

Annual Report and Financial Statements

2019



ALDERNEY

GAMBLING CONTROL COMMISSION



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ALDERNEY
GAMBLING CONTROL COMMISSION

28 May, 2020

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

Dear Sir,

I have pleasure in presenting the Report of the Alderney Gambling Control Commission for the period 1 January to 31 December 2019.

Yours faithfully

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

For 20 years the mission of the Alderney Gambling Control Commission has been to offer a safe and stable environment for licensees and certificate holders to operate and grow in a global market. It is as a result of the strong working relationships with local partners, fellow regulators in the United Kingdom and further afield as well the global community of professional advisors that we have maintained a steady course during a period of unprecedented turbulence. We are grateful for the opportunities to share information and thinking with fellow regulators – both gambling and otherwise, politicians and other significant stakeholders.

At the end of 2019 calmer waters seemed in sight; alas this has not so far turned out to be the case. Across Europe in 2019 there were numerous uncertainties facing the eGambling industry. The appetite for new licences and certificates was diminished with fewer applications than have been seen in previous years. Recent events in 2020 have so far acted to continue this period of uncertainty. It will take some time for normality to resume after the lifting of travel bans and periods of isolation across the world.

Calm and stable regulation in a first tier environment with a consistent regulatory approach facilitates operations in troubled times. Alderney's regulatory regime continues to offer this from an understanding of the modern eGambling environment. There can be no shortcuts in robust and effective regulation.

The Commission notes the approaches and actions taken by fellow regulators in a number of areas.

In particular the maturity of the United Kingdom's market presents an opportunity for those licensed in Alderney to diversify and expand on a global stage as they benefit from a regulatory regime focussed on best practice and which is free from political interference as befits a global e-commerce industry.

Since its inception responsible gambling has been at the forefront of the Commission's work. The strict but balanced approach adopted by the Commission has served as a model for others and continues to provide the best protection for the young and vulnerable. We are particularly keen to work with our fellow gambling regulators in this vital area in order to develop further the necessary safety measures as products and services continue to evolve.

The Commission's Executive Director serves as the Chairman of GREF, the Gaming Regulators' European Forum, placing Alderney at the heart of cross-jurisdictional policy discussions. Furthermore, our participation in the work of IAGR, the International Association of Gaming Regulators, benefits the industry and our licence holders as we share our knowledge with policy makers and regulators in both regulated and pre-regulated markets. Through our participation in local, regional and global groups we strive to serve the needs of both a growing global industry and our obligations to keep gambling free from criminality.



Chairman's Statement (continued)

The Bailiwick of Guernsey has recently published its public National Risk Assessment. As discussed elsewhere in this report the work involved in this project cannot be overstated. It will help us move towards future MONEYVAL inspections and the Commission will strive to maintain the positive ratings awarded previously. Alderney operators benefit from this as they seek to operate in jurisdictions around the world.

Whilst 2019 was not without its challenges we look forward, and not back, to playing our part in this developing industry. We are confident that the setbacks so far in 2020 will be temporary and they will not define our futures.

Lastly, I want to again thank my fellow Commissioners for their hard work and support and we express our deepest gratitude to Jorn Starck, the Commission's Executive Director, together with his colleagues on the Executive Committee as well as our dedicated staff. Without their efforts our roles would be impossible. It remains an honour to serve as the Commission's Chairman and be a part of an organisation which is not only at the forefront of the industry but which also makes such a positive contribution to the island of Alderney, and to the whole Bailiwick.

A handwritten signature in black ink, appearing to be 'Lord Faulkner of Worcester'.

Lord Faulkner of Worcester
Chairman

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, pragmatic and well-respected regime supportive of operator needs. The controlled gambling environment engenders good business practice throughout the operator's organisation.

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

REGULATORY CHANGES

In 2019 no changes were made to the regulatory framework governing eGambling in Alderney.

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 other markets and so expand and develop their businesses. The Commission is therefore in communication with regulators in various other jurisdictions so as to be kept informed of legislative developments. The Commission 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.



Approach to Regulation (continued)

REGULATORY AND LEGISLATIVE COOPERATION

The Commission liaises with other international regulatory bodies and can sometimes act 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, part of the Guernsey Border Agency Cross Border Crime Division.

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 (GREF) and the International Association of Gaming Regulators (IAGR). The Commission also shares this expertise with others through participation in the major industry conferences.

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

- In February members of the Commission and its staff attended the International Casino Exhibition in London.
- In March the Executive Director attended the iGA conference and Asean Gaming Summit in the Philippines.
- In April the Director of Licensing attended MONEYVAL AML/CFT assessor training in Rome.
- In May the Executive Director and Director of Licensing attended the Gambling Regulators European Forum (GREF) in Cyprus
- In June the Executive Director spoke at the European Casino Association Forum in France
- In July the Executive Director attended the World Gaming Executive Summit in Barcelona.
- In September/October the Executive Director and Director of Licensing attended the International Association of Gaming Regulators (IAGR) conference in Jamaica.
- In November the In-house Counsel attended the Law Society's AML/CFT symposium in London.

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 AML/CFT framework for eGambling remains harmonised with other sectors in the Bailiwick.



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

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 and certificate holders, the details of onsite inspections, as well as any formal requests for assistance relating to AML/CFT issues. During the year 1,517 suspicious transaction reports were submitted by eGambling licensees and certificate holders.

The Commission works closely with key stakeholders in the Bailiwick and in particular the Guernsey Financial Intelligence Unit (Guernsey FIU). This co-operation takes many forms including regular face to face liaison meetings, routine sharing of intelligence and targeted thematic reviews. The Commission is grateful for the assistance it receives from the Guernsey FIU, the Guernsey Financial Services Commission and the States of Guernsey with regards to AML/CFT matters.

The Commission continues to be involved in a number of initiatives aimed at raising awareness of these issues with licensees and the public. During 2019 these included briefing and training sessions for staff and licensees, as well as consultation with other regulatory bodies. The Commission’s annual AML/CFT event remains popular with licensees. It covers thematic AML/CFT topics and features an external subject matter expert who facilitates discussion and debate on global AML/CFT, bribery and trafficking issues. In addition, the Commission is represented at meetings of the Bailiwick’s AML/CFT working groups. The focus of activity in 2019 has continued to be the work necessary to prepare a National Risk Assessment for the Bailiwick.

All active licensees are inspected within one year of the approved start of their live operations and 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. 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. A further review took place in 2014 which was reported back to MONEYVAL at its 48th Plenary in Strasbourg in September, 2015. The findings of this were made public in January, 2016. MONEYVAL’s findings that the Bailiwick’s eGambling sector is highly compliant and that the Commission’s regime is both effective and robust reflects our continuing commitment to meeting international standards and preventing money laundering and the funding of terrorism. The Commission is currently part of the Bailiwick wide working group tasked with implementing the new FATF recommendations participates in the work necessary for the Bailiwick to prepare its National Risk Assessment (NRA). Work on the Bailiwick’s NRA continued in 2019. The public version of the NRA was published in January 2020.

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 Commission's regulations. Upon licensing fitness and propriety remain subject to scrutiny.

After an application has been received, an initial investigation 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. 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.

A Category 1 eGambling licence allows the holder to organise and promote gambling with customers (effectively a B2C relationship). A Category 2 eGambling licence or Category 2 Associate Certificate effects the gambling transaction (effectively a B2B relationship). Core Service Associate Certificates are issued to those closely involved in eGambling but not undertaking the primary activity; holders might be software suppliers or providers of certain prescribed functions.

As at 31 December 2019, there were 33 registered licensees (2018, 41) consisting of 7 Category 1 licence holders (2018, 7), 13 Category 2 licence holders (2018, 15) and 13 holders of both Category 1 and 2 licences (2018, 19). There were 12 Category 2 Associate Certificates (C2AC) (2018, 10) in issue and 2 Category 1 and Category 2 Associate Certificate holders (2018, 2).

Details of the licences and certificates issued are as follows:

(1) Category 1 eGambling Licences;
None

(2) Category 2 eGambling Licences;
GBE Technologies Alderney Limited

(1+2) Category 1 and 2 eGambling Licences;
Kastraki Alderney Limited
None

(C2AC) Category 2 Associate Certificates;
SG Digital (Gibraltar) Limited
Skywind Services IOM Limited
IGT Malta Casino Limited
IGT Malta Interactive Limited
Global Technology Group Pty Limited

(C1AC & C2AC) Category 1 and 2 Associate Certificates;
None

Hosting Certificate;
None



Licensing and Compliance Activity (continued)

The following allowed their licences and certificates to lapse:

Category 1 eGambling Licence;

Genting Alderney Limited
Greentube Alderney Limited

Category 1 & 2 eGambling Licences;

New Compton Limited
ElectraWorks (Alderney) Limited
Cashbet Alderney Limited
Willowdale Group Limited
Bear Group Limited

Category 2 eGambling Licence;

Xterra Games (Alderney) Limited
IGT (Alderney 4) Limited
NYX Digital Gaming (Alderney) Limited
ISB Alderney Limited

Twelve 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 24.

A complete list of licensees and certificate holders can be found on the Commission's website

www.gamblingcontrol.org

Category 2 Associate Certificate;

NYX Digital Gaming (Alderney) Limited
Inspired Gaming (Gibraltar) Limited
IGT Malta Casino Limited

Temporary Use eGambling Licence;

None

Whilst Greentube allowed its Category 1 eGambling licence to lapse, it still holds a Category 2 eGambling licence.

One Core Services Associate certificate was issued to the following:

Inspired Gaming (UK) Limited

Alongside licence applications, the Commission also approved 24 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.



Licensing and 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 (now trading as Sure (Guernsey) Limited), Itex and Newtel (now trading as JT (Guernsey) Limited). Currently 12 hosting certificates have been issued.

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. There were no temporary licences in place at the end of 2019.

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 2019, 23 complaints were received (2018, 39) and dealt with by the Commission, a decrease on the previous year. As a result of the European Union's Directive on consumer Alternative Dispute Resolution the Commission no longer processes complaints for players based within the United Kingdom at first instance.

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.

No Commission Hearings took place in 2019 which reflects the fact that all player complaints were dealt with without the need for a hearing.

The Commission aims to work closely with licensees on resolving issues related to customer complaints, and also liaises with relevant industry bodies.



Licensing and Compliance Activity (continued)

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. Five initial gambling equipment approvals were made in 2019.

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

- administrative control;
- accounting and financial control;
- controls over the operation of customer accounts and player funds;
- safeguards in relation to the security of the licensees systems;
- comprehensive and appropriate AML/CFT procedures;
- procedures for identifying fraudulent, problem or underage gambling.

Seven initial ICS approvals were made in 2019 of which six were full approvals and one was conditional.

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.

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 (AML/CFT) 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 2019, the compliance team carried out 33 inspections. In the main these demonstrated a high level of regulatory compliance by licensees and reaffirmed the importance of active operational controls.



Licensing and Compliance Activity (continued)

SPECIAL INVESTIGATIONS

The Commission has the power to conduct a special investigation of 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. No special investigations were instigated in 2019.

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.

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 were no sanctions issued or regulatory hearings called during 2019.

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 were 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 or ultimate beneficial owner.

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. 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)



TRAINING AND INFORMATION SESSIONS

In October 2019 an AML/CFT training and information session was held for licensees. These annual sessions have been organised by the Commission since 2008 and are now a regular fixture in the Commission's calendar. Representatives from newly operational licensees are required to attend; representatives from all other licensees are invited to attend on a voluntary basis. The meeting was attended by 54 delegates from 26 licensees. The Commission welcomes the importance licensees place upon this subject. The day provides a valuable opportunity for licensees' Money Laundering Reporting Officers (MLRO) to meet with their peers and representatives of the Guernsey Financial Intelligence Service.

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 9,001 new games and gambling equipment approvals processed in 2019 (2018, 8,467).

A Multi-Jurisdiction Testing Framework was formed in 2015 under the auspices of the International Association of Gaming Regulators Working Group with the Isle of Man, Denmark and the United Kingdom. Within this the Commission continues to work towards harmonising testing requirements. This increases the speed at which games can be approved for release as well as minimising costs and regulatory duplication.

Alderney Gambling Control Commission Financial Statements as at 31 December 2019

Statement of the Commissioners' Responsibilities

The Commissioners of the Alderney Gambling Control Commission ('the Commission') acknowledge that they are 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 Commissioners are 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;
- assess the Commission's ability to continue as a going concern disclosing as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Commission or to cease operations, or have no realistic alternative but to do so.

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

The following persons served as Commissioners during the year under review and up to the date of this report:

- Lord Richard Faulkner (Chairman);
- Mr Christopher Moger QC;
- Dr Isabel Picornell;
- Mr Jeremy Thompson;

The Commissioners are responsible for the maintenance and integrity of the corporate and financial information included on the Commission's website, and for the preparation and dissemination of financial statements.

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

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

OUR OPINION IS UNMODIFIED

We have audited the financial statements (the "Financial Statements") of Alderney Gambling Control Commission (the "Commission"), which comprise the Statement of Financial Position as at 31 December 2019, the Statement of Comprehensive Income and Retained Earnings for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of Commission as at 31 December 2019, and of the Commission's financial performance for the year then ended;
- are prepared in accordance with United Kingdom accounting standards, including Section 1A of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- comply with The Gambling (Alderney) Law, 1999.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Commission in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Commissioners are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



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

RESPECTIVE RESPONSIBILITIES

COMMISSIONERS' RESPONSIBILITIES

As explained more fully in their statement set out on page 17, the Commissioners are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Commission or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

THE PURPOSE OF THIS REPORT AND RESTRICTIONS ON ITS USE BY PERSONS OTHER THAN THE COMMISSIONERS AS A BODY

This report is made solely to the Commissioners, in accordance with Schedule 1 of The Gambling (Alderney) Law, 1999. 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 Commissioners as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG Channel Islands Limited

KPMG Channel Islands Limited
Chartered Accountants, Guernsey

30 March 2020

Statement of Financial Position as at 31 December 2019

| | Note | 2019 £ | 2018 £ |
|---|----------------|-----------|-----------|
| Fixed assets | | | |
| Computer, office equipment & furniture | | 27,836 | 40,056 |
| Leasehold | | 38,690 | 50,594 |
| Web hosting | | – | 21,911 |
| | 3&4 | 66,526 | 112,561 |
| Current assets | | | |
| Cash at bank and in hand | 5 | 2,175,387 | 2,240,722 |
| Prepayments | | 10,997 | 13,708 |
| | | 2,186,384 | 2,254,430 |
| Creditors: amounts falling due within one year | 6 | (561,308) | (615,729) |
| Net current assets | | 1,625,076 | 1,638,701 |
| Total assets less current liabilities | | 1,691,602 | 1,751,262 |
| Capital and reserves | | | |
| Retained surplus brought forward | | 1,751,262 | 1,900,957 |
| Net (deficit) for the year | | (59,660) | (149,695) |
| Retained surplus | | 1,691,602 | 1,751,262 |

The notes on pages 22 to 26 are an integral part of these accounts.

The financial statements on pages 16 to 26 were approved by Alderney Gambling Control Commission on 27 March 2020 and signed on its behalf by:



Lord Richard Faulkner
Chairman

Statement of Comprehensive Income and Retained Earnings for the year ended 31 December 2019

| | Note | 2019 £ | 2018 £ |
|---|----------|--------------------|--------------------|
| Income | | | |
| Licence fees | 3 | 3,971,500 | 4,885,500 |
| Fees charged to clients | 3 | 589,648 | 618,785 |
| Bank interest | | 10,458 | 8,191 |
| | | <u>4,571,606</u> | <u>5,512,476</u> |
| Expenditure | | | |
| Staff costs | 8 | 1,816,079 | 1,761,257 |
| Commissioners' fees | 7 | 144,939 | 120,783 |
| Premises, furniture and equipment | | 89,355 | 78,825 |
| Web hosting | | 183,649 | 88,286 |
| Consultancy | | 6,127 | 11,217 |
| Conferences and general travel | | 100,410 | 115,329 |
| Postage, stationery and telephone | | 22,256 | 28,266 |
| Administrative expenses | | 198,218 | 183,019 |
| Depreciation | 4 | 56,407 | 117,082 |
| | | <u>2,617,440</u> | <u>2,504,064</u> |
| Total Comprehensive Income | | 1,954,166 | 3,008,412 |
| Retained Earnings at 1 January | | 1,751,262 | 1,900,957 |
| Total Comprehensive Income for the year | | 1,954,166 | 3,008,412 |
| Distributions for the year | | <u>(2,013,826)</u> | <u>(3,158,107)</u> |
| Retained earnings at 31 December | | <u>1,691,602</u> | <u>1,751,262</u> |

All activities are derived from continuing activities. The Commission has no components of 'other comprehensive income'.

The notes on pages 22 to 26 form an integral part of these financial statements.

Notes to the Financial Statements for the year ended 31 December 2019

1. Reporting Entity

The Alderney Gambling Control Commission (“AGCC” or the “Commission”) is a regulatory body established in 2000 and governed by The Gambling (Alderney) Law, 1999. The principle activity of the Alderney Gambling Control Commission is to regulate eGambling activities in line with The Gambling (Alderney) Law, 1999, (the “Gambling law”).

2. Basis of Preparation

These financial statements give a true and fair view and were prepared in accordance with United Kingdom Accounting Standards including Section 1A of Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”) and are in line with the Gambling law. The financial statements have been prepared on a historical cost basis.

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 transferred to the States of Alderney.

The Commissioners have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The financial statements are prepared in sterling which is the functional currency of the Commission. The Commission consider sterling as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

3. Significant Accounting Policies

Licence and certificate fees

Under the terms of The Alderney e-Gambling Ordinance, 2009, licences and certificates granted by the Commission are valid for an indefinite period. A non-refundable licence or certificate fee is payable on issue of the licence or certificate and in advance of each anniversary of the issue of the licence or certificate. The licence and certificate fees are recognised in the Statement of Comprehensive Income on an annual basis on the anniversary on which the licence was granted.

Fees charged to clients

Fees charged to clients are incurred on an accruals basis as services are delivered such as investigation/inspection. As at the year end, there are no outstanding fees (2018: £nil).

Expenses

Expenses are accounted for on an accruals basis.

Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price including transaction costs and trade discounts and rebates. It also includes costs directly attributable to bringing it to the location and condition necessary for it to operate as intended. The Commission assesses at each reporting date whether tangible fixed assets are impaired.

Notes to the Financial Statements for the year ended 31 December 2019 (continued)



Depreciation is charged to the Statement of Comprehensive Income on a straight line basis over the estimated useful lives of each part of a tangible asset. The estimated useful lives are as follows:

| | |
|--|----------|
| • Furniture and equipment | 4 years |
| • Computer hardware and operating systems | 3 years |
| • Web hosting hardware and operating systems | 3 years |
| • Leasehold refurbishment (2008) | 10 years |
| • Leasehold refurbishment (2012) | 11 years |

The depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting in the pattern by which the AGCC expects to consume an asset's future economic benefits.

The basis for choosing the useful life of the leasehold is the length of the operating lease on the office premises.

Judgements and Estimates

In preparing these financial statements, the Commission has made judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

a) Judgements

Leases entered into have been classified as operating leases due to the leases being for only a limited part of the properties useful economic life and do not transfer ownership or significant risk to the lessee.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to estimates are recognised prospectively.

Financial instruments

a) Basic financial instruments

i) Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

ii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits and petty cash.

b) Derecognition

The Commission derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Commission neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the Statement of Comprehensive Income. Any interest in such transferred financial assets that is created or retained by the Commission is recognised as a separate asset or liability. The Commission derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.



Notes to the Financial Statements for the year ended 31 December 2019 (continued)

4. Fixed assets

| | Equipment & Furniture | Leasehold | Web Hosting | Total |
|-----------------------|--------------------------------------|------------------|------------------------|------------------|
| | £ | £ | £ | £ |
| Cost | | | | |
| At 1 January 2019 | 406,244 | 645,936 | 418,076 | 1,470,256 |
| Additions | 10,372 | – | – | 10,372 |
| At 31 December 2019 | <u>416,616</u> | <u>645,936</u> | <u>418,076</u> | <u>1,480,628</u> |
| Depreciation | | | | |
| At 1 January 2019 | 366,188 | 595,342 | 396,165 | 1,357,695 |
| Charge for year | 22,592 | 11,905 | 21,911 | 56,407 |
| At 31 December 2019 | <u>388,780</u> | <u>607,247</u> | <u>418,076</u> | <u>1,414,102</u> |
| Net book value | | | | |
| At 31 December 2019 | <u>27,836</u> | <u>38,690</u> | – | <u>66,526</u> |
| At 31 December 2018 | <u>40,056</u> | <u>50,594</u> | 21,911 | <u>112,561</u> |

5. Cash at bank and in hand

| | 2019 | 2018 |
|--|------------------|------------------|
| | £ | £ |
| Business reserve account | 370,832 | 369,651 |
| Applicant and Licensee deposit account | 502,910 | 609,987 |
| Treasury accounts | 1,000,017 | 1,004,926 |
| Current account | 301,508 | 256,141 |
| Petty cash | 120 | 17 |
| | <u>2,175,387</u> | <u>2,240,722</u> |

The Commission employs the use of a NatWest credit card facility for £67,500. This consists of a monthly credit card limit of £54,000, with a 7-day payment grace period, thus 25% is added on for credit reporting purposes. Any use of this facility is paid off in full on a monthly basis. There was no amount owed at the year end (2018: £nil).



Notes to the Financial Statements for the year ended 31 December 2019 (continued)

6. Creditors: amounts falling due within one year

| | 2019 £ | 2018 £ |
|------------------------|-----------|-----------|
| Refundable deposits | 492,023 | 512,613 |
| Creditors and accruals | 69,285 | 103,116 |
| | 561,308 | 615,729 |

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

7. Commissioners' fees

In accordance with the Gambling Law, the States of Alderney is ultimately responsible for meeting the Commissioner's fees and expenses, including the Chairman. The AGCC pay the Commissioners' fees and expenses of £144,939 during the year.

8. Staff costs

Included in the staff costs are pension contributions. A defined contributions pension scheme, together with life assurance cover, is provided for employees. The scheme is administered by Gower Limited in Guernsey 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 £150,788 (2018: £141,338) is included in staff costs. At the year-end there were no prepaid or outstanding contributions (2018: £nil).

During the year the average number of employees was 18 (2018: 18).

9. Operating lease

The Commission entered into a ten year operational lease on the office property in Alderney, commencing in April 2008, on 21 February 2014 the lease was extended to March 2023. The property remains in the ownership of the States of Alderney.

The rental amounts for 2019 charged to the Income statement and included in premises, furniture and equipment expenditure were £50,643 (2018: £49,393).

The Commission is committed under the lease to make payments of the £36,000 per year at the inception of the lease. Subsequent to the inception date, the lease payments are based on the prior year annual rent plus any RPI increase. The lease is subject to review in the fifth year, until the end of the lease (March 2023).

Non-cancellable operating lease rentals are payable as follows:

| | 2019 £ | 2018 £ |
|-----------------------|-----------|-----------|
| Less than 1 year | £50,643 | £49,393 |
| Between 1 and 5 years | £164,590 | £214,036 |
| More than 5 years | – | – |

Future minimum lease payments are based on the actual rental expense in the year. There will be additional costs for RPI increases.



Notes to the Financial Statements for the year ended 31 December 2019 (continued)

10. Transfers to the States of Alderney

During 2019 the States of Alderney received transfers from the retained surplus of £2,013,826 (2018 - £3,158,107).

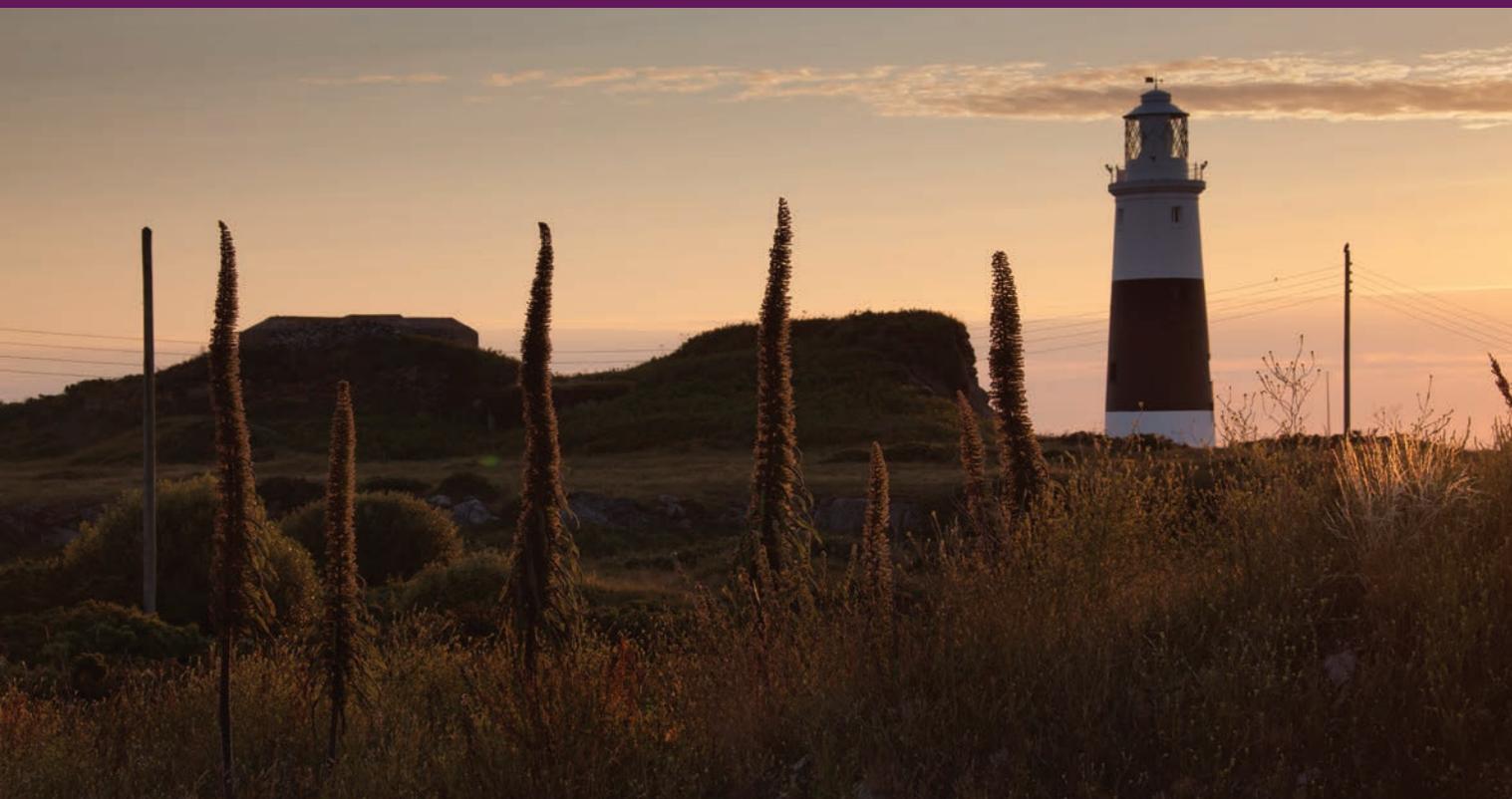
11. Guernsey Income Tax

The Commission is not subject to Guernsey Income Tax.

12. Subsequent events

In March 2020, the World Health Organisation recognised an outbreak of a new virus that causes coronavirus disease 2019 (COVID-19) as a pandemic. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. The Commissioners consider the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties at this time, it is not possible to determine the precise impact of COVID-19 on the Commission. The Commission notes that it has the potential to reduce future licence fee income but it is not possible to quantify the impact at this time.

Statistics



| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---|---|---|---|---|---|
| Number of licensees | 33 | 53 | 56 | 57 | 54 | 53 |
| New licences issued | Cat 1 0 Cat 2 1 C1AC 0 C2AC 5 Total new 6 | Cat 1 3 Cat 2 3 C1AC 2 C2AC 4 Total new 8 | Cat 1 5 Cat 2 4 C2AC 3 Total new 9 | Cat 1 3 Cat 2 3 C2AC 3 Total new 5 | Cat 1 2 Cat 2 2 C2AC 3 Total new 7 | Cat 1 8 Cat 2 8 C2AC 4 Total new 9 |
| No. licence apps refused | 0 | 0 | 0 | 0 | 0 | 0 |
| ICS Initial approvals | 7 | 6 | 6 | 5 | 5 | 8 |
| Inspections | 33 | 37 | 36 | 38 | 39 | 51 |
| Licensee/Compliance staff ratio | 5.5:1 | 6:1 | 6:1 | 6:1 | 5:1 | 5:1 |
| Special investigations | 0 | 1 | 1 | 1 | 0 | 4 |
| Sanctions and AML/CFT remedial measures | 86 | 85 | 35 | 50 | 47 | 90 |
| Revocations | 0 | 0 | 0 | 0 | 0 | 1 |
| STR's copied | 1,517 in total 1,505 eCasino 12 eGambling | 1,103 in total 1,078 eCasino 25 eGambling | 320 in total 288 eCasino 32 eGambling | 213 in total 165 eCasino 48 eGambling | 122 in total 77 eCasino 45 eGambling | 87 in total 78 eCasino 9 eGambling |
| STR's submitted | 1 | 0 | 0 | 1 | 1 | 4 |
| Training events | 1 | 1 | 1 | 1 | 1 | 1 |

NOTE

Information regarding the composition of the Commission and staff at the Commission is updated in real time on the Commission's website.

Accordingly this information is no longer published in the Commission's annual report and financial statements. In addition a full list of licensees and certificate holders can be found on the Commission's website.

The Commission's website can be found at www.gamblingcontrol.org

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