

# 2013

ANNUAL REPORT & ACCOUNTS



ALDERNEY  
GAMBLING CONTROL COMMISSION



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ALDERNEY

GAMBLING CONTROL COMMISSION

12 May 2014

The Chairman  
Policy Committee  
States of Alderney  
PO Box 1001  
Alderney  
GY9 3AA

Dear Mr Simonet,

I have pleasure in presenting the Report of the Alderney Gambling Control Commission for the period 1 January to 31 December 2013.

Yours sincerely

**John Godfrey**  
Chairman

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## Mission Statement



To ensure and maintain the integrity of electronic gambling activities regulated by the Commission.

## Objectives

The primary objective is to protect and enhance the reputation of Alderney as a first tier regulatory jurisdiction by seeking to ensure that:

- All electronic gambling is conducted honestly and fairly and in compliance with good governance;
- The funding, management and operation of electronic gambling remains free from criminal influence; and
- Electronic gambling is regulated and monitored so as to protect the interests of the young and the vulnerable

and without compromising this primary objective, to work with other agencies in the development of eGambling activities regulated by the Commission.

## Chairman's statement

In my report last year I referred to some of the risks of overlapping regulation as different national regulators seek to control eGambling businesses at both the point of consumption and where those businesses are operated. The subsequent twelve months have shown that my concerns were well founded.

Politicians have persuaded themselves that their citizens can only be protected if their national regulator duplicates the efforts of other regulators. High quality operators offering safe, secure and well regulated services will be required to meet the differing requirements of every country in which they do business and to submit to the bureaucratic intervention of every one of them. The costs and frustrations imposed on the operators will divert management from more useful tasks while the confusion of responsibility between regulators, petty differences of detail and the failure to adopt common standards in addressing the main issues will add little to the protection of customers.

eGambling is still a new business. It is only within the last decade that there has been general recognition that it is both possible and sensible to license and regulate gambling over the internet. It is understandable that the early reaction of governments has been a wish to parade their concern for their own citizens by imposing overriding insular controls.

There are many other businesses, which also carry risks for consumers, that have evolved to recognise international standards that apply throughout all or most of the world and eGambling will eventually do the same. But, for the moment, regulators are locked into mind-sets formed by the historic regulation of terrestrial gambling.

In the meantime, the Alderney Gambling Control Commission continues to establish formal and informal relationships with other regulators to improve the exchange of information, the development of common standards and co-operation in enforcement.

Encouragingly, the States of Nevada, New Jersey and Delaware have recently introduced legislation to permit intra-state gambling. This is the first recognition in the United States that well regulated on-line gambling has a place alongside the terrestrial sector.

Closer to home the Commission has further developed its formal relationships with Government and other regulatory agencies within the Bailiwick of Guernsey to ensure that there is a proper process for the sharing of information that enables us to meet high standards in the observance of international requirements to combat money laundering.

This is the last report that I will present after fourteen years as Chairman of the Alderney Gambling Control Commission. During this time the Commission has earned a reputation as one of the world's leading regulators of eGambling. We owe that reputation to a talented, hard working staff led by an outstanding Executive Director and I warmly thank them, and my fellow Commissioners over the years, for what has been an enjoyable and rewarding role for me. I am also grateful to the States of Alderney for their confidence and support throughout my term of office.

I am glad that Lord Faulkner has agreed to become the next Chairman and that Christopher Moger QC has accepted appointment as a new Commissioner. The best legacy that anyone can leave to an institution they have served is an able and energetic succession. I leave the Alderney Gambling Control Commission in safe hands.

**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. He is a director of a manufacturing company based in the UK and is a Governor of The Place centre for contemporary dance. He is also a Trustee of The London Youth Support Trust and of a charity that promotes chamber music.

### Dr. Isabel Picornell

**Commissioner** (seated left)

Dr. Isabel Picornell lives on Alderney, and is a certified fraud examiner specialising in language evidence. She holds a PhD in forensic linguistics and provides consultancy services to the legal and corporate intelligence industry. Isabel is a Dame of the Order of Isabel la Catolica, knighted for services rendered to Spain. She has a particular interest in compliance and anti-money laundering.

### Lord Faulkner

**Commissioner** (standing left)

Lord Faulkner of Worcester is a British parliamentarian with extensive knowledge of gambling regulation. He served on the joint scrutiny committee on the draft gambling bill in 2003-04, and chaired a parliamentary inquiry into betting on sport in 2004-05. He was a strategy adviser to the Alderney Gambling Control Commission 2005-08. Prior to entering the House of Lords in 1999, he had for many years been an adviser to the football pools companies. He is a member of the Channel Islands all-party parliamentary group. From 2006-09 he was a member of FIFA Task Force "For the Good of the Game" (with special responsibilities for sports betting integrity) and is a former Gamcare trustee. Lord Faulkner served as a minister in the government whips' office 2009-10, and is now a Deputy Speaker of the House of Lords. He was educated at Merchant Taylors' School and Worcester College, Oxford, where he is an honorary fellow.

### Jeremy Thompson

**Commissioner** (standing right)

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 had a staff complement of 21 people on 31st December, 2013. The Executive consists of André Wilsenach, Michael Ellen and Jorn Starck.



### **André Wilsenach** Executive Director (centre)

André Wilsenach has a long history in gambling regulation prior to joining the Commission in 2002. 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 and became the 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 Commission (continued)

### THE WORK OF THE COMMISSION

The operational responsibilities of the Commission are divided into two broad areas of activity: licensing (which includes investigations) and compliance activities.

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

**Investigations**, which is staffed by Michael Ellen and Darin Oliver (2012)<sup>1</sup>, 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 (2007), Christie Crawford (2009) and Ceri Macfarlane (2012), 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. In addition the team handles complaints made by customers of licensees.

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<sup>1</sup> Figures in parenthesis denote year of joining the Commission

## The Commission (continued)



The **Compliance** team headed by Jorn Starck oversees licensee compliance with the jurisdiction's 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.

The team consists of:

- **Mark Archbold** (2009), Deputy Director, who has experience in casino and sportsbook operations in Australia;
- **Konstantinos Despotakis** (2009), Deputy Director, who has a senior management background in the betting and gaming industry.
- **Neil Howard** (2007), Deputy Director, who has a background in eGambling software development and appraisal systems and network design;
- **Bruce Florance** (2011), Deputy Director, who has experience in IT systems integration, online casino and land based casino operations in Australia.
- **Paresh Rughani** (2007), Deputy Director, who has a background in data centre operations and worldwide lottery system implementations;
- **Ian Haywood** (2006), Assistant Director, who has systems networking experience;
- **Aidan O'Regan** (2013), Assistant Director has wide financial experience in the IT, interactive entertainment and banking sectors;
- **Antony Rebanks** (2010), Senior Officer, who has progressed from the trainee scheme;
- **Lisa Sanders** (2011), Senior Officer providing administrative support.
- **Chris Parmentier** (2008), Senior Officer, who has experience in sportsbook operations & software development.

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<sup>1</sup> Figures in parenthesis denote year of joining the Commission



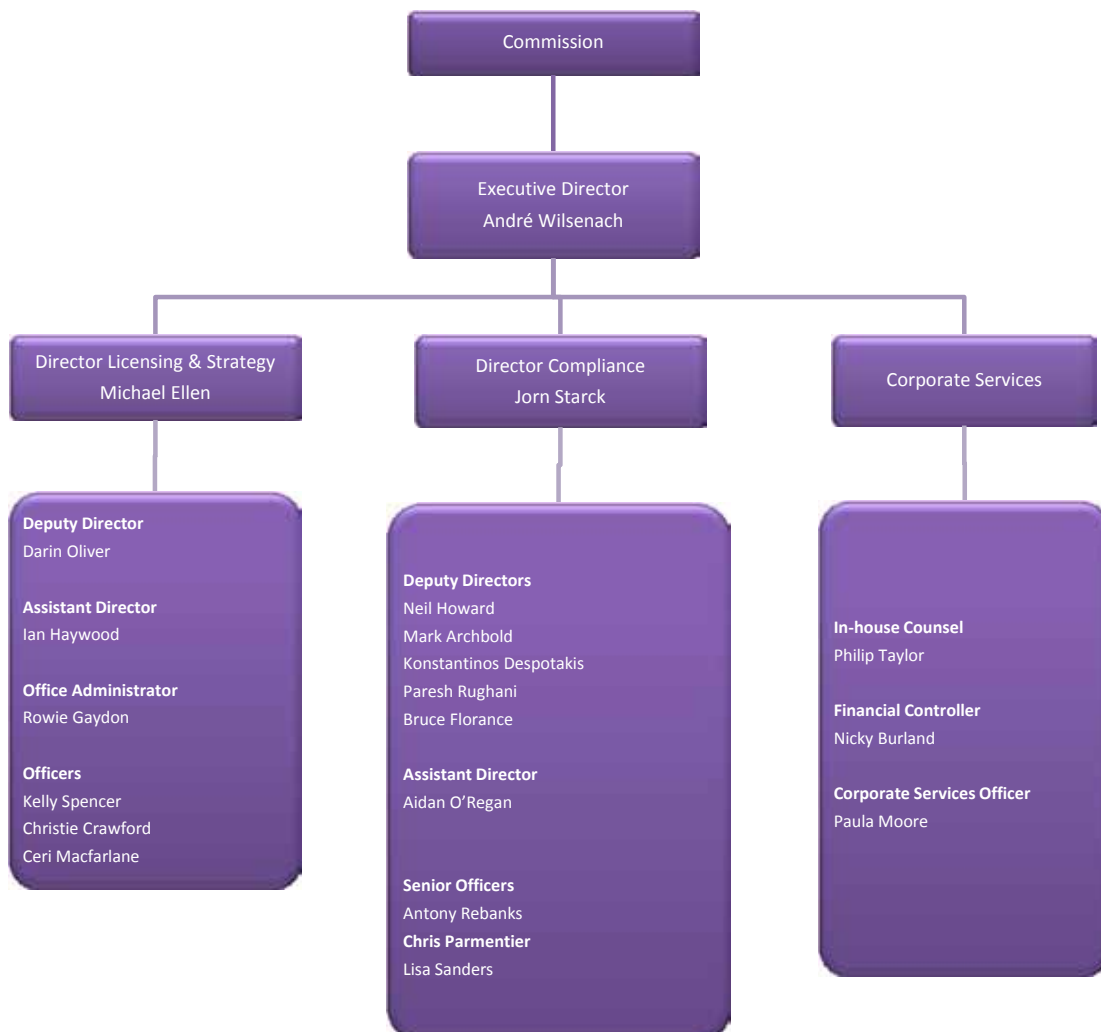
## The Commission (continued)

### 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 inspectorate. 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 two directorates are supported by a corporate services team consisting of:

- **Philip Taylor** (2007), in-house legal counsel, who is an English qualified solicitor with experience in the fields of white collar crime and information rights;
- **Nicky Burland** (2002), financial controller, who has experience in financial and human resource management;
- **Rowie Gaydon** (2004), administration officer, who has experience in administration within the hospitality and retail industries;
- **Paula Moore** (2008), 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 Committee on the introduction or amendment of legislation.

### REGULATORY CHANGES

2013 saw one amendment Ordinance made to revise the Alderney eGambling Ordinance, 2009 and three amendment regulations made to amend the Alderney eGambling Regulations, 2009.

The Alderney eGambling (Amendment) Ordinance, 2013 made two changes. Firstly it changed the name of the Foreign Gambling Associate Certificate to the Category 2 Associate Certificate which more accurately reflects the activity that may be carried out by the holder of the certificate. Secondly it empowered the Commission to issue such notices and instructions to licensees and certificate holders as it deems appropriate, and in particular for the purposes of complying with AML/CFT measures. Furthermore the Commission and the Courts are now to have regard to such notices when determining whether any person has complied with the Ordinance or any Regulations.

The Alderney eGambling (Amendment) Regulations, 2013 clarified and strengthened the AML/CFT obligations imposed on licensees to maintain best practise in this valuable area. In addition these amendment regulations took the opportunity to consolidate the bulk of the AML/CFT regime into one area of the regulations to facilitate licensee compliance.

The Alderney eGambling (Amendment)(No. 2) Regulations 2013 amended the financial reporting forms for Category 1 eGambling licensees. This enables the Commission to capture more information in order to monitor licensees effectively.

The Alderney eGambling (Amendment)(No. 3) Regulations, 2013 brought into force parts of the Alderney eGambling (Amendment) Ordinance, 2013 relating to the change of name relating to the Category 2 Associate Certificate. In addition these regulations updated the list of relevant AML/CFT enactments and updated the definition of terrorist financing in line with other Bailiwick legislation.

### 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.

During the year the Executive Director worked towards developing more formalised working relationships with other regulators, and successfully concluded agreements with the regulator in Malta. In addition the States of Alderney and Guernsey concluded a Memorandum of Understanding to which the Commission was a party to in order to facilitate the exchange of information on a variety of topics.



## Approach to Regulation (continued)

The Commission has continued to develop 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. In facilitating regulatory cooperation between member states, the European Commission Regulatory Expert Group consisting of representatives from the gambling regulatory authorities within Member States continues to meet. Whilst regulators from Third Countries will not have representation at these meetings unless invited as experts DG MARKT has indicated that it will not be limited to consulting with Member States when seeking to increase its understanding of this cross border industry. Therefore, although the Alderney Gambling Control Commission does not participate in the group it can make inputs to the Group through the representatives attending on behalf of the United Kingdom and it can also advise the DG MARKT directly on the topics which are being debated in the Group.

Similarly to its position with European regulators, the Commission has continued to develop its active working relationships with regulators in North American jurisdictions that are approaching the regulation of eGambling, in order to facilitate Alderney licensees' entry into those jurisdictions. Following U.S. presidential elections in late 2012 and a supportive opinion from the US Department of Justice, it became clear that a federal approach to eGambling licensing and standards was not deliverable in the short term, a position demonstrated by the passing of legislation on Nevada, New Jersey and Delaware to legalise intra-state internet gambling. There is considerable intra-state interest elsewhere and the Commission maintains close contact with those jurisdictions offering eGambling and those jurisdictions who are considering adopting legislation permitting the activity.

In view of the likely introduction of legislation in Britain in 2014 to regulate and tax eGambling at the point of consumption, the Commission has held several meetings with the British Gambling Commission to ensure a smooth transition for Alderney licensees who may be interested in being licensed in Britain. This is especially important, as the Alderney incorporated entity will be able to hold the British licence.

### 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 international best practice. The Commission also works closely with non-gaming regulators such as the Guernsey Financial Services Commission and Guernsey's Financial Intelligence Service.

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.

## Approach to Regulation (continued)



During the course of the year, members of the Commission participated in various regulatory and industry conferences:

- The Executive Director attended the Legal Gaming in Europe Conference in February.
- In February Members of the Commission and its staff attended and spoke at the International Casino Exhibition in London. In February the Director of Licensing participated and spoke at the iGaming North America Conference and the GLI Conference in Las Vegas.
- In March the In-House Counsel attended the Law Society's Financial Crime Symposium.
- In April the Executive Director and the Director of Licensing attended and spoke at the Global iGaming Summit and Expo in San Francisco.
- In May the Director of Licensing participated in the Gaming Regulators European Forum in, Riga
- In June the Executive Director participated in the International Association of Gaming Advisors summit in London and the Director of Licensing participated in the iGaming Supershow in Amsterdam.
- In July the Executive Director spoke at the World Gaming Executive Summit in Barcelona and the In-house Counsel attended a workshop dealing with practice and procedure in disciplinary tribunals in London.
- In September the Director of Licensing attended and spoke at the US Online Gaming Law Conference and the Global Gaming Expo in Las Vegas and the NYC Spectrum meeting. The Executive Director participated at the International Association of Gaming Regulators Conference in Oslo
- In October the Executive Director participated in the International Masters of Gaming Law Autumn Conference in Oslo. The Executive Director and the Director of Licensing participated and spoke at the European iGaming Expo in Barcelona. The Director of Licensing also spoke at the World Regulatory Briefing Conference in Philadelphia.
- In November the Director of Licensing spoke at the Brazilian Gaming Conference in Rio de Janeiro.

During 2013, 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 78 suspicious transaction reports were submitted by Alderney casinos and a further 16 submitted by regulated entities, with one 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 2013 these included briefing and training sessions for staff and licensees, as well as consultation with other regulatory bodies. The Commission is 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 using a dedicated AML/CFT inspection template to ensure that they are robust. Each inspection is preceded by a mystery shopping exercise testing the site from the perspective of a player. The on-site 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.

### **THE COMMITTEE OF EXPERTS ON THE EVALUATION OF ANTI-MONEY LAUNDERING MEASURES AND THE FINANCING OF TERRORISM (MONEYVAL)**

In 2010 the Bailiwick of Guernsey was the subject of an assessment of its AML/CFT regime and its compliance with the FATF Recommendations which was conducted by the International Monetary Fund (IMF). Following a request made by the United Kingdom the Bailiwick of Guernsey (along with the other Crown Dependencies) joined MONEYVAL, a body of the Council of Europe, in 2012. Future assessments of the Bailiwick's AML/CFT regime will be undertaken by Moneyval. In 2013, MONEYVAL performed a Follow Up Review to examine progress made in relation to the implementation of the IMF's 2010 Core Recommendations. MONEYVAL examined and adopted Guernsey's Progress Report at MONEYVAL's 34th Plenary held in Strasbourg in December 2013, which concluded that Guernsey had made progress to address the Core Recommendations set out in the IMF Report.



## 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, 2013, there were 52 registered licensees, consisting of fifteen of Category 1 licences only, fourteen holders of Category 2 licences only and twenty three holders of Category 1 and 2 licences. In addition there were Eleven Category 2 Associate Certificates ("C2AC") in issue. Six new licensees and additionally one new C2AC were registered in the year.



## Licensing & Compliance Activity (continued)

Details of the licences and certificates<sup>1</sup> issued are as follows:

1. BGO (2)\*
2. Bonza (1)
3. Cashbet (1 & 2)
4. ComTrade (2)
5. Gamecode (1)
6. ISB (2)
7. Jadestone (C2AC)
8. Kastraki (1)

\* this licence was granted to an existing eGambling licensee

During 2013, 11 licensees allowed their licence(s) to lapse.

Core Services Associate certificates were issued to the following:

1. BDQ Member Funds
2. Xterra Games
3. The Gaming Lab PTY
4. Mkodo
5. The Games Company.com

Five holders of Core Services Associate Certificates allowed their certificates to lapse. The number of Core Services Associate Certificates in issue at the end of the year was thirty four.

A complete list of holders of eGambling licences and associate certificates at the end of 2013 is set out at Appendix A.

Alongside licence applications, the Commission also approved thirty two key individual applications. Key individuals are those who are deemed to be "in a position to control or exercise significant influence over the business operations conducted under an eGambling licence, whether or not within the corporate entity exercising the 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

<sup>1</sup> Details in parenthesis are as follows:-  
 (1) Category 1 eGambling licence  
 (2) Category 2 eGambling licence  
 (1+2) Categories 1 and 2 eGambling licences  
 (C2AC) Category 2 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 (Guernsey) Limited). Currently nine hosting certificates have been issued.

1. BMIT Limited
2. Cable & Wireless Guernsey
3. Conet E-Commerce Services NV
4. Continent8 Technologies Plc
5. E-Commerce Park NV
6. Itex (Guernsey) Limited
7. JT (Guernsey) Limited
8. Logicalis Guernsey Limited
9. TeletyGroup France SA

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 gaming industry.

### TEMPORARY LICENCES

A temporary licence allows a company to run eGambling operations from Alderney 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 Alderney based gambling equipment, whether for disaster recovery periods or perhaps for a period of transition from one location to another. One temporary licence was in place at the end of 2013.

### FURTHER APPROVAL

Following the Commission's approval of a licence, the 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. Eleven initial gambling equipment approvals were made in 2013

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 licensee's systems;
- comprehensive and appropriate anti-money laundering procedures;
- procedures for identifying fraudulent, problem or underage gambling.

Eleven initial ICS approvals were made in 2013.

### 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.



*Paresh Rughani on an inspection visit.*



## Licensing & Compliance Activity (continued)

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;
- game fairness and player protection;
- security policies and procedures;
- operation of approved games and gaming equipment.

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 2013, the compliance team carried out forty five inspections. In the main, these demonstrated a high level of regulatory compliance by licensees and reaffirmed the importance of active operational controls.

### 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. Two special investigations were instigated in 2013.

### 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 one rectification proposal. In addition the holder of a core services associate certificate was issued with a formal caution. 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. There was one regulatory hearing held during 2013. The certificate holder in question was suspended in advance of the hearing.

### SEGREGATION OF PLAYER FUNDS

The implementation of the Alderney eGambling (Amendment) Regulations, 2012 impacted upon licensee financial reporting when it took full effect in 2013. Reporting requirements have been revised to obtain information necessary to monitor compliance.

The amendment to the Regulations requires Category 1 eGambling licensees to segregate funds standing to the credit of customers in a separate bank account held solely for that purpose. In certain circumstances the licensee may be required to provide a binding guarantee from their parent company.

All licensees are required by the regulations to ensure that they meet, on a continuous basis, the following capital requirement:

Shareholders' funds "SF" minus an adjustment equal to the total of fixed assets "FA" must meet or exceed the quarterly reported value of net gaming yield "NGY" minus operating profit "OP" excluding the cost of affiliate fees (as approved by the Commission)"AF".  

$$"(SF-FA) \geq NGY-(OP-AF)"$$

This requirement provides general assurance that operators have sufficient resources to continue operations for at least three months, in addition to segregating all customer funds. The Commission must be satisfied that acceptable arrangements to satisfy this requirement are in place before the licensee can gain approval for full activation of their operations.



## Licensing & Compliance Activity (continued)

Licensees are required to submit quarterly financial reports and monthly operational reports covering matters such as player activity, suspicious transactions, reversed transactions, and manual adjustments to customer funds. 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.

### 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.

Tina Kilmer, Vice President at Bally Technologies and the current chairman of the AGLF, has said:

"The AGLF provides an opportunity for licensees and the Commission to discuss issues that are of common interest to all licensees such as the jurisdiction's offering to the eGambling industry, regulatory developments in the rest of the world and the Commission's response thereto and, most importantly, regulatory changes contemplated by the Commission. This helps to keep licensees updated and allows the licensee community to share its thoughts with the Commission."

The AGLF met twice during 2013 to discuss the proposed UK point of consumption tax changes, international developments including MOU's signed with the British Gambling Commission and the Lotteries and Gaming Authority of Malta, Cloud Computing, Player protection review and Regulatory changes.

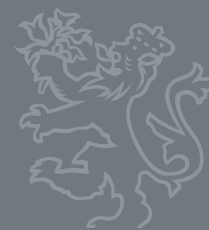


*Tina Kilmer, Chairman of the AGLF.*

### TRAINING AND INFORMATION SESSIONS

In September 2013 a training and information session was held for licensees. This was the sixth such session organised by the Commission and is now 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 73 delegates from 43 licensees. The Commission welcomes the importance licensees place upon this subject.

Delegates attended sessions conducted by the Commission's Director, Compliance on the inspection process and by In-house Counsel on the reporting of suspicious transactions. In addition licensees participated in identifying areas of risk which is being used to inform an analysis being conducted by the Commission following the publication of a typologies report on the use of online gambling for money laundering and the financing of terrorism by the Council of Europe's Committee of Experts (Moneyval). The valuable information obtained from this session will be used to develop future initiatives in AML/CFT. These sessions were followed by a specialist training seminar on recent developments in AML/CFT, issues relating to changes in legislation, recent court cases and suspicious transactions together with a focus on PEPs (politically exposed persons).



## Licensing & Compliance Activity (continued)

### REGULATORY ACTIVITY – COMPLAINTS

The Commission has in place a complaints procedure to address player issues that have not been satisfactorily resolved by a licensee. During 2013, 1139 complaints were received (2012, 933) and dealt with by the Commission, an increase on the previous year reflecting increased activity by Alderney Licensees. 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;
- balance withdrawal issues;
- problem gambling;
- voided bets.

Seven complaint rulings were escalated on appeal to the Executive Director. None of these was the subject of further appeal to a Commission hearing.

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.

A review by The Responsible Gaming Council of Canada was commissioned during the year, to consider the adequacy of the Commission’s own ability to identify and support problem gamblers, our published standards for licensees in this area, and, on a sample basis, our licensees’ effective implementation of these standards. The review resulted in a report which has in turn led to some further enhancements in each area.

## Technical Activity

One of the ways by which 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. 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. This system stores 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. Three thousand eight hundred and twenty new games and gambling equipment approvals were processed in 2013.

### TESTING LABORATORIES

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, following close examination of their ownership and industry reputation as well as their technical capabilities and operational history. The number of testing houses approved for Commission use increased slightly during 2013 and now stands at fifteen.

## 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);
- Dr. Isabel Picornell;
- Mr Jeremy Thompson;
- Lord Richard Faulkner





## 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 2013 which comprise the Balance Sheet, the Income Statement 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 our engagement letter dated 27 October 2011. Our audit work has been undertaken so that we might state to the Commissioners 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 commissioners and the auditor

As explained more fully in the Statement of Commission's Responsibilities set out on page 21, 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 Annual

Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 and of its surplus for the year then ended; and
- are in accordance with the United Kingdom Accounting Standards.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters, 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  
Guernsey

2 April 2014

### 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 31 December 2013

	Note	2013 £	2012 £
<b>Fixed assets</b>			
Computer, office equipment & furniture		76,231	90,230
Leasehold		332,710	396,767
Web hosting		99,507	59,985
	2	508,448	546,982
<b>Current assets</b>			
Cash at bank and in hand	3	2,515,906	2,475,258
Prepayments		8,990	15,214
		2,524,896	2,490,472
<b>Creditors: amounts falling due within one year</b>	4	(1,057,711)	(1,063,369)
		1,467,185	1,427,103
<b>Net current assets</b>		1,467,185	1,427,103
<b>Total assets less current liabilities</b>		1,975,633	1,974,085
<b>Capital and reserves</b>			
Retained surplus brought forward		1,974,085	1,961,083
Net surplus for the year		1,548	13,002
<b>Retained surplus</b>		1,975,633	1,974,085

The financial statements on pages 21 to 28 were approved by the Alderney Gambling Control Commission on 27 March 2014 and signed on its behalf by:



**Mr John Godfrey**  
Chairman



## Income Statement for year ended 31 December 2013

	Note	2013 £	2012 £
<b>Income</b>			
Licence fees		4,710,650	4,835,650
Fees charged to applicants and licensees		582,021	394,476
Bank interest		18,746	20,751
		<u>5,311,417</u>	<u>5,250,877</u>
<b>Expenditure</b>			
Staff costs	6	1,793,220	1,617,880
Commissioners' fees	5	110,061	106,854
Premises, furniture and equipment		78,071	74,732
Web hosting		107,471	82,000
Consultancy		183,502	176,996
Conferences and general travel		171,526	152,315
Postage, stationery and telephone		44,127	44,581
Administrative expenses		114,236	87,169
Depreciation	2	143,022	94,469
		<u>2,745,236</u>	<u>2,436,996</u>
Distributions in year	7	<u>2,564,633</u>	<u>2,800,879</u>
<b>Net surplus</b>		<u><u>1,548</u></u>	<u><u>13,002</u></u>

## Notes to the Financial Statements

### Year Ended 31 December 2013



#### 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 House 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 Income statement 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 2013 charged to the Income statement and included in premises, furniture and equipment expenditure were £45,671 (2012 - £43,537).

The Commission is committed under the lease to make payments of £36,000 per year plus any RPI 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.



## Notes to the Financial Statements

### Year Ended 31 December 2013 (continued)

#### 2. Fixed assets

	<b>Computer equipment £</b>	<b>Office furniture £</b>	<b>Leasehold £</b>	<b>Web Hosting £</b>	<b>Total £</b>
<b>Cost</b>					
At 1 January 2013	167,859	90,547	640,555	211,602	1,110,563
Additions	23,644	0	0	80,844	104,488
At 31 December 2013	<u>191,503</u>	<u>90,547</u>	<u>640,555</u>	<u>292,446</u>	<u>1,215,051</u>
<b>Depreciation</b>					
At 1 January 2013	120,659	47,516	243,789	151,617	563,581
Charge for year	24,402	13,242	64,056	41,322	143,022
At 31 December 2013	<u>145,061</u>	<u>60,758</u>	<u>307,845</u>	<u>192,939</u>	<u>706,603</u>
<b>Net book value</b>					
At 31st December 2013	46,442	29,789	332,710	99,507	508,448
At 31st December 2012	<u>47,200</u>	<u>43,031</u>	<u>396,766</u>	<u>59,985</u>	<u>546,982</u>



## Notes to the Financial Statements

### Year Ended 31 December 2013 (continued)

<b>3. Cash at bank and in hand</b>	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Cash at bank:		
Business reserve account	354,521	402,660
Applicant and Licensee deposit account	943,199	990,123
Treasury accounts	1,000,017	1,000,017
Current account	218,112	82,362
Petty cash	57	96
	<u>2,515,906</u>	<u>2,475,258</u>
	<u>2,515,906</u>	<u>2,475,258</u>

<b>4. Creditors: amounts falling due within one year</b>	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Refundable deposits	712,654	691,846
Creditors and accruals	345,057	371,523
	<u>1,057,711</u>	<u>1,063,369</u>
	<u>1,057,711</u>	<u>1,063,369</u>

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 £149,645 (2012 - £129,005) is included in staff costs. At the year end there were no prepaid or outstanding contributions (2012 - £nil).



## Notes to the Financial Statements Year Ended 31 December 2013 (continued)



### **7. Distributions to the States of Alderney**

During 2013 the States of Alderney received distributions from the retained surplus in the amount of £2,564,633 (2012 - £2,800,879).

### **8. Guernsey Income Tax**

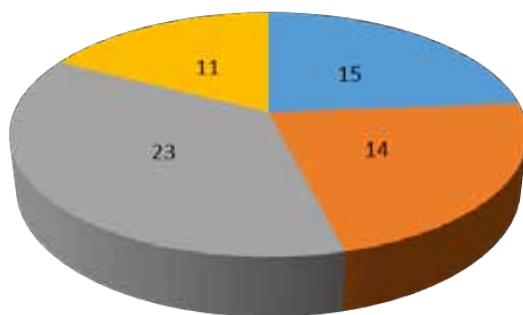
The Commission is not subject to Guernsey Income Tax.

## Appendix A

### eGambling licensees (Category 1, 2, or both) and C2ACs as at December 31 2013

#### Numbers in 2013

■ Cat 1 ■ Cat 2 ■ Cat 1 & 2 ■ C2AC



Licence Type	2013	2012
Cat 1	15	20
Cat 2	14	14
Cat 1 & 2	23	23
C2AC	11	10

Amaya (Alderney) Ltd	2	Jumpman Gaming Ltd	1 & 2
Arkin Sports & Leisure Ltd	1 & 2	Kambi Sports Solutions (Alderney) Ltd	2
Aydogan Tourism & Leisure Ltd	1 & 2	Kastraki (Alderney) Limited	1
Bally Technologies (Gibraltar) Ltd	C2AC	Ledonford Gaming Services Ltd	1
BGO Entertainment Ltd	1 & 2	Marathon Alderney Ltd	1 & 2
Bonne Terre Ltd	1 & 2	MCL Limited	1 & 2
Bonza Gaming GP Limited	1	Metro Play Ltd	1
Boylesports (Alderney) Ltd	1	Microgaming Software Systems Ltd	C2AC
Bubble Group BV	C2AC	MyLotto24 Ltd	C2AC
Cashbet Alderney Limited	1 & 2	Net Entertainment Alderney Ltd	2
ComTrade Gaming Alderney Limited	2	Netplay TV Group Ltd	1
Daub Alderney Limited	C2AC	Oddsatrix Software Ltd	C2AC
Daub Alderney Ltd	1	Parlay Games Ltd	2
ElectraWorks (Alderney) Ltd	1 & 2	PKR Ltd	1 & 2
Entwine Technology PTE Ltd	C2AC	Play n Go Alderney Ltd	2
Eurasia Sports Ltd	1	Playtech Software (Alderney) Ltd	2
Evolution Gaming Malta Ltd	C2AC	Postcode Lottery Alderney Ltd	1 & 2
Exchange Platform Solutions Limited	1 & 2	PT Network Management Ltd	C2AC
Eyecon Alderney Ltd	2	Rank Digital Gaming (Alderney) Limited	1 & 2
FairplayGames Ltd	1	Relax Gaming Network Ltd	2
GameAccount Alderney Ltd	1 & 2	Samvo International Ltd	1 & 2
Gamecode Limited	1	SHFL Entertainment Alderney Ltd	2
GameDuell GmbH	C2AC	Small Screen Casinos Ltd	1 & 2
Genting Alderney Ltd	1	Sportech Alderney Ltd	1 & 2
Greentube Alderney Ltd	2	Table Top Entertainment Ltd	1 & 2
IGT (Alderney 2) Ltd	1	Totepool Alderney Ltd	2
IGT (Alderney 4) Ltd	2	Totesport Alderney Ltd	1
IGT (Alderney 7) Ltd	1	Triplebet Ltd	1 & 2
Intellectual Property & Software Ltd	1 & 2	VF 2011 Ltd	1
Interactive Sports (CI) Ltd	1 & 2	Virtue Fusion (Alderney) Ltd	1 & 2
ISB Alderney Limited	2	WMS Alderney 2 Ltd	1 & 2
Jadestone Networks (Malta) Limited	C2AC		



## Appendix B

### Statistics



	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Number of licensees	52	57	51	51	44	42
New licences issued	6	15	12	7	14	13+1
Number of licence applications refused	0	0	1	0	0	0
ICS initial approvals	11	14	15	8	10	10
Inspections	45	36	34	27	22	20
Special investigations	2	5	1	2	2	3
Sanctions and AML/CFT remediation measures	78	84	102	57	65	60
Revocations/withdrawals	0	0	3	0	1	0
STRs copied	94	38	35	64	16	9
STRs submitted	1	6	2	2	1	0
Training events	1	1	1	1	1	3

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