

Annual Report and Financial Statements

2014



ALDERNEY
GAMBLING CONTROL COMMISSION



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ALDERNEY

GAMBLING CONTROL COMMISSION

12 May, 2015

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

Dear Mr Harvey,

I have pleasure in presenting the Report of the Alderney Gambling Control Commission for the period 1 January to 31 December 2014.

Yours sincerely

Lord Faulkner of Worcester
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;
- 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

This is my first report as Chairman of the Alderney Gambling Control Commission and I start by offering my warmest thanks to everyone who has worked so hard to make my induction smooth and, I hope, successful. I am particularly grateful to my fellow Commissioners who have been so supportive, and to André Wilsenach and his hard-working staff at the Commission, who all set the highest standards in regulation and licensing. The reputation which Alderney enjoys worldwide owes everything to André and his team.

A huge debt of gratitude is owed also to my predecessor, John Godfrey, who retired after 14 years as Chairman. His stewardship of the Commission established Alderney as one of the world's leading remote gambling jurisdictions, a fact recognised by his being awarded the first lifetime achievement award by the International Association of Gambling Advisors (IAGA) at their conference in Philadelphia last October. I wish him well in his retirement. I also welcome Christopher Moger QC to the Commission. Christopher brings with him great experience of commercial and gambling law, and he has already made a great contribution to our work.

The past year saw many changes in the eGambling world, some positive and others less so. Jurisdictions continue to establish licensing regimes which have the potential to fragment the market and increase the costs of doing business.

An example of this is point of consumption regulation in the United Kingdom. Whilst Alderney accepts the UK's right to make these changes, and for that reason did not oppose them, we have made clear that they are bound to have an impact on the Commission. However, we have decided to exclude revenue subject to taxation elsewhere from being used to calculate licence fees, and this benefits those licensees wishing to maintain operations in the Bailiwick. Alderney and Guernsey continue to offer eGambling licensees a cost-effective place in which to establish and do business, and we are grateful to States members across the Bailiwick for the friendly and constructive relationships we enjoy with them.

The Commission continues to forge meaningful relationships with fellow regulators, including the establishment of common testing standards for games. This ensures that licensees operating in multiple jurisdictions are not subject to multiple regulation. Regulatory co-operation remains at the forefront of Commission activity, and is a priority for us. I take a special interest in the integrity of sports betting, and I am pleased that the Commission takes part in various initiatives in the United Kingdom and on a wider European and global level to maintain the integrity of sports betting, working with fellow regulators, sports governing bodies as well as FIFA and the International Olympic Committee.

Advances in 2014 have seen the Commission establish standards for the use of cloud computing in eGambling. The Commission is one of the first regulators to examine and approve the use of this new technology. Licensees are looking to see how operating in the cloud can assist their business.

During 2014 the Commission has strengthened its regulatory regime by enshrining its mission statements into legislation. The clear statements of licensing objectives in the Alderney eGambling Ordinance and defining the functions of the Commission set out those matters that are of the utmost importance to the Commission.

This year also saw MONEYVAL return to the Bailiwick to assess its AML/CFT regime and its compliance with the FATF recommendations. Again the Commission formed part of this inspection. The Commission looks forward to the publication of the MONEYVAL's report in due course, and will continue to co-operate fully in all aspects of its work which relates to us.

As we move forward through 2015 and into 2016 I am confident that Alderney will remain at the forefront of eGambling regulation, offering a profitable home in which our licensees do business, and continuing to demonstrate the highest possible standards of regulation.

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:



Lord Faulkner (Chairman)
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 the 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
is a business consultant who joined the Commission in 2010. He lives on 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.



Christopher Moger QC
is a commercial barrister who has extensive experience in gambling regulation. For many years he advised and represented the Gaming Board for Great Britain, now the Gambling Commission, and he has also acted for a wide range of clients involved in the gambling industry

in the UK and internationally.



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.

The Commission (continued)

The Commission had a staff complement of 21 people on 31 December, 2014.
The Executive consists of André Wilsenach, Jorn Starck and Nicky Burland.



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.

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.

Nicky Burland

has a background in finance and personnel services. Nicky is a member of the ACCA (Association of Chartered Certified Accountants) specialising in performance management. She has been employed in the online gambling sector for over 15 years, having joined the Commission in 2002.



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 **Jorn Starck** and **Darin Oliver** (2012)ⁱ, 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 **Jorn Starck** and staffed by **Kelly Spencer, Assistant Director** (2007), and **Ceri Macfarlane, Senior Officer** (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.

ⁱ, 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 inspections 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	(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;
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 and software development;
Charlie Barker	(2014), Trainee on six month internship.

(Lisa Sanders and Chris Parmentier left the Commission in November 2014)

Michael Ellen, Director Licensing & Strategy, took early retirement In October 2014.

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 directorates.

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.

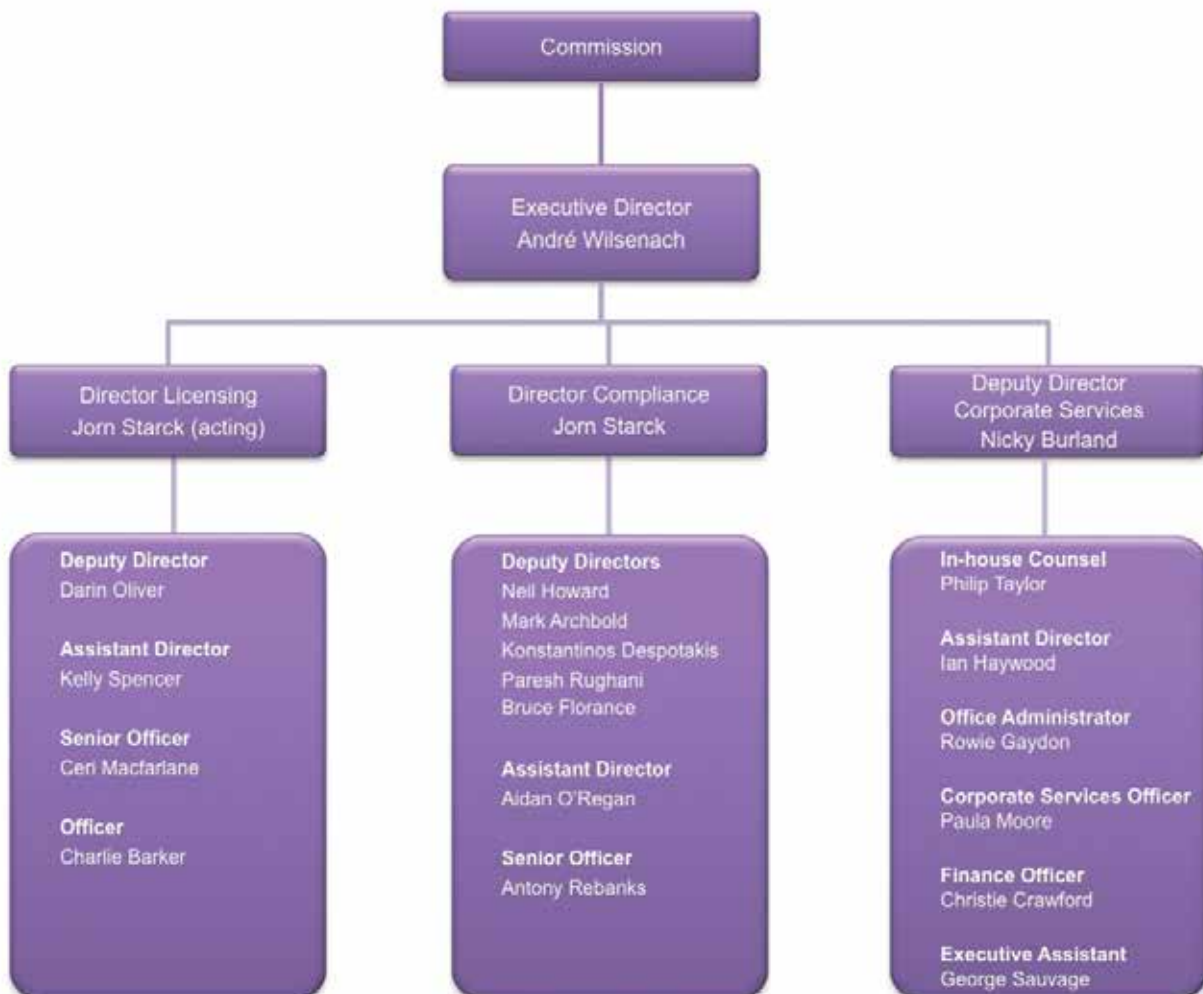
¹, Figures in parenthesis denote year of joining the Commission.



The Commission (continued)

The two directorates are supported by a Corporate Services team headed by **Nicky Burland**:

- **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;
- **Ian Haywood** (2006), Assistant Director, who has systems networking experience;
- **Rowie Gaydon** (2004), Office Administrator, 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;
- **Christie Crawford** (2009), Finance Officer, who has progressed from the trainee scheme;
- **George Sauvage** (2012), who provides strategic support to the Executive Director



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 commercial 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

2014 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, 2014 introduced a number of changes. Firstly, it introduced the licensing objectives that the Commission are to have regard to, and clarified the functions of the Commission.

Secondly, it strengthened the powers of the Commission in respect of licensing applications to reflect that the ability to undertake eGambling from Alderney is a privilege and not a right. Thirdly, the amendment Ordinance prescribed a number of activities that would require a licence to be held. Fourthly, it permitted holders of Core Services Associate Certificates to obtain a credit for the remaining period of validity of the IR certificate in the event that they elected to "upgrade" their certificate to an eGambling licence or Category 2 Associate Certificate.

In 2014 there were three Regulations made. The Alderney eGambling (Amendment) Regulations, 2014 were linked to a number of changes made in the Alderney eGambling (Amendment) Ordinance, 2014 in respect of the definitions of money laundering and terrorist financing and updated the list of relevant enactments for AMLICFT purposes. The Alderney eGambling (Amendment)(No. 2) Regulations introduced a new form for the reporting of non-Alderney activity by Category 1 eGambling licensees, better enabling the Commission to undertake effective prudential supervision. The Alderney eGambling (Commencement) Regulations, 2014 brought into force certain sections of the Alderney eGambling (Amendment) Ordinance, 2014.

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 government departments. A Memorandum of Understanding was established with the Northern Territory Department of Business in Australia. In addition the International Olympic Committee and the Early Warning System GmbH (Switzerland) both concluded Memorandum of Understanding with the Commission in order to secure the integrity of sports in connection with sports betting. A further MOU was signed with the Guernsey Border Agency to facilitate the exchange of information in order for both parties to carry out their respective functions.



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 co-operation 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 US 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 in 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 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 hold the British licence.

REGULATORY AND LEGISLATIVE CO-OPERATION

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 Regulator's 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:

- In February, members of the Commission and its staff attended and spoke at the International Casino Exhibition in London and the Executive Director participated on panels at both the European Online Gaming conference and the World Regulatory Briefing. The Director of Licensing participated and spoke at the iGaming Legislative Symposium in Sacramento and met with the Nevada Gaming Board. The In-House Counsel participated and spoke at the Cybercrime & Regulatory Compliance Conference.
- In March, the Director of Licensing attended the GLI Regulators Roundtable and the iGaming Conference, North America both in Las Vegas.
- In May, the Executive Director was a speaker at the Forum for Responsible Gambling in Seoul, Korea. The Director of Licensing participated in the East Coast Gaming Conference in Atlantic City and the GREF forum in Dublin.
- In June, the Executive Director participated in the Canadian Gaming Summit, Vancouver 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. The Director of Licensing attended GIGSE in San Francisco.
- In October, the Executive Director participated in the International Association of Gaming Regulators Autumn Conference in Philadelphia and at the European iGaming Expo in Berlin.
- In November, the Executive Director was a moderator at the iGaming Conference in Malta and participated in the International Masters of Gaming Law conference in Florence.

During 2014, the Commissioners held 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 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 eCasinos and a further 9 submitted by regulated entities, with four 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 2014 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, 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.

In 2014, the Bailiwick of Guernsey was the subject of an assessment of its AML/CFT regime and its compliance with the FATF Recommendations by MONEYVAL. The assessment is scheduled to be discussed at a MONEYVAL Plenary later in 2015.

Licensing and 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 legislation.

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 31 December, 2014, there were 53 registered licensees consisting of; 15 Category 1 licence holders only, 16 Category 2 licence holders only and 22 holders of Category 1 and 2 licences. In addition, there were 13 Category 2 Associate Certificates ("C2AC") in issue, 4 of which were approved in 2014. There were 9 newly approved licensees and, in addition, 4 licences granted to existing licensees and 1 new licence granted to a new C2AC holder.

Details of the licences and certificates held are as follows:



Licensing and Compliance Activity (continued)

<p>(1) Category 1 eGambling Licences; Betable Alderney Limited Exchange Platform Solutions Limited Greentube Alderney Limited Paddy Power Services Limited Unibet Alderney Limited Wir-Wetten Limited</p>	<p>(2) Category 2 eGambling Licences; Ainsworth Game Technology Alderney Limited Argo Gaming Limited Daub Alderney Limited Elixir Bet Limited Eurasia Sports Limited Xterra Games (Alderney) Limited</p>
<p>(1&2) Category 1 & 2 eGambling Licences; Bear Group Limited Gamblit Gaming (Alderney) Limited</p>	<p>(C2AC) Category 2 Associate Certificates; Blueprint Gaming Limited Kambi Malta Limited Soft Construct (Malta) Limited Wir-Wetten Limited</p>

During 2014, 13 licensees surrendered or allowed their licence(s) to lapse and 1 licensee allowed one of their licenses to lapse:

Category 1 eGambling Licence;
 Exchange Platform Solutions Limited
 VF 2001 Limited

Category 2 eGambling Licence;
 IGT (Alderney 2) Limited
 SHFL Entertainment (Alderney) Limited
 WMS Alderney 2 Limited

Category 1 & 2 eGambling Licence;
 Postcode Lottery Alderney Limited
 Arkin Sports & Leisure Limited
 Interactive Sports (CI) Limited
 Sportech Alderney Limited
 Table Top Entertainment Limited

Category 2 Associate Certificate
 Mylotto24 Limited
 Hoola Global PTE Limited

Bookmaker
 Kurt Nadler

One licensee had their Category 2 Associate Certificate revoked; Bubble Group BV

Seven Core Services Associate Certificates were issued to the following:

1. 6553303 Canada Inc (LDS Live Dealer Systems)
2. Betdigital Limited
3. Black Cow Technology Limited
4. Core Gaming Limited
5. Pipeline49 Technology Group, Inc.
6. Reflex Gaming Limited
7. Sportradar Virtual Gaming GmbH

Details of the licences and certificates issued 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 and Compliance Activity (continued)

There were 5 holders of Core Services Associate Certificates who allowed their certificates to lapse. The number of Core Services Associate Certificates in issue at the end of the year was 36. A complete list of holders of eGambling licences and associate certificates at the end of 2014 is set out at Appendix A. Alongside licence applications, the Commission also approved 48 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.

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.

Current holders of hosting certificates are;

1. BM IT 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. TeletcityGroup 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 thirty days continuously or for an aggregate of sixty 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. Two temporary licences were in place at the end of 2014.

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. Eight initial gambling equipment approvals were made in 2014.

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.

Eight initial ICS approvals were made in 2014.

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.





Licensing and 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 2014, the compliance team carried out 58 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 of a licensee or certificate holder 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. Four special investigations were instigated in 2014 of which two related to AML/CFT concerns.

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 two rectification proposals. Two rectification notices were also issued. 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 called during 2014. The certificate holder in question elected to surrender its Associate Certificate 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 and 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 Licensee's Forum

The Alderney Gambling Licensees' Forum (AGLF) exists to allow Alderney licensees and the Commission to discuss matters of mutual interest.

The AGLF met in February 2014. Twenty-three senior executives of the licensees discussed the tax benefits to be gained by operators from being based in Alderney and explored corporate issues raised in a prepared analysis.

In early 2015, the Commission started a consultation process about the AGLF with a view to ensuring that it reflects changes in the establishment of licensees.



TRAINING AND INFORMATION SESSIONS

In September 2014, a training and information session was held for licensees. This was the seventh 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 were invited to attend on a voluntary basis. The meeting was attended by 74 delegates from 46 licensees. The Commission welcomes the importance licensees place upon this subject.

Delegates attended sessions conducted by the Commission's Director of Compliance on the inspection process and by the In-House Counsel on the reporting of suspicious transactions.

In addition, licensees were updated on the results of the Commission's research into areas of risk in eGambling that commenced in 2013.



Licensing and 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 2014, 1,207 complaints were received (2013, 1139) 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; two of these were the subject of a further appeal to a Commission hearing. One Commission hearing took place in 2014, the other is still under review and will be held in 2015.

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 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. There were 5,925 new games and gambling equipment approvals processed in 2014.

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 2014 and now stands at twenty.

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;
- 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 until 12 May);
- Lord Richard Faulkner (Chairman from 12 May);
- Mr Christopher Moger QC from 12 May;
- Dr Isabel Picornell;
- Mr Jeremy Thompson.

Independent Auditor's Report to the Commissioners of Alderney Gambling Control Commission

We have audited the financial statements of Alderney Gambling Control Commission (the "Commission") for the year ended 31 December 2014 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 20 January 2015. 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 Commissioners and auditor

As explained more fully in the Statement of Commission's Responsibilities set out on page 20, 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 2014 and of its surplus for the year then ended;
- and are in accordance with 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

KPMG Channel Islands Limited
Chartered Accountants

Guernsey

26 March 2015

Disclaimer:

- 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.
- Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions



Balance Sheet as at 31 December 2014

	Note	2014 £	2013 £
Fixed assets			
Computer, office equipment & furniture		72,872	76,231
Leasehold		268,656	332,710
Web hosting		109,767	99,507
	2	<u>451,295</u>	<u>508,448</u>
Current assets			
Cash at bank and in hand	3	2,703,914	2,515,906
Prepayments		4,429	8,990
		<u>2,708,343</u>	<u>2,524,896</u>
Creditors: amounts falling due within one year	4	(981,512)	(1,057,711)
Net current assets		<u>1,726,831</u>	<u>1,467,185</u>
Total assets less current liabilities		<u><u>2,178,126</u></u>	<u><u>1,975,633</u></u>
Capital and reserves			
Retained surplus brought forward		1,975,633	1,974,085
Net surplus for the year		202,493	1,548
Retained surplus		<u><u>2,178,126</u></u>	<u><u>1,975,633</u></u>

The financial statements on pages 20 to 27 were approved by Alderney Gambling Control Commission on 24 March 2015 and signed on its behalf by:

Lord Richard Faulkner
Chairman

Income Statement for Year Ended 31 December 2014

	Note	2014 £	2013 £
Income			
Licence fees		4,650,000	4,710,650
Fees charged to applicants and licensees		617,974	582,021
Bank interest		10,006	18,746
		<u>5,277,980</u>	<u>5,311,417</u>
 Expenditure			
Staff costs	6	1,900,177	1,793,220
Commissioners' fees	5	114,079	110,061
Premises, furniture and equipment		82,498	78,071
Web hosting		88,882	78,071
Consultancy		169,972	183,502
Conferences and general travel		152,887	171,526
Postage and stationery		41,493	44,127
Administrative		145,283	114,236
Depreciation	2	150,099	143,022
		<u>2,845,370</u>	<u>2,745,236</u>
Distributions in year	7	2,230,117	2,564,633
Net surplus		<u><u>202,493</u></u>	<u><u>1,548</u></u>



Notes to the Financial Statements

Year Ended 31 December 2014



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 e-Gambling 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 2014 charged to the Income statement and included in premises, furniture and equipment expenditure were £46,685 (2013 - £45,671).

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 2014 (continued)

2. Fixed assets	Computer equipment	Office furniture	Leasehold	Web Hosting	Total
	£	£	£	£	£
Cost					
At 1 January 2014	191,503	90,547	640,555	292,446	1,215,051
Additions	39,797	526	0	52,621	92,944
At 31 December 2014	<u>231,300</u>	<u>91,073</u>	<u>640,555</u>	<u>345,067</u>	<u>1,307,995</u>
Depreciation					
At 1 January 2014	145,061	60,758	307,845	192,939	706,603
Charge for year	30,992	12,689	64,056	42,362	150,099
At 31 December 2014	<u>176,053</u>	<u>73,447</u>	<u>371,901</u>	<u>235,301</u>	<u>856,702</u>
Net book value					
At 31 December 2014	55,245	17,626	268,656	109,767	451,294
AT 31 December 2013	<u>46,442</u>	<u>29,789</u>	<u>332,710</u>	<u>99,507</u>	<u>508,448</u>



Notes to the Financial Statements

Year Ended 31 December 2014 (continued)

3. Cash at bank and in hand	2014	2013
	£	£
Cash at bank:	565,807	354,521
Applicant and Licensee deposit account	959,490	943,199
Treasury accounts	1,000,017	1,000,017
Current account	178,580	218,112
Petty cash	20	57
	<hr/>	<hr/>
	<u>2,703,914</u>	<u>2,515,906</u>
	<hr/>	<hr/>
4. Creditors: amounts falling due within one year	2014	2013
	£	£
Refundable deposits	622,544	712,654
Creditors and accruals	358,968	345,057
	<hr/>	<hr/>
	<u>981,512</u>	<u>1,057,711</u>
	<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 meet 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 £160,853 (2013 - £149,645) is included in staff costs. At the year-end there were no prepaid or outstanding contributions (2013 – £nil).



Notes to the Financial Statements Year Ended 31 December 2014 (continued)



7. Distributions to the States of Alderney

During 2014, the States of Alderney received distributions from the retained surplus of £2,230,017 (2013 - £2,564,633).

8. Guernsey Income Tax

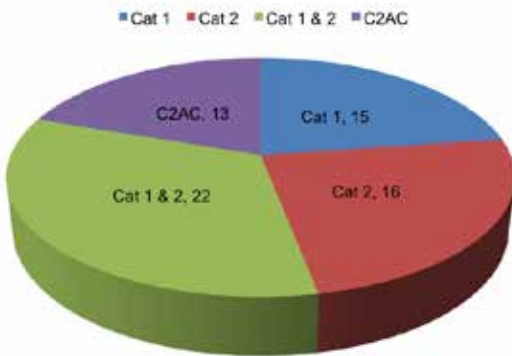
The Commission is not subject to Guernsey Income Tax.



Appendix A

eGambling Licensees (Category 1,2, or both) and C2ACs as at 31 December 2014

Number of Licensees in 2014



Licence Type	2014
Cat 1	15
Cat 2	16
Cat 1 & 2	22
C2AC	13

Licensee	Licence Type
Ainsworth Game Technology Alderney Limited	2
Amaya (Alderney) Ltd	2
Argo Gaming Limited	2
Aydogan Tourism & Leisure Ltd	1 & 2
Bally Technologies (Gibraltar) Ltd	C2AC
Bear Group Limited	1 & 2
Betable Alderney Limited	1
BGO Entertainment Ltd	1 & 2
Blueprint Gaming Limited	C2AC
Bonne Terre Ltd	1 & 2
Bonza Gaming GP Limited	1
Boylesports (Alderney) Ltd	1
Cashbet Alderney Limited	1 & 2
ComTrade Gaming Alderney Limited	2
Daub Alderney Limited	1, 2 & C2AC
ElectraWorks (Alderney) Ltd	1 & 2
Elixir Bet Limited	2
Entwine Technology PTE Ltd	C2AC
Eurasia Sports Ltd	1 & 2
EveryMatrix Software Ltd	C2AC
Evolution Gaming Malta Ltd	C2AC
Exchange Platform Solutions Limited	2
Eyecon Alderney Ltd	2
FairplayGames Ltd	1
Gamblit Gaming (Alderney) Limited	1 & 2
GameAccount Alderney Ltd	1 & 2
Gamecode Limited	1
GameDuell GmbH	C2AC
Genting Alderney Ltd	1
Greentube Alderney Ltd	1 & 2
IGT (Alderney 4) Ltd	2
IGT (Alderney 7) Ltd	1
Intellectual Property & Software Ltd	1 & 2
ISB Alderney Limited	2
Jadestone Networks (Malta) Limited	C2AC
Jumpman Gaming Ltd	1 & 2
Kambi Malta Limited	C2AC
Kambi Sports Solutions (Alderney) Ltd	2
Kastraki (Alderney) Limited	1
Ledonford Gaming Services Ltd	1
Marathon Alderney Ltd	1 & 2
MCL Limited	1 & 2
Metro Play Ltd	1
Microgaming Software Systems Ltd	C2AC
NetEnt Alderney Ltd	2
Netplay TV Group Ltd	1
Paddy Power Services Limited	1
Parlay Games Ltd	2
PKR Ltd	1 & 2
Play n Go Alderney Ltd	2
Playtech Software (Alderney) Ltd	2
PT Network Management Ltd	C2AC
Rank Digital Gaming (Alderney) Limited	1 & 2
Relax Gaming Network Ltd	2
Samvo International Ltd	1 & 2
Small Screen Casinos Ltd	1 & 2
Soft Construct (Malta) Limited	C2AC
Totepool Alderney Ltd	2
Totesport Alderney Ltd	1
Triplebet Ltd	1 & 2
Unibet Alderney Limited	1
Virtue Fusion (Alderney) Ltd	1 & 2
Wir-Wetten Limited	1 & C2AC
Xterra Games (Alderney) Limited	2

Appendix B

Statistics



	2014	2013	2012	2011	2010
Number of licensees	53	52	57	51	51
New licences issued	9	6	19	15	7
Number of licence applications refused	0	0	0	1	0
ICS initial approvals	8	11	6	15	8
Inspections	51	45	38	30	27
Special investigations	4	2	5	1	2
Sanctions and AML/CFT remediation measures	90	78	84	102	57
Revocations/withdrawals	1	0	0	3	0
STRs copied	87	94	38	35	64
STRs submitted	4	1	6	2	2
Training events	1	1	1	1	1

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