on their sites that they are licensed and regulated in Alderney. The Alderney logo on a licensee site is seen as a guarantee of secure, safe, well regulated eGambling. It is therefore important that this identification with Alderney is not misused in any way and can only be displayed by fully licensed organisations. In order to ensure correct, accurate use of the Alderney licensing commitment, the Commission has progressed the introduction of "virtual licensing" - a website based licence - in addition to the current paper-based licences and certificates. This means of virtual licensing, which safeguards players and protects the Alderney brand values, was trialled during the year and is now being implemented on licensee sites, whilst still undergoing further development.

Financial Statements



STATEMENT OF THE COMMISSION'S RESPONSIBILITIES

The Commission acknowledges that it is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Commission and of the profit or loss of the Commission for that period. In preparing those financial statements the Commission is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue in business.

The Commission is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Commission. The Commission is also responsible for safeguarding its assets and hence for taking reasonable steps for the prevention and the detection of fraud and other irregularities.

The following persons served on the Commission during the year under review:

- Mr John Godfrey (Chairman);
- Mr Raymond Birdseye;
- Ms Isabel Picornell;
- Mr Jeremy Thompson



Independent auditor's report to the Commission

We have audited the financial statements of Alderney Gambling Control Commission (the "Commission") for the year ended 31 December 2011 which comprise the income statement, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Commissioners, as a body, in accordance with the terms of our engagement letter dated 27 October 2011. Our audit work has been undertaken so that we might state to the Commission those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission and the Commissioners as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the commission and the auditor

As explained more fully in the Statement of Commission's Responsibilities set out on page 19, the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commissioners; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in

the Chairman's Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2011 and of its surplus for the year then ended;
- are in accordance with the United Kingdom Accounting Standards.

Matters on which we report by exception

We have nothing to report in respect of the following matters, where we report to you if, in our opinion:

- the Commission has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited
Chartered Accountants

4 April 2012

Disclaimer

- i) The maintenance and integrity of the Alderney Gambling Control Commission's website is the responsibility of the Commissioners; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.
- ii) Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Balance Sheet as at 31st December 2011



	Note	2011 £	2010 £
Fixed assets			
Computer, office equipment & furniture		25,004	31,668
Leasehold		312,746	362,600
Web hosting		61,271	118,258
	2	399,021	512,526
Current assets			
Cash at bank and in hand	3	2,625,063	2,435,062
Prepayments		32,574	17,926
		2,657,636	2,452,988
Creditors: amounts falling due within one year	4	(1,095,574)	(857,774)
		1,562,062	1,595,214
Net current assets		1,562,062	1,595,214
Total assets less current liabilities		1,961,083	2,107,740
Capital and reserves			
Retained surplus brought forward		2,107,740	4,342,308
Net deficit for the year		(146,657)	(2,234,568)
Retained surplus		1,961,083	2,107,740

The financial statements on pages 19 to 26 were approved by the Alderney Gambling Control Commission on 26 March 2012 and signed on its behalf by:

Mr John Godfrey
Chairman



Income Statement for year ending 31st December 2011

	Note	2011 £	2010 £
Income			
Licence fees		4,545,650	3,885,650
Fees charged to applicants and licensees		416,994	394,320
Bank interest		20,474	7,477
Sundry income		-	60,000
		<hr/> 4,983,118	<hr/> 4,347,447
Expenditure			
Staff costs	6	1,387,206	1,380,365
Commissioners' fees	5	103,241	95,313
Premises, furniture and equipment		66,795	91,124
Web hosting		77,003	69,572
Consultancy		86,769	140,965
Conferences and general travel		123,261	128,206
Postage, stationery and telephone		38,856	34,064
Administrative expenses		218,251	33,968
Depreciation	2	136,359	118,471
		<hr/> 2,237,741	<hr/> 2,092,048
Distributions in year	7	2,892,034	4,489,967
Net deficit		<hr/> (146,657)	<hr/> (2,234,568)

Notes to the Financial Statements

Year Ended 31st December 2011



1. Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. The income in the financial statements is collected by the Commission on behalf of the States of Alderney. After deduction of the expenses incurred and working capital required to fund the Commission the surplus is distributed to the States of Alderney.

Depreciation

Depreciation is calculated using the straight line method at the following rates:

- Office furniture 25% per annum
- Computers and related equipment (including change control) 33% per annum
- St Anne's refurbishment 10% per annum

Licence fees

Under the terms of The Alderney eGambling Ordinance, 2009, licences granted by the Commission are valid for an indefinite period. A non refundable licence fee is payable on issue of the licence and in advance of each anniversary of the issue of the licence. The licence fees are recognised in the Revenue account in the period in which they are received.

Cash flow statement

Under Financial Reporting Standard no. 1 the Commission is exempt from the requirements to prepare a cash flow statement on the grounds of its size.

Expenses

Expenses are accounted for on an accruals basis.

Leasehold

The Commission entered into a ten year lease on the office property in Alderney, commencing in April 2008.

The rental amounts for 2011 charged to the Revenue account and included in premises, furniture and equipment expenditure were £39,175 (2010 - £38,944).

The Commission is committed under the lease to make payments of £36,000 per year plus any RPIX increase, subject to review in the fifth year, until the end of the lease. The rental is charged on a straight line basis over the lease term.

Capital commitment

At the end of 2011 the Commission entered into a contract to extend the office space at the leasehold premises. The extent of the capital commitment on the 31st December 2011 amounted to £89,747.



Notes to the Financial Statements

Year Ended 31st December 2011 (continued)

2. Fixed assets

	Computer equipment £	Office furniture £	Leasehold £	Web Hosting £	Total £
Cost					
At 1 January 2011	111,177	40,908	498,536	194,658	845,279
Additions	12,881	1,184	0	8,790	22,855
At 31 December 2011	<u>124,058</u>	<u>42,092</u>	<u>498,536</u>	<u>203,448</u>	<u>868,134</u>
Depreciation					
At 1 January 2011	89,685	30,733	135,936	76,401	332,755
Charge for year	14,109	6,619	49,854	65,776	136,358
At 31 December 2010	<u>103,794</u>	<u>37,352</u>	<u>185,790</u>	<u>142,177</u>	<u>469,113</u>
Net book value					
At 31st December 2011	<u>20,264</u>	<u>4,740</u>	<u>312,746</u>	<u>61,271</u>	<u>399,021</u>
At 31st December 2010	<u>21,492</u>	<u>10,176</u>	<u>362,600</u>	<u>118,258</u>	<u>512,526</u>

Notes to the Financial Statements

Year Ended 31st December 2011 (continued)

3. Cash at bank and in hand	2011	2010
	£	£
Cash at bank:		
Business reserve account	489,998	923,153
Applicant and Licensee deposit account	883,395	474,084
Treasury accounts	1,000,017	1,000,000
Current account	251,524	37,796
Petty cash	129	29
	<hr/>	<hr/>
	2,625,063	2,435,062
	<hr/> <hr/>	<hr/> <hr/>
4. Creditors: amounts falling due within one year	2011	2010
	£	£
Refundable deposits	678,294	481,584
Creditors and accruals	417,280	376,190
	<hr/>	<hr/>
	1,095,574	857,774
	<hr/> <hr/>	<hr/> <hr/>

Refundable deposits are held against the costs of investigating applicants and inspecting licensees and may be refunded in whole or in part.

5. Commissioners' fees

In accordance with the Gambling (Alderney) Law 1999, as amended, the States of Alderney ultimately meets the fees and expenses of the Commissioners, including the Chairman.

6. Pension scheme and life assurance

A defined contributions pension scheme, together with life assurance cover, is provided for employees. The scheme is administered by Anthony Le Blanc and Partners Limited in Alderney and was started in May 2002. The scheme requires employees to contribute 6% of gross salary to the scheme and the Commission contributes a minimum 7.5% of gross salary to the scheme on the employees' behalf. The annual pension contribution of £112,491 (2010 - £107,918) is included in staff costs. At the year end there were no prepaid or outstanding contributions (2010 – £nil).



Notes to the Financial Statements Year Ended 31st December 2011 (continued)



7. Distributions to the States of Alderney

During 2011 the States of Alderney directed distributions from the retained surplus in the amount of £2,892,034 (2010 - £4,489,967).

8. Guernsey Income Tax

The Commission is not subject to Guernsey Income Tax.

Appendix A

eGambling licensees and Foreign Gambling Associate Certificates as at December 31st 2011

Aragon Technologies Limited	2	Marathon Alderney Ltd	1 & 2
Arkin Sports & Leisure Limited	1 & 2	Microgaming Software Systems Limited	FGAC
Aydogan Tourism & Leisure Limited (Formally Truva Gaming Limited)	1 & 2	Monte Carlo Limited	1 & 2
Beast Gaming Limited	1 & 2	Net Entertainment Alderney Ltd	2
Blue Square Gaming (Alderney) Ltd	1 & 2	Netplay TV Group Limited	1 & 2
Blue Stone Interactive Entertainment Ltd	1 & 2	Orinic Limited	1
Bonne Terre Ltd	1 & 2	Parlay Games Ltd	1 & 2
Boylesports Alderney Ltd	1	Pinnacle Sports Europe Limited	1
Bubble Group BV	FGAC	Ragnarok bv	FGAC
Chartwell Games (Alderney) Ltd	2	PKR Ltd	1 & 2
Chiligaming Limited	1	Playtech Software (Alderney) Limited	2
Daub Alderney Limited	1	PT Networks Limited	FGAC
Electraworks (Alderney) Limited	1 & 2	Play n Go Alderney Limited	2
Entwine Technology PTE Limited	FGAC	QSB Gaming Limited	1 & 2
Evolution Core Holding Limited	FGAC	Samvo International Limited	1 & 2
FairplayGames Limited	1	SE Asia Gaming Limited	1
Gameduell GmbH	FGAC	Small Screen Casinos Limited	1 & 2
Gala (Alderney) Limited	1 & 2	SPS Betting (Alderney) Limited	1
GameAccount Alderney Limited	1 & 2	SPS s.a.	FGAC
Genting Alderney Limited	1	Sportech Alderney Limited	1
G. P. (Alderney) Limited	1	Triplebet Limited	1 & 2
Global Betting Exchange Alderney Limited	1 & 2	Totesport Alderney Limited	1
Global Sports Trading Services Limited	1	Totepool Alderney Limited	2
Greentube Alderney Limited	2	VF 2011 Limited	1
Intellectual Property & Software Ltd	1 & 2	Virgin Games Alderney Limited	1
Interactive Sports (CI) Ltd	1 & 2	Virtue Fusion (Alderney) Ltd	1 & 2
Interlogic (Alderney) Limited	1 & 2	IGT (Alderney 2) Ltd	1
International Investments Ltd	1	IGT (Alderney 4) Ltd	2
Kambi SportSolution (Alderney) Limited	2	IGT (Alderney 7) Ltd	1
		WMS Alderney 2	1 & 2

Appendix B

Statistics



	2011	2010	2009	2008	2007
Number of licensees	51	51	44	42	34
New licences issued	12	7	14	13+1	14
Number of licence applications refused	1				
ICS initial approvals	15	8	10	10	10
Inspections	34	27	22	20	13
Special investigations	1	2	2	3	10
Sanctions	28	12	1	1	10
Revocations	3				
STRs copied	35	64	16	9	3
STRs submitted	2	2	1		
Training events	1	1	1	3	1

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