







BetIndex Responses to Questions

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Introduction

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Introduction

1. Since 2015 we have seen significant shifts in the gambling market which have reflected the wider technological and consumer trends in society. Specifically, this has included a seismic shift to an industry where online dominates and where consumers expect continual new and innovative experiences.
2. This has also coincided with growth in the online gambling industry from Gross Gambling Yield (GGY) of less than **£1.5bn** when statutory changes to regulated online gambling came into effect in 2015 to nearly **£5.7bn in 2020**.
3. This period of rapid growth has also seen an increase in the complexity of business models and product offerings. The lines between what is gambling and other types of products, such as financial services or computer games, has become increasingly blurred and no longer neatly fit into existing statutory definitions of gambling, as exemplified in the debate around loot boxes.
4. Football Index was one of those products that had gambling elements to it but had blurred the lines between gambling and financial services and clearly did not fit comfortably into any one statutory system of regulation- hence our ongoing engagement with the FCA to formalise the agreed position of dual regulatory remit.
5. Despite this growth in scale and complexity of the industry, the funding model for gambling regulation has remained static during that time with licensing fees heavily linked to GGY rather than complexity of the business model or regulatory risk posed. The consequence is that the Commission currently has limitations placed on its ability to flex its resources and regulatory approach to meet all of the new regulatory risks presented by industry innovation.
6. The context to the funding model is as follows. Historically, most of our fees were influenced by the number of premises held by an operator. With a growing online and decreasing land-based market the more accurate measure of Gross Gambling Yield (GGY) was introduced in 2017. Whilst this is a more accurate measure than number of premises, GGY is in effect related to the size of the operator. Whilst size of operator influences the resource we direct, it does not account for matters such as innovation and complexity of business model. These can be major drivers for our regulatory activity which are not reflected in our fees regime.
7. To exemplify the budgetary/resource challenge the Commissions **2015/16 budget was c£19.21million** excluding grant in aid funding for National Lottery functions. Total FTE was 290 staff (which includes 20 National Lottery staff).
8. The Commissions **2020/21 Budget is c.£18.87million** excluding grant in aid funding for National Lottery functions. Total FTE is 338 staff (which includes 36 National Lottery and Fourth National Lottery Competition staff). We oversee c2,800 firms and c16,500 individuals.
9. To provide some context in relation to the GC budget and FTE, FCA budget is **c£632.6mil** and c4188FTE to oversee c60,000 firms. The Solicitors Regulation Authority has a budget of **c£68mil** and c663 FTE to oversee c10,000 firms and c157,000 individuals.
10. We have attempted to mitigate the risks arising from our budgetary limitations with a fees review which will see increases for remote annual fees and all application fees taking effect on 1 October 2021, with non-remote annual fee increases taking effect 1 April 2022. These proposals would deliver increases to our fee income such that our forecast income for

2023/24 is £25.9m compared to £18.4m in same year if no changes to licence fees were made. As part of the Gambling Act Review, we are hoping that a more flexible fees regime can be implemented to enable us to be more agile in fees changes in order to address the fast pace changing risks of the industry.

11. We are keen to increase our expertise in the Forensic Accountancy and Investigation team and develop our horizon scanning in the innovation space.
12. In terms of Enforcement casework, of which BetIndex was one, on average there were 72 enforcement cases in 2020 with a peak of 108 in March.
13. Given the above context when dealing with this case we considered that the best course of action for consumers, given the FCAs agreement as to their regulatory remit, was to secure a dual regulatory position which would also provide the possibility of recourse to the Financial Services Compensation Scheme. In addition, we continued throughout to actively engage with the licensee to, inter alia, amend its customer messaging and website information, improve safer gambling controls, consider the protection of customer funds and
14. The onset of the pandemic pausing football for 3 months for a product that relied entirely on this market (unlike many other licensees) combined with the loss of customer confidence and the licensee significantly inflating dividends in an attempt to trade through, proved financially unsustainable.
15. Finally, we are conscious that the figure of £124million is regularly cited by BetIndex customers as the losses incurred. We are considering how best to manage consumer expectations in this regard given the figure is made up of the price paid for newly minted shares plus share churn and does not deduct dividends paid out and operating costs. Obtaining clarity on these figures is proving challenging but we continue to push the Administrators for accurate financial information.
16. We consider a clearer picture in relation to actual losses, combined with greater clarity on the extent of our regulatory remit, including those activities that do not fall within our powers such as complaints handling and resolution and/or a compensation fund, will better manage consumer expectations.

Question 1: What steps/procedures were undertaken by the Gambling Commission in assessing licence

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Question 1: What steps/procedures were undertaken by the Gambling Commission in assessing licence applications? Have any changes been made between 2015 and the present? 11

Response 12

1.1 Remote Assessment Guidance 13

1.2 OGN for revised assessment questions May 2021 73

2. How many betting licence applications were made in 2015?
--

Response:

We received 273 new operating applications for the financial year 2015/16, of which 93 included betting activities.

See also response to question 3 which details all activities the Licencing Team undertaken in addition to the assessment of operating licences.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 3: How large was the Gambling Commission's licensing division in 2015?

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Question 3: How large was the Gambling Commission's licensing division in 2015? 107

Response 108

3. How large was the Gambling Commission's licensing division in 2015 (an approximate figure would be sufficient)?

Response:

Headcount for Licensing was 46 roles.

Work undertaken included:

- Consideration of applications for personal licences
- Consideration of applications for operating licences
- Licence variations
- Changes to licences
- Review of regulatory returns
- Review and actioning of key events
- Administrative and Officer duties for c.3000 operators and c.30,000 personal licence holders
- Dealing with post in and out
- Regulatory Panels
- Applicants and operator queries
- Assistance with Compliance and Enforcement cases
- Covering Reception duties
- Other Gambling Commission requests

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 4: What steps/procedures were undertaken by the Gambling Commission in compliance assessments?

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Question 4: What steps/procedures were undertaken by the Gambling Commission in compliance assessments? Have any changes been made between 2015 and the present? 109

Response 110

4. What steps/procedures were undertaken by the Gambling Commission in compliance assessments? Have any changes been made between 2015 and the present?

Response:

We keep our approach to checking the compliance of those we licence under regular review. We are committed to continuous improvement in our approach to compliance activity and to utilising an approach which is fit for purpose.

The Compliance team has oversight of c2800 licensees and the National Lottery. The team is currently made up of 35 people, 8 of whom are focussed on National Lottery Compliance:

- 1 Director
- 4 Senior Managers
- 5 Managers
- 15 Compliance Managers
- 1 Administration Manager
- 1 Compliance Officer
- 8 colleagues focussed on National Lottery compliance

We have been making changes to the Compliance team in order to ensure a skill set focussed online and to address growing complexity within the industry. Combined with skill sets across the Commission, including in licencing, enforcement, strategy, policy and research, our approach to more complex cases is to build a multi-disciplinary team, as we did in the BetIndex case.

Prior to November 2014 when the Gambling (Licensing and Advertising) Act 2014 came into force, the Commission's compliance team was largely made up of colleagues with extensive knowledge of land-based gambling with a minority focussed on remote operators.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The majority of compliance resource at that time was committed to conducting assessments of land-based operators with a separate programme for assessment of operators that we categorised as high-impact (larger operators such as [REDACTED]).

From 2015 we began to increase the quantity of resource that we focussed on the assessment of remote operators and to deploy a variety of ways to raise standards in the market, using guidance, industry engagement and punitive measures where appropriate.

In 2016 we introduced 'small operator workshops' which we ran on a regional and sector basis to share good and best practice and to raise standards. We also piloted the use of annual assurance statements (similar to a statement of internal control) with c45 of the largest operators (those with an annual Gross Gambling Yield – GGY - in excess of £25m). This engaged the licensee Boards and CEOs with a review of their business's risks in relation to the Licencing Objectives. We review assurance statement submissions and provide individual and collective feedback to submitting operators. We also provide Assurance Statement workshops which are centred around licensees sharing their own approaches to ensuring compliance and with a focus on safer gambling.

[REDACTED]

Through this approach to assessment, we identified significantly more issues with a resultant increase in escalations to Enforcement and subsequently increasing regulatory action including higher financial penalties.

As identification of non-compliance increased given our more testing and challenging approach, we tightened the timescales for rectification of issues. To address this issue, during 2020 we trialled an approach we term 'Special Measures' where we allow a licensee a maximum of three months to complete an agreed action plan which, if successfully completed, can negate a referral for an Enforcement escalation. We now categorise the outcomes of an assessment as:

- **Assessment Findings letter** – no significant Issues identified
- **Improvement Notice (Special Measures)** – 3 months to improve and a follow up assessment is conducted.
- **Regulatory action being considered** – where we are considering opening a regulatory investigation.

Our assessment of Betindex in [date] was a full assessment which includes the following key elements:

- I. A review of a sample of a licensee's websites. The Commission's compliance colleagues follow a consumer's journey around the website assessing matters such as marketing and advertising, unfair terms and safer gambling controls. The website review also includes logging on as a consumer, through a test account, to understand what information is available behind the account sign in screen.
- II. A review of a licensee's policies and procedures and risk assessments to check that the licensee has identified key regulatory risks to the business and implemented effective controls to mitigate these risks. Compliance colleagues look at training records to ensure

that staff and key persons within the business are adequately trained. We also review the corporate governance structure and internal audit process.

- III. Compliance colleagues conduct a video conferencing call where they ask the licensee to use their screen-share facility to show us back-office data in relation to customers and other gambling related records. [REDACTED]

In addition to the above compliance detailed activity, we also conduct assessment of:

- Information security audit reports
- Annual Games testing audit reports (where applicable)

The Compliance team also reviews information which is referred to us internally such as:

- Consumer complaints
- Key event information from operators.

[REDACTED]

See also response our to question 9 and our risk-based approach to compliance oversight of the industry.

Additional notes:

N/A

Question 5: Where successive applications are made by the same entity and/or related entities, to what extent are

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Question 5: Where successive applications are made by the same entity and/or related entities, to what extent are the initial steps/procedures repeated on each subsequent occasion? Have any changes been made between 2015 and the present? 113

Response 114

5. Where successive applications are made by the same entity and/or related entities, to what extent are the initial steps/procedures repeated on each subsequent occasion? Have any changes been made between 2015 and the present?

Response:

The assessment framework is set out in the Licensing, Compliance and Enforcement policy statement. Each application, regardless if successive and/or made by the same or related entity, is considered anew and individually on merit and on the evidence available. In considering an application, the Commission has regard to the licensing objectives and whether they are likely to be compromised, plus the suitability of an applicant to carry out the licensed activities.

When applications are deemed complex due to corporate structures, ownership and funding models, we are supported by colleagues from across the Commission including the professional expertise of our Forensic Accountant, Investigators, compliance, strategy and policy colleagues.

The Licensing, Compliance and Enforcement Policy statement was last amended in June 2017.

Licensing assessment processes have been amended periodically since 2015. As per the response to question 1 OGNs are used for guidance with the assessment framework and copies have been included, see additional notes below.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

1.1 B1.1 Remote assessment guidance copy

1.2 BI 1.2 OGN for revised assessment questions - final - Copy

Question 6: [REDACTED]

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Question 6: [REDACTED]	115
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6.1 [REDACTED]	117

6. [REDACTED]
[REDACTED]

Response:

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]

If the question has not been answered or only partially answered please explain why:

NA

Additional notes:

Supporting document 06.1 [REDACTED]

Question 7: What information was BetIndex and/or any related company required to submit to the Gambling

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Question 7: What information was BetIndex and/or any related company required to submit to the Gambling Commission in its/their regulatory returns? How frequently and by whom were such regulatory returns submitted/reviewed? 118

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7.1 Example of a Regulatory Return 120

7. What information was BetIndex and/or any related company required to submit to the Gambling Commission in its/their regulatory returns? How frequently and by whom were such regulatory returns submitted/reviewed?

Response:

As for all remote operators, BetIndex were required to submit quarterly regulatory returns to the Licensing team for review and action if appropriate. The information supplied includes financial information (Gross Gambling Yield (GGY)) operational information and any other information to support the return

The return is reviewed by a Licensing Account Manager to check whether there are any potential licence breaches. The most common breach relates to licence categories, where the reported GGY has exceeded the licence limits.

There was a total of 22 regulatory return forms submitted by the operator between the dates of 09/09/2015 and 03/03/2021. Four returns were identified as having the following issues:

- I. AR 1-155414291: GGY reported was outside of fee category. Reported period 01/04/18 to 30/06/18
Outcome: OL variation application processed to increase fee Cat from F2 to G1 (Case 1- 150822283)
- II. AR 1-156574531: GGY reported was outside of fee category. Reported period 01/07/18 to 30/09/18
Outcome: OL variation application processed to increase fee Cat from G1 to G2 (Case 1- 157137856)
- III. AR 1-247047581: Q4 records loss of -£6,405,351. Operator stated that business revenues saw a significant downturn during Q4. Reported period 01/10/20 to 31/12/20
- IV. AR 1-259163821: Loss -£5,145,702, this was due to business revenues taking a significant downturn. Reported period 01/01/21 to 31/03/21

Breaches may be escalated to Compliance.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

See example of a return form at document 7.1

Account Number	43061
Account Name	BetIndex Limited
Return Type	Remote Casino Betting and Bingo
Period	01 January 2021 - 31 March 2021
Reference	1-240611241

Workforce Information

Total GB employees	6
Total non GB employees	29
Workforce total	35

Account And Registrations

Accounts	GB	Non GB	Total
Funds held in customers accounts	3,562,068	123,836	3,685,904
Total number of accounts for Gambling Commission licensed activities	628,395	19,981	648,376
Total number of active accounts for Gambling Commission licensed activities	99,091	1,309	100,400
Total active customers: Casino	0	0	0
Total active customers: Poker - Peer to Peer only	0	0	0
Total active customers: Bingo	0	0	0
Total active customers: Betting	99,091	1,309	100,400
Registrations	GB	Non GB	Total
Number of new registrations	15,969	682	16,651

Operational Events

	GB	Non GB	Total
Complaints logged by the operator	178	0	178
Disputes logged	148	0	148
Of which, disputes referred to ADR entity	12	1	13
Self-exclusions made during this return period	59	1	60
Known breaches of self-exclusion	0	0	0
Self exclusions returning	10	0	10
People who having gambled were unable to verify their age	0	0	0
Incidents logged in customer interaction log	4,816	0	4,816
Individuals in interaction	4,710	0	4,710
Restrictions made on individual products	0	0	0
Timeouts	119	0	119
Time and money limits	4,311	0	4,311

Contributions

Are contributions made?	No
Past or future contribution	250

In Play Betting

Category	Total GGY by category area
Football in-play betting	0
Other in-play betting	0

Total GGY	0
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Mobile Betting

Category	Total GGY by category area
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Additonal GGY (Mobile)	0
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Total GGY	0
-----------	---

eSports Betting

Category	Total GGY by category area
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eSports revenue	0
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Total GGY	0
-----------	---

Total Revenue

GGY - GB	-5,157,638
----------	------------

GGY - Non GB	11,936
--------------	--------

GGY - Total	-5,145,702
-------------	------------

Is the calculated gross gambling yield above correct?	Yes
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Betting Real Events

Horses	GB	Non GB	Total
Turnover	0	0	0
GGY	0	0	0

Dogs	GB	Non GB	Total
Turnover	0	0	0
GGY	0	0	0

Football	GB	Non GB	Total
Turnover	0	0	0
GGY	0	0	0

Golf	GB	Non GB	Total
Turnover	0	0	0
GGY	0	0	0

Tennis	GB	Non GB	Total
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Turnover	0	0	0
GGY	0	0	0
Cricket	GB	Non GB	Total
Turnover	0	0	0
GGY	0	0	0
Financials	GB	Non GB	Total
Turnover	0	0	0
GGY	0	0	0
Other	GB	Non GB	Total
Turnover	20,641,476	417,077	21,058,553
GGY	-5,157,638	11,936	-5,145,702
Combined totals	GB	Non GB	Total
Turnover	20,641,476	417,077	21,058,553
GGY	-5,157,638	11,936	-5,145,702

Revenue share B2B

B2B GGY obtained from revenue share agreements No

Revenue Share B2C

B2C GGY obtained from revenue share agreements No

Other Information

Any other information to support this return

Please note that our licence was suspended on the 11th March 2021

Question 8: What financial oversight did the Gambling Commission have over companies, such as BetIndex,

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Question 8: What financial oversight did the Gambling Commission have over companies, such as BetIndex, which were incorporated in Jersey and whose financial statements were not available online? Were financial statements required from entities outside of the jurisdiction?	124
Response	125

8. What financial oversight did the Gambling Commission have over companies, such as BetIndex, which were incorporated in Jersey and whose financial statements were not available online? Were financial statements required from entities outside of the jurisdiction?

Response:

As part of an application for an operating licence, financial statements are required, including from the parent companies of the applicant, which includes those incorporated in other jurisdictions and whose financial statements are not available online.

Extract from Licensing Operational Guidance Note for assessing applicant's financial suitability:



Post the granting of a licence we may review these aspects as part of any subsequent compliance activity we take, but our regulatory remit does not extend to continuous, real-time monitoring of the financial health of operators within an open marketplace. Such an approach would represent a very different form of regulation and would require a significantly different funding model to the one currently set out in legislation. Resources would need to be substantially increased from the current c338 staff and c£18.87mil budget to regulate the c2800 operators in such a way.

[REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

[REDACTED]

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 9: I understand that BetIndex had too small a share of the overall market to be proactively

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Question 9: I understand that BetIndex had too small a share of the overall market to be proactively monitored/reviewed on a regular basis by the Gambling Commission. If that is the case, what were the criteria for companies to be regularly proactively monitored/reviewed by the Gambling Commission? 127

Response 128

9. I understand that BetIndex had too small a share of the overall market to be proactively monitored/reviewed on a regular basis by the Gambling Commission. If that is the case, what were the criteria for companies to be regularly proactively monitored/reviewed by the Gambling Commission?

Response:

Our approach to operator assessment is risk-based. Around 95% of all GGY is generated by the largest 40 operators and so by focussing our resource on this group, we achieve significant coverage of the industry.

In 2019 our proactive work with this group of the largest operators included:

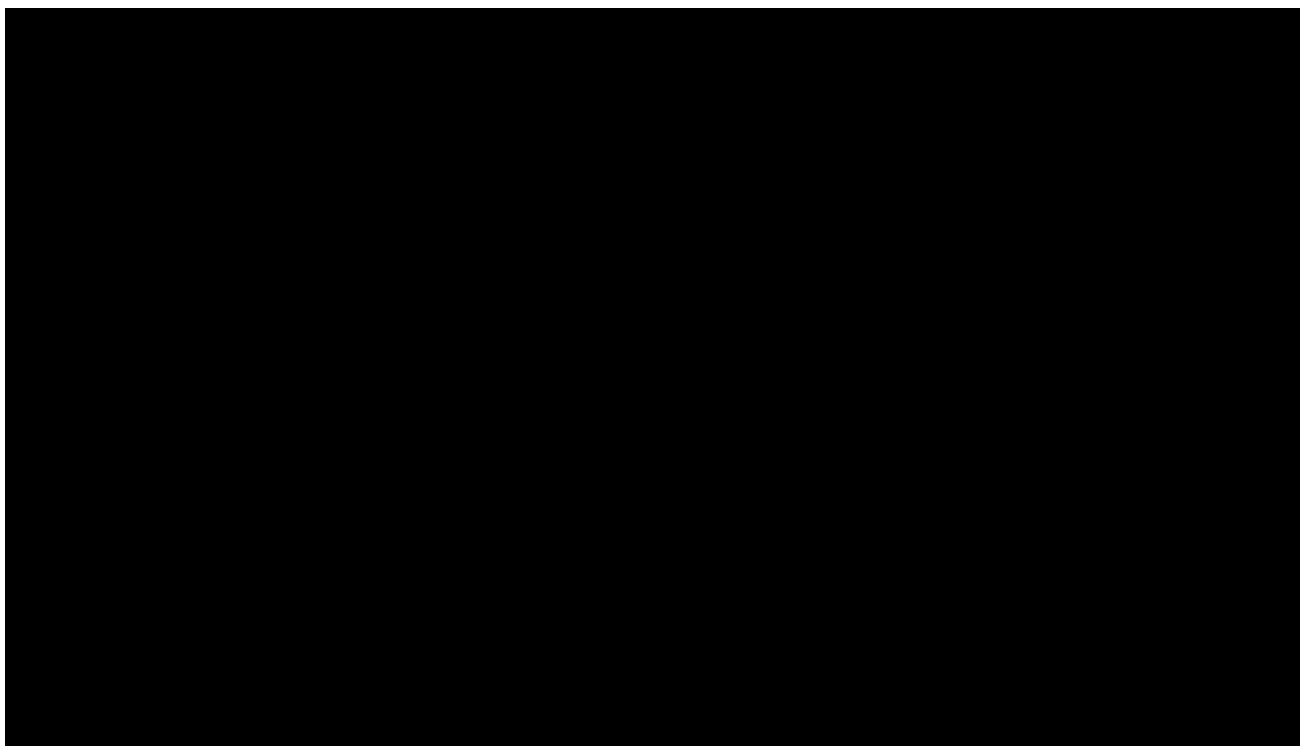
- Full assessment
- a requirement to submit an annual assurance statement for our review and attend a follow-up workshop with an emphasis on raising standards
- selection for inclusion in thematic work such as a particular sector or issue
- Submission of security audits (remote operators)
- Games testing audit (as appropriate)

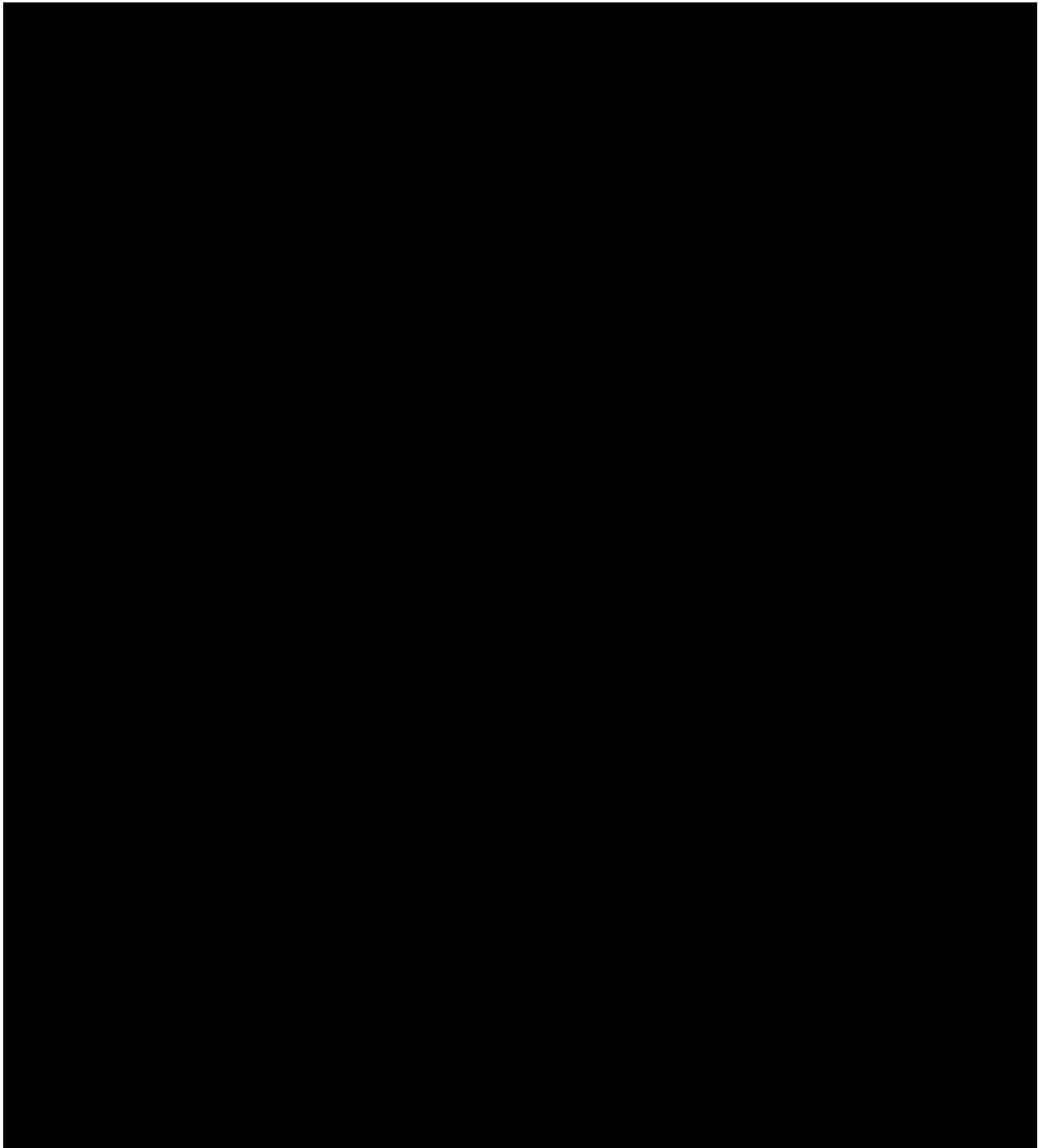
Operators outside of this largest group were proactively monitored and reviewed by:

- Attendance at small operator workshops with an emphasis on raising standards
- Selection for inclusion in thematic work such as a particular sector or issue
- Submission of security audits (remote operators)
- Games testing audit (as appropriate)

Additionally, we carried out reactive work on all operators based on the identification of issues and risks through key event reporting and through our contact centre, Intel referrals and scanning.

By way of context, in 2018/19 the GGY figures for the largest 20 operators were as follows:





In contrast with the GGY figures in the table 1 above, the BetIndex GGY figures for the period of operation were as follows:

Table 2

GGY	Year
2015	£90,839
2016	£483,538
2017	£2,989,471

Additional question for BI independent review, July 2021

2018	£15,510,860
2019	£39,427,609
2020	£25,752,316
2021	-£5,157,638

Between 2015 and 2018, Betindex was categorised as a small operator. As can be seen from Table 2, it was only in 2019 that BetIndex first exceeded annual GGY of £25m. At that point we re-categorised BetIndex as a high-impact operator and notified the business that it was required to submit an annual assurance statement.

We also identified BetIndex for a proactive full assessment (see our answer to Q4 for details of what that includes). However, prior to the assessment being scheduled, we identified areas of concern through our monitoring of key events data. We therefore targeted BetIndex for an immediate reactive assessment. That assessment took place in May 2019. This was followed up by a full, planned assessment in May 2020.

See also response to question 4 in terms of the multi-disciplinary team deployed on this case.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 10: I understand that BetIndex may have engaged in crowd funding in 2016, and that this should

Page

Question 10: I understand that BetIndex may have engaged in crowd funding in 2016, and that this should have been reportable to the Gambling Commission [ref B2 p344]. Please confirm pursuant to which legal and/or guidance provisions and by what method any such report should have been made. 131

Response 132

10. I understand that BetIndex may have engaged in crowd funding in 2016, and that this should have been reportable to the Gambling Commission [ref B2 p344]. Please confirm pursuant to which legal and/or guidance provisions and by what method any such report should have been made.

Response:

A key event was submitted on the 06/04/2016 informing the Commission of crowd funding exercise that had been carried out by Fame Ventures. This was reported online as a key event via the eServices digital service pursuant to 15.2.1 of the LCCP.

The report (key event ref. 1-100569041) was as follows:

Please note that BetIndex Limited's parent company Fame Ventures Limited has initiated crowd funding via www.seedrs.com; the target amount required for the crowd funding to be completed is £800,009 with 15.1% equity offered. Should the target amount be met, the 15.1% equity will be distributed to the relevant investors. Upon such taking place the company will ensure relevant notification and documentation is submitted to the Gambling Commission.

The funding approach was not successful. Had it been any such funding would have been considered as part of a change of corporate control where we would have scrutinised the funds as per our usual process.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 11: What did the review in August 2018 by the Gambling Commission's Compliance department of the

Page

Question 11: What did the review in August 2018 by the Gambling Commission's Compliance department of the BetIndex Security Audit Report [B2 pp7-26] involve? [ref B2 p6] 133

Response 134

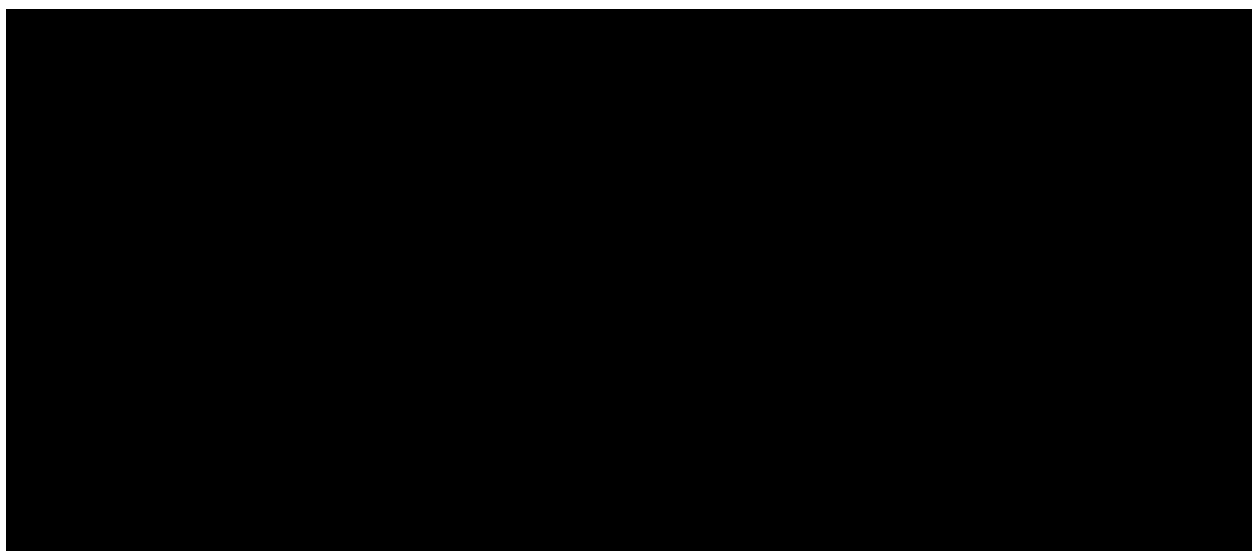
11. What did the review in August 2018 by the Gambling Commission's Compliance department of the BetIndex Security Audit Report [B2 pp7-26] involve? [ref B2 p6]

Response:

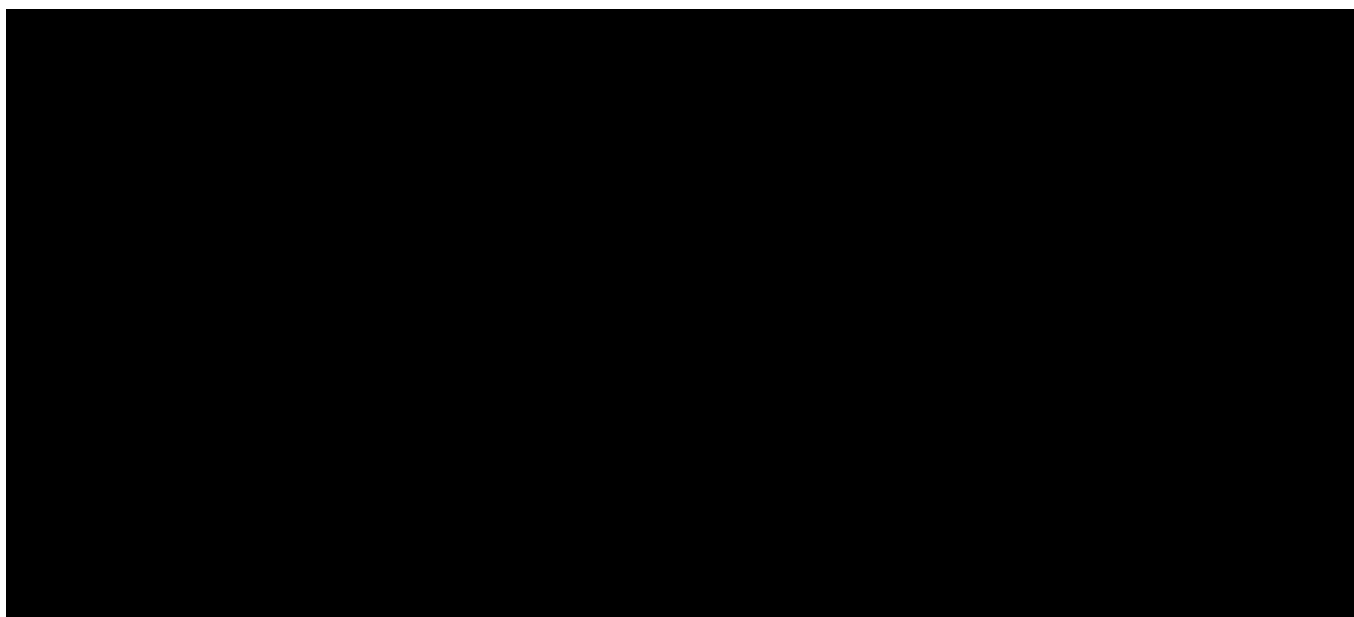
We require information security audits so that we have expert third party assurance that a licensee has sufficient controls in place for its information security. Licensees submit audit reports to us as evidence that the audit has been conducted and for us to evaluate the audit to gain assurance that:

- Audits were conducted by an independent and suitably qualified person
- There are no significant concerns identified.
- Any management response or action plan in place addresses issues identified
- The auditor's report covers the key areas within the standard (ISO 27001)

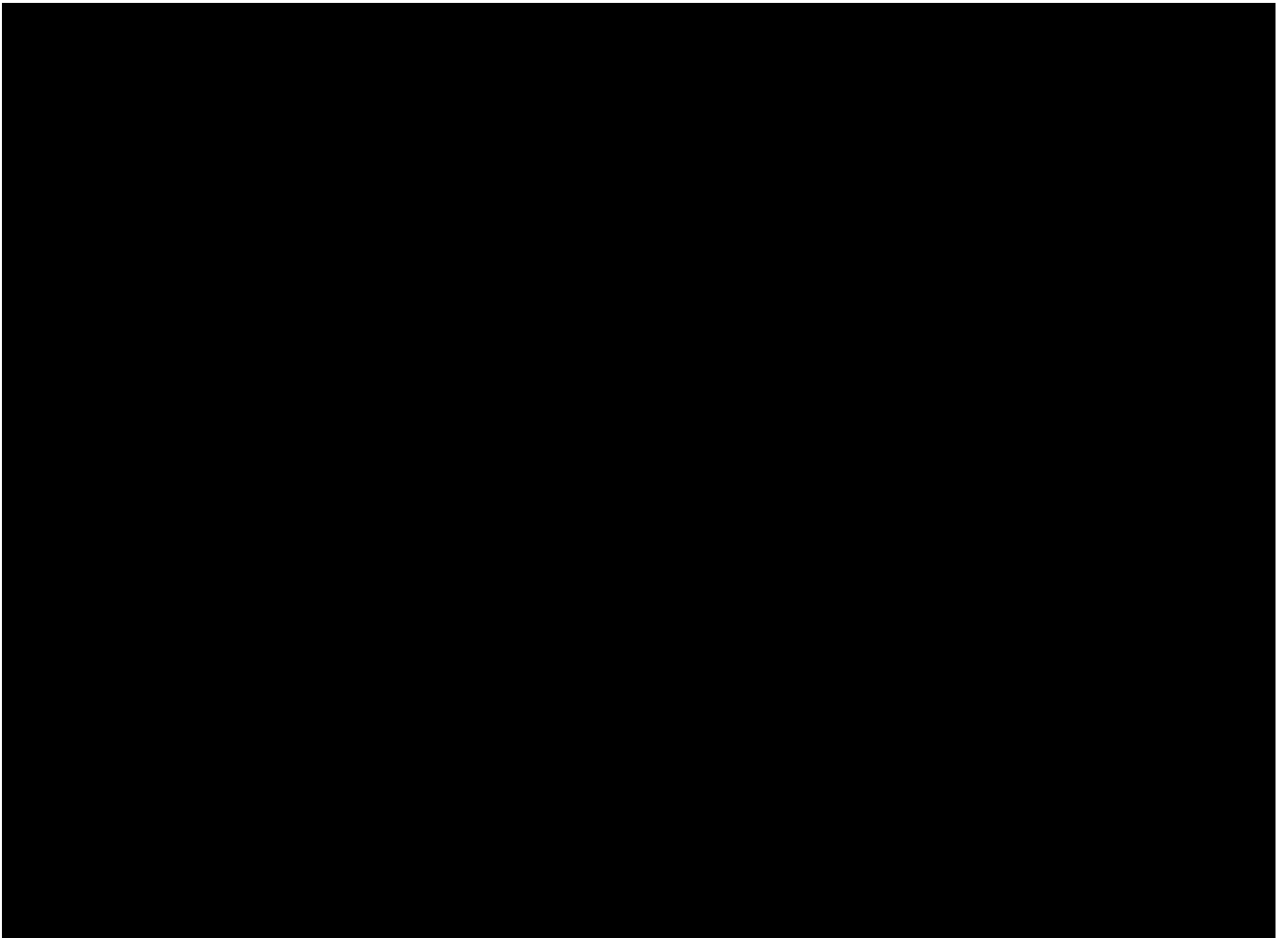
We use a template report to evaluate the security audit as follows:



Compliance Managers also check that the audit addresses the following control measures from the ISO standard:



Additional question for BI independent review, July 2021



[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Our review of the BetIndex security audit identified a small number of observations. Observations are not non-conformances with the ISO standard but recommendations of improvements that could be made. There were also recommendations made around the layout and presentation of the audit report.

As can be seen from the reproduction of the template above, the purpose of the information security audit is to confirm that the operator has the necessary policies, procedures and controls in place, that these are effective and that they conform to the ISO. It is not designed to inform us of, for example, changes to a product. These should instead be notified to us through the more immediate key-event process. In this way we can respond at pace to anything that requires follow-up.

Additional question for BI independent review, July 2021

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 12: What was the date of the previous audit referred to in the Security Audit Report?

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Question 12: What was the date of the previous audit referred to in the Security Audit Report?	139
Response	140
12.1 Security Audit Report	141

12. What was the date of the previous audit referred to in the Security Audit Report?
--

Response:

The previous audit was an audit conducted in February 2017 and received by us on 10 March 2017
We have included a copy of that report for your information.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

12.1 - 'BI question 12.1 security audit report'

Question 13: What process does the Gambling Commission undertake in order to review Key Events

	<i>Page</i>
Question 13: What process does the Gambling Commission undertake in order to review Key Events submitted by licence holders?	159
Response	160
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13. What process does the Gambling Commission undertake in order to review Key Events submitted by licence holders?

Response:

A key event is something which could have a significant impact on the nature or structure of a business, for example a change in leadership, ownership or a licensee self-identified breach of the LCCP. We require licensees to use our electronic portal (eServices) to submit information about key events within 5 days of the event occurring.

We can also receive key events directly via email and our colleagues in our contact centre can create a key event if they receive a complaint that identifies serious concern about the conduct of a licensee.

[REDACTED]

By way of context, from 1 April 2020 to 31 March 2021 we received 12,563 key events of which 441 were referred to and actioned by the Compliance team.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

13.1 'BI question 13.1 Key Event operational guidance notes'

Question 14: What prompted [REDACTED] email to [REDACTED] dated 13 March 2019 raising questions

Page

Question 14: What prompted [REDACTED] email to [REDACTED] dated 13 March 2019 raising questions about the 'Go to Market' and the licensable state of the activity? [B2 pp129-130]

219

Response

220

14. What prompted [REDACTED] email to [REDACTED] dated 13 March 2019 raising questions about the 'Go to Market' and the licensable state of the activity? [B2 pp129-130]

Response:

We contacted the licensee to gather more information around their product offer as a result of queries received from the Football Association and ARJEL.

See also Document 15 in the Additional Documents List.

If the question has not been answered or only partially answered please explain why:

NA

Additional notes:

Refer to document 15 in Additional documents list titled 'GB feedback and proposed next steps 25032019'

Question 15: Why was the recommendation by [REDACTED] [REDACTED] on 22 May 2019 [B2 p64] that the Gambling

Page

Question 15: Why was the recommendation by [REDACTED] on 22 May 2019 [B2 p64] that the Gambling Commission's Compliance department conduct a follow up assessment in relation to BetIndex in 3 months not complied with/actioned? [ref B2 p189] 221

Response 222

15. Why was the recommendation by [REDACTED] on 22 May 2019 [B2 p64] that the Gambling Commission's Compliance department conduct a follow up assessment in relation to BetIndex in 3 months not complied with/actioned? [ref B2 p189]

Response:

The Compliance team was fully aware of the recommendation. During this period of time (July 2019 to the end of the year), colleagues from our Licensing, Compliance and Legal teams together with our gambling product specialists were further reviewing the BetIndex product and engaging with the FCA in relation to the dual regulation aspects of the product.

We considered that the best course of action for consumers, given the FCAs agreement as to their regulatory remit, was to secure a dual regulatory position which would also provide the possibility of recourse to the Financial Services Compensation Scheme. In addition, we continued throughout to actively engage with the licensee to, inter alia, amend its customer messaging and website information, improve safer gambling controls and consider the protection of customer funds.

We therefore wanted to make progress on resolving these issues before we conducted an assessment so that the assessment could reflect the ultimate decision. Simultaneously, we kept the assessment decision under active review.

Additional notes:

N/A

No additional docs

Question 16: To what extent did the Gambling Commission take into account rulings by the ASA in

Page

Question 16: To what extent did the Gambling Commission take into account rulings by the ASA in considering the suitability of an operator to hold a licence (for example the ASA rulings in relation to BetIndex on 21 August and 18 September 2019)? 223

Response 224

16. To what extent did the Gambling Commission take into account rulings by the ASA in considering the suitability of an operator to hold a licence (for example the ASA rulings in relation to BetIndex on 21 August and 18 September 2019)?

Response:

There were 3 rulings in total from the ASA, none of which were notified to us directly:

- One ruling from 2018 (A18-436999).
- Two rulings from 2019 (A19-1023204 and A19-1020806)

The breaches of the advertising codes and the LCCP were included in our findings letter dated 1 April 2020 (see original bundle 3 page 162 to 163). These failings are being considered as part of the s116 review and are referenced in the s116 notice (Bundle 3 Page 441).

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 17: Please confirm to which meeting the Notes at [B3 pp81-82] relate.

Page

Question 17: Please confirm to which meeting the Notes at [B3 pp81-82] relate. 225

Response 226

17. Please confirm to which meeting the Notes at [B3 pp81-82] relate.

Response:

This was the meeting held between the Commission and FCA on 5 July 2019. The meeting was held to discuss the Football Index product and whether it (or elements of it) fell to the FCA to regulate. On 24 Sept, the FCA responded:

[REDACTED]

This matter is referenced in B1, p311.

If the question has not been answered or only partially answered please explain why:

NA

Additional notes:

NA

Question 18: To the extent of the Gambling Commission's knowledge, what was the rationale behind the BetIndex

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Question 18: To the extent of the Gambling Commission's knowledge, what was the rationale behind the BetIndex Deed of Trust dated 18 February 2020 (given that customer funds were already stated to be subject to a medium level of protection in 2015)? 227

Response 228

18. To the extent of the Gambling Commission's knowledge, what was the rationale behind the BetIndex Deed of Trust dated 18 February 2020 (given that customer funds were already stated to be subject to a medium level of protection in 2015)?

Response

A licensee must provide information to customers which tells them whether their money is protected in the event the business were to go into liquidation. The intention is these assists consumers in deciding who to gamble with and how much money to leave in their account.

There are three levels of protection:

1. not protected
2. medium protection - this can be achieved in a variety of ways, for example, by having insurance. However, it is **not absolutely guaranteed** that customers will get money back in the event of a licensee going into liquidation.
3. high protection - money is held in a separate account, legally recognised as separate from the company. The money is controlled by an independent trustee and is also checked by an external auditor.

The licensee must make it clear which level applies to customer funds in their terms and conditions. The position of this information within a terms and conditions webpage will vary from company to company. We don't approve the gambling business' assessment of the level of protection. However, we may check the accuracy of the rating they've chosen. Note also that licensees are legally allowed to hold customer funds money in overseas bank accounts.

The customer funds protection position has been subject to change. See for example the 2015 terms at original bundle 2, page 435, paragraph 4.1 and original bundle 2, page 295 paragraph 11.2, which describe funds as 'not protected'. During the course of compliance activity, it was noted the level was 'medium' and funds were held in a segregated account. On requesting a variety of financial information from the licensee they submitted a key event in February 2020 and emailed us to confirm that in addition to the fund's protection being 'medium' with funds being held in a segregated account, funds were also now subject to the Trust Deed. In relation to follow up questions in March 2020, the licensee stated, *'We maintain a constant level of coverage of at least 110% of total funds required to pay all cash balances.'*

Finally, for completeness we should set out that the shares were set out as a bet i.e., the customer had put their money at risk buying a share/bet on the basis they believed they would get more money back via dividends, an increased cash out value (increase in the share price) or combination of both. They are not therefore customer funds as set out by licence condition 4.

As with other operators, once a customer puts funds at risk those monies are removed from their wallet and become the Licensee's monies. In the period between the bet being placed and outcome being known our expectation is that the Licensee manages its cash flow such that it has sufficient monies to cover its cash out exposure and/or ability to pay out winning bets.

Under the proposition that share value represents monies put at risk they are no longer customer funds and as such would not fall within the trust deed. We would then have expected BI to manage its dividend exposure and exposure to the portfolio instant sell value. During the compliance assessment it appeared BI did manage its dividend exposure but did not have full cover for the portfolio instant sell value. During the assessment the protection of the share portfolio was

Additional question for BI independent review, July 2021

discussed with Commission Officials suggesting an insurance policy or an alternative would be prudent. We expect licensees to manage their exposure/liabilities in a responsible way – as per para 4.2 of our Statement of Principles which requires licensees to, amongst other things, ‘maintain adequate financial resources’.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 19: What consideration was given by the Gambling Commission to the Deed of Trust after it was

Page

Question 19: What consideration was given by the Gambling Commission to the Deed of Trust after it was provided on 12 March 2020, and in particular to the adequacy of the protection which it offered to consumers? [ref B3 p8] 230

Response 231

19. What consideration was given by the Gambling Commission to the Deed of Trust after it was provided on 12 March 2020, and in particular to the adequacy of the protection which it offered to consumers? [ref B3 p8]

Response:

The Deed of Trust was reviewed, and it was considered that the level of customer funds met our standard levels of customer protection at medium level. We also noted clause 2.2.1 in the Deed which stated:

'the claims of Customer are to be paid from the Client Bank Account Monies in priority to all other creditors'.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 20: What consideration was given within the Gambling Commission to the possibility, raised by

Page

Question 20: What consideration was given within the Gambling Commission to the possibility, raised by [REDACTED] in an email dated 16 March 2020, that Covid-19 might create a "bank-run"? [B3 p14] 232

Response 233

20. What consideration was given within the Gambling Commission to the possibility, raised by [REDACTED] in an email dated 16 March 2020, that Covid-19 might create a “bank-run”? [B3 p14]

Response:

From the point of [REDACTED] contacting the Commission to raise its concerns on the money flows and operation of BetIndex, we were committed to not undertaking actions which as an unintended consequence would exacerbate financial pressure on the business. This was an ongoing consideration which informed our decision making and links to our responses to your questions 22 and 26. We were equally aware the business could be similarly impacted by events outside of our, or its control. When Covid-19 materialised and the impacts to the Football season transpired this was fed into our ongoing suspension considerations as the emails at B3 P14 indicate.

In our assessment findings letter dated 1 April 2020 (sent by [REDACTED] and located at Bundle 3 p171) we asked the following question:

Considering the current situation with COVID-19 and the Football Association’s decision to suspend football league fixtures, what contingency plans are in place to ensure that BetIndex remains operational?

A response was received from Betindex on 14 April 2020 (see bundle 3 page 193 to 194) as follows:

BetIndex/FootballIndex remaining operational

In essence, we are treating the lockdown period as a longer “between season” period.

As we have no football related dividends we have increased the media dividend. There are still abundant media reports regarding transfers and we still see activity in our market on a reduced scale in comparison to an active footballing period.

We have instigated daily management meetings to review the market activity and the developing situation to manage operational risk. Bi-weekly management meetings keep a close check on operational costs. Minutes of these meetings are taken.

Customer fund contingencies are reviewed daily as per our normal processes and procedures. We hold funds in a segregated trust protected account and maintain a margin of 110% or greater at all times. This is reported to the Board and indeed signed off by BetIndex CEO on a daily basis.

Customer communications have increased with the business providing regular updates on market conditions as well as account updates, for example, updates on dividend payments.

The full response from BetIndex was reviewed by [REDACTED] and formed part of ongoing case. [REDACTED]

[REDACTED] Despite the ongoing Covid-19 situation, prior to the dividend change on 5 March there was nothing to indicate more active intervention was required to mitigate a customer run and our response to Q35 explains our assessment of the 110% margin.

Finally, it should also be noted that compliance assessments and financial reviews demonstrated that BI held sufficient funds to cover customers ewallets and reserves to fund future dividends. It was established during the compliance assessment that whilst Betindex did not hold sufficient monies to cover the value of the insta-sell value of the portfolio, the algorithm would enable a reduction in share value in the event of a mass customer sell off. The mechanism had the ability to reduce the share values to £nil, which would have the effect of reducing portfolios to nil and therefore there would be no value to the shares other than the future dividends generated during the remainder of its life which is reflective of the original bet the customer has entered into when they purchased the share/bet.

If the question has not been answered or only partially answered please explain why:

Additional question for BI independent review, July 2021

N/A

Additional notes:

N/A

Question 21: What steps were taken by the Gambling Commission to check BetIndex's assertion in its email

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Question 21: What steps were taken by the Gambling Commission to check BetIndex's assertion in its email dated 14 April 2020 that it maintained in relation to customer fund contingencies "a margin of 110% or greater at all times"? [B3 p194].	235
Response	236
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21. What steps were taken by the Gambling Commission to check BetIndex's assertion in its email dated 14 April 2020 that it maintained in relation to customer fund contingencies "a margin of 110% or greater at all times"? [B3 p194].

Response:

On the 7 February 2020 a licencing account manager wrote out to BetIndex and requested, amongst other things (**Document 28.1**):

- Copies of BetIndex's detailed financial statements for the last three years;
- Copies of BetIndex's management accounts (balance sheet and profit and loss account) since the last set of financial statements to 31 December 2019; and
- Copies of the bank statements for the accounts that hold monies that are used to fund the instant cash out requests.

We requested the management accounts for the year ended 31 December 2019 because we understood that BetIndex's financial year end was 31 December. As our request was made in February 2020, we anticipated that audited accounts for the year ended 31 December 2019 were unlikely to be available.

On the 11 February 2020 we received an email response from BetIndex's solicitors, Pinsent Masons LLP, which had attached documents including:

- BetIndex's annual report and unaudited financial statements for the year ended 31 December 2018 (**Document 21.1**)
- Management accounts for the year ended 31 December 2019 (**Documents 28.2 and 28.3**); and
- February 2020 bank statement for the "Player protection account (**Document 28.6**)".

BetIndex's annual report and unaudited financial statements for the year ended 31 December 2018 recorded:

- Cash as at 31 December 2018 of £9.2m and as at 31 December 2017 of £1.6m; and
- Other payables as at 31 December 2018 of £2.3m and as at 31 December 2017 of £1.1m.

For both year ends the cash balance was in excess of the other payables by more than 10% suggesting other payables were covered by cash by a margin of over 110%.

BetIndex's management accounts balance sheets as at 31 December 2019 recorded:

- A player protection account balance of £7.3m; and
- customer liabilities of £3.8m.

The above suggested the customer liabilities were covered by 192% which is more than 110%.

This comment was then repeated in BetIndex's email dated 14 April 2020. As it was consistent with previous comments, and the Commission had seen evidence that did not suggest the contrary, no further steps were taken at the time over than our continued work as part of our enforcement case.

On 19 March 2021, BetIndex provided the Commission with fourteen detailed cashflow statements for each of the fourteen months up to 28 February 2021 (in Excel format). Within each monthly cashflow statement was a tab entitled “player prot daily” which sets out the customer deposits against the balance in the player protection account. A sample has been included at **Document 21.2**, which is for the month of January 2020. It can be seen that the actual cover held during the month does not drop below 122% coverage. The balances in the February 2020 cashflow statement match the balances in the client bank account per the bank statements previously provided (**Document 28.6**) which provided comfort on the authenticity of the cashflow statements. Review of all the cashflow statements identified that the coverage does drop below 110% on four occasions – 99% on 22 April 2020, 107% to 109% 11 May 2020 to 16 May 2020, 47% 6 July 2020, 85% 21 December 2020. Apart from three times for a day and once for four days, the customer balances have had coverage of 110% or more supporting that the claim in the 14 April 2020 was not disingenuous.

See also response to question 28.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

21.1 BetIndex’s 2018 accounts

21.2 Player prot daily tab from Jan 20 detailed cashflow statement

BETINDEX LIMITED
ANNUAL REPORT AND UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

BETINDEX LIMITED

COMPANY INFORMATION

Directors

Neil Kelly (appointed 12/2/2018)

Adam Cole (resigned 1/11/2018)



Company number

119040

Registered office

Maxwell Chambers
35-39 La Colomberie
St. Helier
Jersey
Channel Islands
JE2 4QB

BETINDEX LIMITED

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Notes to the financial statements	5 - 7

BETINDEX LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their annual report and financial statements for the year ended 31 December 2017.


Principal activities

Betindex is a wholly owned subsidiary of Fame Ventures Ltd, a UK company that holds a UK Software Remote License. Betindex has licensed the use of this gaming software from Fame Ventures in order to operate its gambling website, Footballindex.

Betindex Limited holds a UK Remote Operator's license, a Jersey Gambling License and an Irish Bookmakers License in order to operate.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:


Adam Cole

(Resigned 1 November 2018)


Neil Kelly

(Appointed 12 February 2018)

Statement of directors' responsibilities


The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

select suitable accounting policies and then apply them consistently;
make judgements and accounting estimates that are reasonable and prudent;
prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the relevant Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board


Neil Kelly

Director

Date: 18/12/19

BETINDEX LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Year ended 31 December 2018 £	Period ended 31 December 2017 £
Revenue	20,422,338	4,844,725
Cost of sales	(4,617,212)	(1,393,936)
Gross profit	15,805,126	3,450,789
Administrative expenses	(8,551,060)	(3,199,112)
Profit/(loss) before taxation	7,254,066	(251,677)
Tax on profit/(loss)	-	-
Profit/(loss) for the financial year	7,254,066	(251,677)

BETINDEX LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018					
	Notes	2018 £	2018 £	2017 £	2017 £
Current assets					
Trade and other receivables	3	192,689		83,988	
Cash and cash equivalents		9,150,374		1,617,904	
				1,701,892	
Current liabilities	4	(2,363,365)		(1,976,374)	
Net current assets / (liabilities)			6,979,584		(274,482)
Equity					
Called up share capital	5		1		1
Retained earnings			6,979,583		(274,483)
Total equity			6,979,584		(274,482)

The financial statements were approved by the board of directors and authorised for issue on 12/12/19
and are signed on its behalf by:


Neil Kelly
Director

Company Registration No. 119040

BETINDEX LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Accounting policies

Company information

Betindex Limited is a private company limited by shares incorporated in Jersey. The registered office is Maxwell Chambers, 35-39 La Colomberie, St. Helier, Jersey, Channel Islands, JE2 4QB.

Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the relevant Companies Act. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in £, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

These financial statements for the year ended 31 December 2018 are the second financial statements of Betindex Limited prepared in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland. The date of transition to FRS 102 was 17 July 2015. The reported financial position and financial performance for the previous period are not affected by the transition to FRS 102.

Revenue

Revenue is recognised at the fair value of the consideration received or receivable in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from contracts for the provision of professional services is recognised by reference to the stage of completion when the stage of completion, costs incurred and costs to complete can be estimated reliably. The stage of completion is calculated by comparing costs incurred, mainly in relation to contractual hourly staff rates and materials, as a proportion of total costs. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that it is probable will be recovered.

Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1 Accounting policies

(Continued)

Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, other loans and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

Foreign exchange

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the income statement for the period.

Employees

The average monthly number of persons (including directors) employed by the company during the year was 2 (2017 - 2).

3	Trade and other receivables	2018	2017
	Amounts falling due within one year:	£	£
	Other receivables	192,689	83,988
4	Current liabilities	2018	2017
		£	£
	Trade payables	23,766	840,951
	Other payables	2,339,599	1,135,423
		2,363,365	1,976,374

Other Creditors includes shareholder funding totalling £389,864.00 (2016-£392,023). Funding has been received under loan agreement displaying the terms interest free, unsecured and repayable on demand.

5	Called up share capital	2018	2017
		£	£
	Ordinary share capital		
	Issued and fully paid		
	1 Ordinary of £1 each	1	1
		1	1

The ordinary share has a par value of £1.

		Year ended 31 December 2018		Period ended 31 December 2017
	£	£	£	£
Revenue				
Turnover		20,422,338		4,844,725
Cost of sales				
Cost of Sales	4,617,212		1,393,936	
		(4,617,212)		(1,393,936)
Gross profit		15,805,126		3,450,789
Administrative expenses				
Other Administration costs	289,538		30,276	
Fame Ventures service fees	2,031,395		978,506	
Player Verification fees	23,706		10,596	
UK & Jersey Gambling License fees	35,083		27,737	
Legal and professional fees	41,437		3,000	
Consultancy fees	80,503		11,859	
Administration fees	86,857		89,040	
Bank charges	6,726		2,549	
Payment processing fees	456,287		152,525	
Advertising	3,170,957		1,327,875	
Telecommunications	5,050		3,700	
Sundry expenses	-		-	
UK general betting duty	2,323,994		561,379	
Profit or loss on foreign exchange	65		70	
		(8,551,060)		(3,199,112)
Operating profit/(loss)		7,254,066		251,677

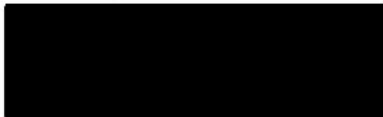
BETINDEX LIMITED
("the company")

We, the undersigned, being the directors of Betindex Limited, hereby resolve by Written Resolution:

THAT the financial statements of Betindex Limited for the year ended 31 December 2018 and the Directors report (the 'Accounts') be and are hereby approved and that the Accounts shall be signed on behalf of the Board by a director of BETINDEX LIMITED.

1. THAT the relevant company officer be authorised to send a copy of the Accounts to the members of BETINDEX LIMITED.

Dated this 18/12/19



NEIL KELLY

BETINDEX LIMITED
("the company")

We, the undersigned, being the Members of the Company, hereby resolve by written resolution:

That the directors report and financial statements of the Company for the period ended 31 December 2018 are hereby approved and accepted.

Date this: 18/12/19

By order of the Board



Director

Registered Office
Maxwell Chambers, 35-39 La Colomberie

Channel Islands, JE2 4QB
Company Registration No. 119040
Jersey

<u>Date</u>	<u>total customer deposits £'s</u>	<u>110% of TCD</u>	<u>Player protection account balance</u>	<u>Margin/(Shortfall) of 110% mark</u>	<u>Transfer required</u>	<u>Actual % cover held post transfer</u>
30-Dec-19	£4,006,393	£4,407,032	£6,678,398	£2,271,366	£0	167%
31-Dec-19	£3,812,757	£4,194,033	£7,340,208	£3,146,175	£0	193%
01-Jan-20	£3,820,381	£4,202,419	£7,340,208	£3,137,789	£0	192%
02-Jan-20	£3,932,532	£4,325,785	£7,610,309	£3,284,524	£0	194%
03-Jan-20	£4,003,737	£4,404,110	£8,078,971	£3,674,861	£3,000,000	127%
04-Jan-20	£3,998,660	£4,398,526	£8,078,971	£3,680,445	£0	202%
05-Jan-20	£4,003,382	£4,403,721	£8,078,971	£3,675,251	£0	202%
06-Jan-20	£4,133,471	£4,546,818	£5,368,637	£821,819	£0	130%
07-Jan-20	£4,172,719	£4,589,991	£5,926,193	£1,336,202	£0	142%
08-Jan-20	£4,229,531	£4,652,484	£6,143,615	£1,491,132	£0	145%
09-Jan-20	£4,150,118	£4,565,130	£6,157,749	£1,592,620	£0	148%
10-Jan-20	£4,319,828	£4,751,811	£6,157,749	£1,405,939	£0	143%
11-Jan-20	£4,275,882	£4,703,470	£6,157,749	£1,454,279	£0	144%
12-Jan-20	£4,286,410	£4,715,050	£6,157,749	£1,442,699	£0	144%
13-Jan-20	£4,356,526	£4,792,179	£6,157,749	£1,365,571	£0	141%
14-Jan-20	£4,331,253	£4,764,379	£6,157,749	£1,393,370	£0	142%
15-Jan-20	£4,364,886	£4,801,374	£6,535,659	£1,734,285	£0	150%
16-Jan-20	£4,435,143	£4,878,657	£6,680,952	£1,802,295	£0	151%
17-Jan-20	£4,426,480	£4,869,128	£6,755,668	£1,886,540	£0	153%
18-Jan-20	£4,523,848	£4,976,233	£6,755,668	£1,779,435	£0	149%
19-Jan-20	£4,520,651	£4,972,716	£6,755,668	£1,782,952	£0	149%
20-Jan-20	£4,677,633	£5,145,397	£6,929,746	£1,784,349	£0	148%
21-Jan-20	£4,735,131	£5,208,644	£7,037,032	£1,828,388	£0	149%
22-Jan-20	£4,610,061	£5,071,067	£7,529,687	£2,458,619	£0	163%
23-Jan-20	£4,700,610	£5,170,671	£7,529,687	£2,359,016	£0	160%
24-Jan-20	£4,708,246	£5,179,071	£7,529,687	£2,350,616	£0	160%
25-Jan-20	£4,705,640	£5,176,204	£7,529,687	£2,353,483	£0	160%
26-Jan-20	£4,694,327	£5,163,760	£7,529,687	£2,365,927	£0	160%
27-Jan-20	£4,710,311	£5,181,343	£7,529,687	£2,348,344	£0	160%
28-Jan-20	£5,084,443	£5,592,888	£7,529,687	£1,936,799	£0	148%
29-Jan-20	£5,581,837	£6,140,021	£7,569,600	£1,429,579	£0	136%
30-Jan-20	£4,837,974	£5,321,771	£7,569,600	£2,247,829	£1,500,000	125%
31-Jan-20	£4,982,981	£5,481,279	£6,069,600	£588,321	£0	122%

Question 22: Why did the Gambling Commission consider that it did not have grounds to suspend

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Question 22: Why did the Gambling Commission consider that it did not have grounds to suspend BetIndex's licence on 20 May 2020? [ref B1 p314]	252
Response	253

22. Why did the Gambling Commission consider that it did not have grounds to suspend BetIndex's licence on 20 May 2020? [ref B1 p314]

Response:

As previously set out, we had active consideration of BetIndex from 2019 coupled with agreement from the FCA that they had regulatory remit of the product. From the point of [REDACTED] approaching the Commission at the end of January 2020 to raise concerns about BetIndex, we increased the resource dedicated to this case, expanding the multi-disciplinary group which to monitor the activity and oversee the issues. From the outset it is fair to say that a predominant concern for the Commission was to ensure action taken did not have unintended consequences that could exacerbate what was undeniably a complex, inter-connected situation with customer funds and share portfolios at its centre. It is a known fact that suspension action does by its very nature have a very real negative financial impact to businesses and its customers. For this reason, any decision to suspend must be properly considered and finely balanced to ensure that it is used in situations where there is a very real need to suspend (such as where no other mitigations can be deemed sufficient to adequately protect consumers) and after we have properly considered actions short of suspension/revocation. This is standard protocol, and we believe is a fundamental part of us demonstrating necessity and proportionality in the execution of our somewhat limited powers.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 23: Please confirm what contemporaneous information, if any, was provided to the Gambling

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Question 23: Please confirm what contemporaneous information, if any, was provided to the Gambling Commission by BetIndex about its decision to increase dividends from around 9 July 2020 [ref B1 p338]. 255

Response 256

23. Please confirm what contemporaneous information, if any, was provided to the Gambling Commission by BetIndex about its decision to increase dividends from around 9 July 2020 [ref B1 p338].

Response:

No contemporaneous information was provided to The Commission in relation to the dividends increase from around 9 July 2020. Fluctuations in the product offering and business decisions by the licensee are part of the live enforcement case.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 24: Please confirm what contemporaneous information, if any, was provided to the Gambling

Page

Question 24: Please confirm what contemporaneous information, if any, was provided to the Gambling Commission by BetIndex about its decision in August 2020 to increase dividends from around 12 September 2020 [ref B1 p338] and/or the increase of dividends itself [B4 p138]. 257

Response 258

24. Please confirm what contemporaneous information, if any, was provided to the Gambling Commission by BetIndex about its decision in August 2020 to increase dividends from around 12 September 2020 [ref B1 p338] and/or the increase of dividends itself [B4 p138].

Response:

No contemporaneous information was provided to The Commission in relation to the decision of BetIndex in August 2020 to increase dividends increase from around 12 September 2020. Fluctuations in the product offering and business decisions by the licensee are part of the live enforcement case.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 25: What contemporaneous information, if any, was provided to the Gambling Commission by BetIndex

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Question 25: What contemporaneous information, if any, was provided to the Gambling Commission by BetIndex about the latter's decision in 2020 to suspend Instant Sell liquidity as a result of the lockdown of football and panic cashing out of bets? [ref B4 p59] 259

Response 260

25. What contemporaneous information, if any, was provided to the Gambling Commission by BetIndex about the latter's decision in 2020 to suspend Instant Sell liquidity as a result of the lockdown of football and panic cashing out of bets? [ref B4 p59]

Response:

No contemporaneous information was provided to the Commission about the BI decision to suspend Instant Sell Liquidity in 2020.

Fluctuations in the product offering and business decisions by the licensee are part of the live enforcement case.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 26: Why did the Gambling Commission consider that suspension of BetIndex’s licence was the

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Question 26: Why did the Gambling Commission consider that suspension of BetIndex’s licence was the only option for delivering the right regulatory outcome on 11 March 2021? [ref B1 p314] 261

Response 262

26. Why did the Gambling Commission consider that suspension of BetIndex's licence was the only option for delivering the right regulatory outcome on 11 March 2021? [ref B1 p314]

Response:

Further to the dividend change on 5 March (B1 P338) which prompted a period of significant engagement with the licensee, the rapidly worsening financial situation of the business steadily became apparent, which was exacerbated in part with the loss of customer confidence. Up until this point, the Commission had been mindful of the need to not unintentionally exacerbate financial pressure on the licensee that would destabilise the business and result in significant customer losses. A contributor to the destabilisation in relation to customer confidence was prompted by the licensee cutting dividends. In discussions with the licensee and its representatives, and upon receipt of its draft customer contact comms it became evident that self-suspension or Commission enforced suspension would result. Representatives of the licensee understood the Commission's concerns and the need to take action. [REDACTED]

[REDACTED] Until this point, [REDACTED] the licensee had been engaging with the Commission and there had been no reason to believe customers would be denied access to their funds. Upon learning that their self-suspension plan centred upon refusing customers access to their funds in wallets, the Commission felt it could not tolerate this approach and had no choice but to suspend. The licensee's interpretation of the Trust Deed, with no intention/offer to amend it (a fact we believed to be in their control) to us ran contrary to their stated 'medium protection' for customer funds as there should have been sufficient funds held to cover this scenario. Their inability/unwillingness to accept our regulatory position on this meant the decision was taken to suspend the operator.

In response to your question of whether this was the only option to deliver the right regulatory outcome, this is naturally a question of subjective exercise of judgment. The reality of the situation is that the Commission operates in a permissive regime. We have a duty to allow licensed gambling to occur, our licences when issued permit activities within the scope of that licence and the licence remains until it is either surrendered, suspended, ceases to have effect or is revoked. This is a limited toolkit and the particularity of this specific case demonstrates its constraints. When an operator is suspended, we dictate to them what they can, and cannot do, within the terms of that suspension. Our suspension permitted customer access to funds and the paying of balances, but we have no ability to compel an operator to do this. The actions and decisions of the licensee, whatever their independent legal advice may have been, led us to fundamentally question their suitability to hold a licence and question their activities under that licence which was the tipping point in reaching the decision that suspension was required. The concerns were so grave and the financial reality of the situation now so clear that the previous overriding risk in favour of not suspending was outweighed. Suspending the licence enabled us to exercise some control over what subsequent actions the licensee may take, particularly in relation to ideas mooted at the time with regard to reorganisation and distribution of the product offering and customer experience whilst progressing with the existing licence review.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

Additional question for BI independent review, July 2021

N/A

Question 27: How had any issues relating to dual regulation by the Gambling Commission and the FCA

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Question 27: How had any issues relating to dual regulation by the Gambling Commission and the FCA been resolved prior to May 2019? Had there been any previous instances of the regulation of a product and/or firm moving from one of those regulators to the other?	264
Response	265

27. How had any issues relating to dual regulation by the Gambling Commission and the FCA been resolved prior to May 2019? Had there been any previous instances of the regulation of a product and/or firm moving from one of those regulators to the other?

Response:

The best example is Binary Options. Following consultation, ministers resolved this issue in legislation and these products moved from our regulation to the FCA from 3 January 2018.

The policy rationale given for proposing the change in the consultation set out, in particular, the specific that binary options (described below) present similar risks to derivatives and classifying them as financial instruments would ensure that providers would be subject to specific regulatory requirements in relation to, inter alia, organisational and capital requirements and that the range of investor protection rules in MiFID would also apply. It would also mean that the specified binary options were brought within the scope of the market abuse regime.

Despite Binary Options meeting the statutory definition of betting, there was recognition that this was a product that required the additional controls afforded by financial regulation rather than gambling regulation. With gambling regulation predicated on mitigating the risk of what should be a discretionary leisure activity. Noting also the driver to ensure consistent European practice.

Binary Options to retail customers was subsequently prohibited altogether by the FCA in April 2019.

If the question has not been answered or only partially answered please explain why:

NA

Additional notes:

NA

Question 28: When did BetIndex advise that 20% of stakes were retained for coverage of future dividends? [B1

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Question 28: When did BetIndex advise that 20% of stakes were retained for coverage of future dividends? [B1 p332]. What steps did the Gambling Commission take to ensure that the information provided was correct? 266

Response 267

28.1 Letter from GC to BI 7 February 2020 - request for information 270

28.2 BetIndex Management Accounts Profit and Loss for ye 31 December 2019 272

28.3 BetIndex Management Accounts Balance Sheet for ye 31 December 2019 274

28.4 Term Deposit Account February 2020 275

28.5 BetIndex Main Account February 2020 277

28.6 Player Protection Account February 2020 280

28.7 Response to Request for information 11 February 2020 281

28. When did BetIndex advise that 20% of stakes were retained for coverage of future dividends? [B1 p332]. What steps did the Gambling Commission take to ensure that the information provided was correct?

Response:

On the 7 February 2020 a licencing account manager wrote out to BetIndex and requested, amongst other things:

- Copies of BetIndex's management accounts (balance sheet and profit and loss account) since the last set of financial statements to 31 December 2019;
- The current value of the instant price of all outstanding bets held by customers; and
- Copies of the bank statements for the accounts that hold monies that are used to fund the instant cash out requests.

The management accounts for the year ended 31 December 2019 were requested because Commission Officials understood that BetIndex's financial year ended was 31 December and as the request was being made in February 2020 audited accounts for the year ended 31 December 2019 were unlikely to be available.

On the 11 February 2020 we received an email response from BetIndex's solicitors, Pinsent Masons LLP, which included:

- A response to our request for information
- Management accounts for the year ended 31 December 2019;
- February 2020 bank statements for the "Term Deposit account";
- February 2020 bank statement for the "BetIndex Main account"; and
- February 2020 bank statement for the "Player protection account".

The response stated that as at 10 February 2020 the total instant sell value of all bets was £115m.

BetIndex's management accounts profit and loss account for the year ended 31 December 2019 records that during December 2019 the company incurred dividends totalling £1.3m.

BetIndex's management accounts balance sheets as at 31 December 2019 recorded:

- a total cash balance of £25.2m;
- current assets totalling £5.5m;
- current liabilities totalling £1.6m;
- customer liabilities of £3.8m;
- A reserve of £16.6m; and
- Net assets totalling £8.8m.

The total cash balance comprised the main bank account (£11.8m), the term deposit account (£5.0m), the player protection account (£7.3m) and four other bank accounts totalling £1.1m.

The bank statements provided for the three main bank accounts recorded the following balances totalling £24.7m, which were comparable to the amounts in the management accounts and did not raise any concerns about the authenticity of the management accounts:

- Main account – balance as at 31 Jan 20 was £13.6m;
- Term Deposit – balance as at 31 Dec 19 was £5.0m; and
- Player protection – balance as at 31 Jan 20 was £6.1m.

The bank balance in the main account and the term deposit account totalled £18.6m (£13.6m + £6.1m) which was over and above the reserve of £16.6m by £2m. The monies in the main account and term account of £18.6m covered 16% of the insta-sell value of the share portfolio.

The company had sufficient current assets of £5.5m to cover the current liabilities of £1.6m and there was surplus cash in the player protection account of £3.5m (£7.3m - £3.8m).

Based on the above it appeared that as at 31 December 2019, Betindex had surplus cash totalling £6.9m (£2m in main and term deposit account + £3.8m in player protection account + £1.1m in four other bank accounts) to fund working capital and the sell function on the platform.

During minutes 10.00 to 20.00 of the “Assessment recording 8 26-02-20” it was explained by representatives of BetIndex that the business held a “Capital Adequacy Reserve” (“CAR”). The CAR represented 17% of the market cost of capital value and had been set aside in the balance sheet and was covered by cash.

At minute 17.00 of the “Assessment recording 8 26-02-20” a slide is shown setting out that as at 31 December 2019:

- The CAR was £16.5m;
- The CAR plus surplus cash of £8.5m resulted in the business holding cash totalling £25m;
- The £25m of cash reflected 40 times cover of the December 2019 dividends paid (amortised by 2.5%).

The CAR of £16.5m and cash total referred to in the assessment of £25m tied up to the figures recorded in the management accounts and the 16% cover calculated from the information provided prior to the assessment, which when considering the timing difference of the information, was close to the 17% CAR set out in the presentation which provided comfort that BetIndex at the time was, to the extent of covering future dividends, managing its dividend liability.

Also, the dividends paid in December 2019 of £1.3m if linearly written down over the life of a bet (36 months and written down because not all the shares paying out the £1.3m have 36 months left to run some could have two years left, one year left or say six months left) gives an average monthly dividends payment of £0.5m. The CAR of £16.5m would cover 33 months of dividends and the cash position of £25m would cover 50 months of dividends. These ranges fall within the 40 times cover set out during the compliance assessment and to an extent supports that BetIndex was managing its dividend liability.

The above does not demonstrate that BetIndex retained 20% of stakes to cover future dividends. It appears that this has been conflated with comments around the business that from gross profits BetIndex deducts an estimated 20% for dividends and the balance is profits for BetIndex.

If the question has not been answered or only partially answered please explain why:

N/A

Additional question for BI independent review, July 2021

Additional notes:

- 28.1 Letter from GC to BI dated 7 Feb 2020 re request for information
- 28.2 BetIndex Management accounts Profit and loss account year ended 31 December 2019
- 28.3 BetIndex Management accounts Balance sheet as at 31 December 2019
- 28.4 Term deposit account (Feb 2020)
- 28.5 BetIndex Main account (Feb 2020)
- 28.6 Player protection account (Feb 2020)
- 28.7 Response to Request for Information 11.02.20

GAMBLING COMMISSION

██████████
BetIndex Limited,
Maxwell Chambers,
35-39 Colomberie,
ST HELIER,
JE2 4QB

07 February 2020

Dear ██████████,

Request for information

Operating Name: BetIndex Limited

Trading Name: footballIndex

Account ID: 43061

Type of licence: Remote General Betting Standard - Real Event – Category G2

I write to you in relation to the above licence and the “Football Index” product.

Based on the business plan and documents submitted to the Gambling Commission (“Commission”) in 2015 with BetIndex Limited’s (“BetIndex”) operating licence application and subsequent documents, the Commission understands that the Football Index product is based on a business model whereby:

- a) customers place three-year bets on particular footballer’s media and “on the pitch” performances and receive pay-outs there on. At the end of the three years the bet lapses and no further dividends are paid out; and
- b) During the three year bet period, customers can sell their bets to other customers (at which point the three year bet period is reset) or cash in the bet with BetIndex for a instant value which is lower than the anticipated sale price.

It has now come to the Commission’s attention that all revenue from an issued share is recognised as gross profit, after deducting the pay-outs.

As a result of the above, customers may have the belief that they hold a “portfolio” of bets that are valued at a certain level which is growing in value if the demand for the bet they hold on a footballer increases. Also, it suggests that the portfolio of bets has a minimum guaranteed value equal to the aggregate instant values of the bets at which BetIndex is willing to repurchase them.

It is also not clear how BetIndex can support the underlying value of the outstanding bets by way of instant cash out if all the bet price is recognised as gross profit (after deducting pay-outs).

Based on the above, the Commission has concerns that:

1. BetIndex has insufficient assets to support the value of all the outstanding bets which it guarantees to buy back and at marked down price; and
2. In the absence of the above, customers believe they have a portfolio of bets with a tangible value that can never be realised.



Victoria Square House
Victoria Square
Birmingham B2 4BP

T 0121 230 6666
F 0121 230 6720
www.gamblingcommission.gov.uk

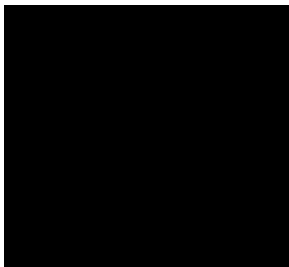
The Commission requires further information on the Football Index product before deciding on what next steps, if any, are required. Therefore, please can you provide the following:

- a. Copies of BetIndex's detailed financial statements for the last three years;
- b. Copies of BetIndex's management accounts (balance sheet and profit and loss account) since the last set of financial statements to 31 December 2019;
- c. The current total value of the instant price of all outstanding bets held by customers;
- d. An explanation of where BetIndex holds the monies that are used to fund the instant cash out requests;
- e. The value of cash held by BetIndex to fund the above cash outs with supportive evidence. i.e. copies of bank statements recording current balances;
- f. An explanation of what value a customer sees on their accounts for the value of their outstanding bets i.e. the balance of their portfolio;
- g. An explanation on how the above figure is calculated; and
- h. An explanation on how this balance changes on a daily basis as the supply and demand of the bets they hold on footballer changes.

Please provide this information to [REDACTED] [\[REDACTED\]@gamblingcommission.gov.uk](mailto:[REDACTED]@gamblingcommission.gov.uk) by **5pm Monday 10 February 2020**. If we do not hear from you by this date the Commission may commence a review of your operating licence.

If you have any questions, please email licensing@gamblingcommission.gov.uk

Yours sincerely



Profit and Loss
Betindex Ltd
For the month ended 31 December 2019

	Dec-19	YTD
Income		
Commission	£572,957.69	£5,926,024.76
Futures Bought	£33,594,899.00	£344,555,365.73
Futures Sold	-£28,669,400.00	-£297,530,605.45
Total Income	£5,498,456.69	£52,950,785.04
Less Cost of Sales		
Bonus	£587,151.00	£4,811,707.00
Discetionary payments to players	£0.00	-£10,771.90
Dividend	£1,038,331.00	£7,852,254.45
Total Cost of Sales	£1,625,482.00	£12,653,189.55
Gross Profit	£3,872,974.69	£40,297,595.49
Plus Other Income		
Total Other Income	£1,719.44	£7,763.30
Less Operating Expenses		
a. Marketing Costs		
ATL Advertising	£0.00	£43,293.29
BBJ & K	£830,000.26	£4,392,622.69
Content	£2,348.27	£80,554.62
Digital Marketing	£200,947.12	£2,471,030.56
Marketing Partnerships	£64,166.66	£827,958.42
Other Marketing	£124,924.62	£1,201,483.94
Total a. Marketing Costs	£1,222,386.93	£9,016,943.52
b. Management Costs		
Wages and Salaries	£8,550.29	£75,999.67
Total b. Management Costs	£11,737.22	£111,273.52
c. Operations Costs		
Bank Fees	£2,156.36	£25,934.92
Fame Ventures Support fees	£422,297.00	£4,507,320.00
Gambling Commission Jersey Fees	£0.00	£100,000.00
Gambling Commission UK Fees	£0.00	£8,861.65
Gamestop Fee	£0.00	£41,635.00
General Expenses	£0.00	£2,185.11
HMRC Gaming Duty	£581,020.00	£6,075,993.98
Insurance	£0.00	£387.50
KYC Client Checks	£57,783.46	£230,125.71
PSP Fees - Secure Trade	£123,863.31	£1,446,210.88
SMP Fees	£0.00	£8,172.00
Total c. Operations Costs	£1,187,120.13	£12,446,826.75
f. Property Costs		
Total f. Property Costs	£10,281.35	£34,262.77

g. IT Costs		
Total g. IT Costs	£12,781.32	£250,558.04
i. Professional Fees		
Total i. Professional Fees	£70,168.50	£706,738.91
Total Operating Expenses	£2,514,475.45	£22,566,603.51
Operating Profit	£1,360,218.68	£17,738,755.28
		<i>£17,738,755.28</i>
Non-operating Income		
Total Non-operating Income	-£9.34	£249.78
Reserve	£1,127,069.87	£11,467,810.37
Net Profit	£233,158.15	£6,270,695.13

	Dec-19	YTD
Marketing agreement	£7,500	£90,000
Customer Support	£7,500	£90,000
Software fixed	£20,000	£240,000
Software variable	£387,297	£4,087,320
Totals	£422,297	£4,507,319

Balance Sheet
Betindex Ltd
As at 31 December 2019

31 Dec 2019

Assets

Bank

Bet Index NED Main 7290	£11,847,463.02
DR Card - Neil Kelly	£20,000.00
Focus MM GBP 78027291	£24,553.10
MM Term deposit Acc	£5,006,467.52
Ops Debit Card - A Cole	£8,000.00
Player Protection 9190	£7,340,208.39
Secure Trade	£975,572.35
Total Bank	£25,222,264.38

Current Assets

BBJ&K Prepayment	£1,268,068.75
Other prepayments	£2,675,200.68
Prepayment - Fulham Sponsorship	£125,000.00
Prepayment - Nottingham Forest Sponsorship	£309,166.70
Prepayment: Jersey rent	£2,600.00
Secure deposits timing diffs	£1,072,988.00
Total Current Assets	£5,453,024.13

Total Assets	£30,675,288.51
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Liabilities

Current Liabilities

Accounts Payable	£650,170.79
Accruals	£988,317.47
Customer Balance Liability	£3,812,757.29
Fame Ventures - Intercompany Account	-£2,077.30
Sales Tax	-£912.31
Total Current Liabilities	£5,448,255.94

Reserve	£16,552,464.29
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Total Liabilities	£22,000,720.23
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Net Assets	£8,674,568.28
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Equity

Current Year Earnings	£6,270,695.13
Owner A Share Capital	£1.00
Retained Earnings	£2,403,872.15
Total Equity	£8,674,568.28

STATEMENT OF BANK ACCOUNT

11 FEBRUARY 2020



BetIndex Limited
Maxwell Chambers
35-39 La Coolomberie
ST HELIER
JE2 4QB

Account Number 78027203
IBAN IBAN-GB39-RFLC-1657-0778-0272-03
Sort Code 16-57-07
Currency Sterling
Account Type Focus Term Deposit
Statement Page Interim

BetIndex Limited - Operational Account

The Interest Rate (AER) on this account as at 11-Feb-2020 was 0.370000%

Date	Narrative	Debit	Credit	Balance
17/06/2019	BROUGHT FORWARD			0.00
18/06/2019	MM TERM DEPOSIT ACC 78027290 TRADE 67014		5,000,000.00	5,000,000.00
18/07/2019	INTEREST TRADE 67014		1,643.84	5,001,643.84
18/07/2019	MM MATURED TERM DEPOSIT REPAYMENT OF TRADE 67014	-5,001,643.84		0.00
30/07/2019	MM TERM DEPOSIT ACC 78027290 TRADE 67530		5,000,000.00	5,000,000.00
30/08/2019	INTEREST TRADE 67530		1,613.70	5,001,613.70
30/08/2019	ROLLED OVER MM TERM DEPOSIT FROM TRADE 67530 TO TRADE 67912	-5,001,613.70		0.00
30/08/2019	ROLLED OVER MM TERM DEPOSIT FROM TRADE 67530 TO TRADE 67912		5,001,613.70	5,001,613.70
30/09/2019	INTEREST TRADE 67912		1,571.74	5,003,185.44
30/09/2019	ROLLED OVER MM TERM DEPOSIT FROM TRADE 67912 TO TRADE 68296	-5,003,185.44		0.00
30/09/2019	ROLLED OVER MM TERM DEPOSIT FROM TRADE 67912 TO TRADE 68296		5,003,185.44	5,003,185.44
30/10/2019	INTEREST TRADE 68296		1,562.64	5,004,748.08
30/10/2019	ROLLED OVER MM TERM DEPOSIT FROM TRADE 68296 TO TRADE 68619	-5,004,748.08		0.00
30/10/2019	ROLLED OVER MM TERM DEPOSIT FROM TRADE 68296 TO TRADE 68619		5,004,748.08	5,004,748.08
02/12/2019	INTEREST TRADE 68619		1,719.44	5,006,467.52
02/12/2019	ROLLED OVER MM TERM DEPOSIT FROM TRADE 68619 TO TRADE 68974	-5,006,467.52		0.00
02/12/2019	ROLLED OVER MM TERM DEPOSIT FROM TRADE 68619 TO TRADE 68974		5,006,467.52	5,006,467.52
02/01/2020	INTEREST TRADE 68974		1,573.27	5,008,040.79
02/01/2020	ROLLED OVER MM TERM DEPOSIT FROM TRADE 68974 TO TRADE 69293	-5,008,040.79		0.00
02/01/2020	ROLLED OVER MM TERM DEPOSIT FROM TRADE 68974 TO TRADE 69293		5,008,040.79	5,008,040.79
03/02/2020	INTEREST TRADE 69293		1,624.53	5,009,665.32

STATEMENT OF BANK ACCOUNT
11 FEBRUARY 2020



Account Number 78027203
IBAN IBAN-GB39-RFLC-1657-0778-0272-03
Sort Code 16-57-07
Currency Sterling
Account Type Focus Term Deposit
Statement Page Interim

BetIndex Limited - Operational Account

The Interest Rate (AER) on this account as at 11-Feb-2020 was 0.370000%

Date	Narrative	Debit	Credit	Balance
03/02/2020	ROLLED OVER MM TERM DEPOSIT FROM TRADE 69293 TO TRADE 69601	-5,009,665.32		0.00
03/02/2020	ROLLED OVER MM TERM DEPOSIT FROM TRADE 69293 TO TRADE 69601		5,009,665.32	5,009,665.32
Total		-35,035,364.69	40,045,030.01	

STATEMENT OF BANK ACCOUNT

10 FEBRUARY 2020



BetIndex Limited
Maxwell Chambers
35-39 La Coolomberie
ST HELIER
JE2 4QB

Account Number 78027290
IBAN IBAN-GB18-RFLC-1657-0778-0272-90
Sort Code 16-57-07
Currency Sterling
Account Type Focus Account
Statement Page Interim

BetIndex Limited - Operational Account

The Interest Rate (AER) on this account as at 10-Feb-2020 was 0.000000%

Date	Narrative	Debit	Credit	Balance
31/01/2020	BROUGHT FORWARD			13,561,343.36
03/02/2020	PAYMENT TO REF 475007 KOALA KOALA 2042	-650.00		13,560,693.36
03/02/2020	PAYMENT CHARGE REF 475007 KOALA KOALA 2042	-25.00		13,560,668.36
03/02/2020	FOREIGN EXCHANGE TO 1178027290 AT .861453	-2,891.47		13,557,776.89
03/02/2020	PAYMENT CHARGE REF 474868 MELCHERS	-25.00		13,557,751.89
03/02/2020	PAYMENT TO REF 475232 FACEBOOK IRELAND FACEBOOK	-117,499.24		13,440,252.65
03/02/2020	PAYMENT CHARGE REF 475232 FACEBOOK IRELAND FACEBOOK	-25.00		13,440,227.65
03/02/2020	PAYMENT TO REF 475223 METRO BANK NEDSTART 220	-6,000.00		13,434,227.65
03/02/2020	PAYMENT CHARGE REF 475223 METRO BANK NEDSTART 220	-25.00		13,434,202.65
03/02/2020	PAYMENT TO REF 475226 KOALA KOALA 2045	-2,620.00		13,431,582.65
03/02/2020	PAYMENT CHARGE REF 475226 KOALA KOALA 2045	-25.00		13,431,557.65
03/02/2020	FOREIGN EXCHANGE TO 2278027290 AT 1.279688	-6,095.24		13,425,462.41
03/02/2020	PAYMENT CHARGE REF 475234 LOOKER DATA SCIENCES LOOKER DATA	-25.00		13,425,437.41
03/02/2020	FOREIGN EXCHANGE TO 2278027290 AT 1.279688	-3,868.13		13,421,569.28
03/02/2020	PAYMENT CHARGE REF 475235 LOOKER DATA SCIENCES LOOKER DATA	-25.00		13,421,544.28
03/02/2020	PAYMENT TO REF 475222 [REDACTED]	-115.00		13,421,429.28
03/02/2020	PAYMENT CHARGE REF 475222 [REDACTED]	-25.00		13,421,404.28
04/02/2020	PAYMENT TO REF 474894 [REDACTED]	-59.63		13,421,344.65
04/02/2020	PAYMENT TO REF 474899 [REDACTED]	-96.27		13,421,248.38
04/02/2020	PAYMENT TO REF 474896 [REDACTED]	-187.42		13,421,060.96
04/02/2020	PAYMENT TO REF 475507 SOCIALAMP LIMITED SOCIALAMP 224	-9,386.18		13,411,674.78

STATEMENT OF BANK ACCOUNT

10 FEBRUARY 2020



Account Number 78027290
 IBAN IBAN-GB18-RFLC-1657-0778-0272-90
 Sort Code 16-57-07
 Currency Sterling
 Account Type Focus Account
 Statement Page Interim

BetIndex Limited - Operational Account

The Interest Rate (AER) on this account as at 10-Feb-2020 was 0.000000%

Date	Narrative	Debit	Credit	Balance
04/02/2020	PAYMENT CHARGE REF 475507 SOCIALAMP LIMITED SOCIALAMP 224	-25.00		13,411,649.78
04/02/2020	PAYMENT TO REF 475509 JERSEY TELECOMS JT DEC AND JAN	-1,043.42		13,410,606.36
04/02/2020	PAYMENT CHARGE REF 475509 JERSEY TELECOMS JT DEC AND JAN	-25.00		13,410,581.36
04/02/2020	FOREIGN EXCHANGE TO 2278027290 AT 1.266525	-682.18		13,409,899.18
04/02/2020	PAYMENT CHARGE REF 475498 TAPTICA	-25.00		13,409,874.18
04/02/2020	PAYMENT TO REF 475599 [REDACTED]	-264.73		13,409,609.45
04/02/2020	PAYMENT CHARGE REF 475599 [REDACTED]	-25.00		13,409,584.45
05/02/2020	PAYMENT TO REF 475248 MR B [REDACTED]	-35.30		13,409,549.15
05/02/2020	PAYMENT TO REF 475870 ALL SPORTS TA TWENTY3 ALLSPORTS	-2,000.00		13,407,549.15
05/02/2020	PAYMENT CHARGE REF 475870 ALL SPORTS TA TWENTY3 ALLSPORTS	-25.00		13,407,524.15
05/02/2020	TRANSFER FROM REF 70965 BANK OF VALLET RET OF FUNDS		4,959.02	13,412,483.17
06/02/2020	PAYMENT TO REF 475577 [REDACTED]	-14.10		13,412,469.07
06/02/2020	PAYMENT CHARGE REF 475577 [REDACTED]	-5.00		13,412,464.07
06/02/2020	PAYMENT TO REF 475578 [REDACTED]	-290.00		13,412,174.07
06/02/2020	PAYMENT CHARGE REF 475578 [REDACTED]	-5.00		13,412,169.07
06/02/2020	DIRECT DEBIT C9KA73B WYSCOUT SPA	-348.00		13,411,821.07
07/02/2020	PAYMENT TO REF 476154 METRO BANK NEDSTART JAN	-22,681.74		13,389,139.33
07/02/2020	PAYMENT CHARGE REF 476154 METRO BANK NEDSTART JAN	-25.00		13,389,114.33
07/02/2020	PAYMENT TO REF 476159 [REDACTED]	-50.00		13,389,064.33
07/02/2020	PAYMENT CHARGE REF 476159 [REDACTED]	-25.00		13,389,039.33
07/02/2020	PAYMENT TO REF 476157 [REDACTED]	-400.00		13,388,639.33

STATEMENT OF BANK ACCOUNT
10 FEBRUARY 2020



Account Number 78027290
IBAN IBAN-GB18-RFLC-1657-0778-0272-90
Sort Code 16-57-07
Currency Sterling
Account Type Focus Account
Statement Page Interim

BetIndex Limited - Operational Account

The Interest Rate (AER) on this account as at 10-Feb-2020 was 0.000000%

Date	Narrative	Debit	Credit	Balance
07/02/2020	PAYMENT CHARGE REF 476157 [REDACTED]	-25.00		13,388,614.33
07/02/2020	PAYMENT TO REF 476158 [REDACTED]	-39.15		13,388,575.18
07/02/2020	PAYMENT CHARGE REF 476158 [REDACTED]	-25.00		13,388,550.18
07/02/2020	PAYMENT TO REF 476334 SECURE TRADING SECURE TOP UP	-550,000.00		12,838,550.18
07/02/2020	PAYMENT CHARGE REF 476334 SECURE TRADING SECURE TOP UP	-25.00		12,838,525.18
Total		-727,777.20	4,959.02	

STATEMENT OF BANK ACCOUNT

10 FEBRUARY 2020



BetIndex Limited
Maxwell Chambers
35-39 La Coolomberie
ST HELIER
JE2 4QB

Account Number 78039190
IBAN IBAN-GB79-RFLC-1657-0778-0391-90
Sort Code 16-57-07
Currency Sterling
Account Type Focus Account
Statement Page Interim

BetIndex Limited - Player Protection

The Interest Rate (AER) on this account as at 10-Feb-2020 was 0.000000%

Date	Narrative	Debit	Credit	Balance
31/01/2020	BROUGHT FORWARD			6,069,599.75
04/02/2020	TRANSFER FROM REF 70620 SECURETRADING 00444882648 20200203 00006801 C S		276,368.44	6,345,968.19
04/02/2020	TRANSFER FROM REF 70649 STFS MERCHANT 00444438266 20200203 00006801 C S 00444		55,391.76	6,401,359.95
04/02/2020	TRANSFER FROM REF 70648 STFS MERCHANT 00444662530 20200203 00006801 C S 00444		229,668.02	6,631,027.97
05/02/2020	TRANSFER FROM REF 71029 SECURETRADING 00445002783 20200204 00006801 C S		757,158.27	7,388,186.24
06/02/2020	TRANSFER FROM REF 71405 STFS MERCHANT 00445170986 20200205 00006801 C S 00445		23,876.59	7,412,062.83
			1,342,463.08	

Response to Request for Information 11.02.20

a. Copies of BetIndex's detailed financial statements for the last three years;

Please see documents supplied:

- BetIndex 2017 accounts
- BetIndex 2018 accounts

b. Copies of BetIndex's management accounts (balance sheet and profit and loss account) since the last set of financial statements to 31 December 2019;

Please see documents supplied:

- BetIndex 2019 management accounts

c. The current total value of the instant price of all outstanding bets held by customers;

As of 10 February 2020 at 2359hrs, the total 'Instant sell value' of all bets was £115m.

However, this should be treated as a theoretical total amount. This amount is not redeemable for all customers.

Furthermore the 'Instant sell value' changes as the Football Index market operates. For example, in the course of shares being sold, the price of a share in a footballer diminishes inversely to the original price increase, that resulted in that price. Additionally, the spreads may widen, reducing the 'Instant sell value'. The variation in the 'Instant sell value' is explained in our client's game rules.

d. An explanation of where BetIndex holds the monies that are used to fund the instant cash out requests;

BetIndex's cash used to fund the 'Instant sell' by customers is held in its main bank accounts.

BetIndex manages its cash position and risk position on an ongoing basis and maintains adequate resources to meet its obligations.

Our client's approach has been guided by the following Commission advice:

<https://www.gamblingcommission.gov.uk/PDF/Customer-funds-segregation-and-disclosure-to-customers.pdf>

*2.4 There are a number of situations where customers may have an entitlement to funds, but where the operator need not meet the requirements of licence conditions 4.1.1 and 4.2.1 because the funds are not 'held to the credit of customers'. Examples of these situations where monies are **not** considered customer funds are:*

- *A betting slip held by a customer which may be redeemed at a later date*

e. The value of cash held by BetIndex to fund the above cash outs with supportive evidence. i.e. copies of bank statements recording current balances;

Please see documents attached:

- BetIndex Main account – Feb 2020
- Term deposit account – Feb 2020
- Player protection account – Feb 2020

Response to Request for Information 11.02.20

f. An explanation of what value a customer sees on their accounts for the value of their outstanding bets i.e. the balance of their portfolio;

The data labelled 'Value' in the header of a customer portfolio logged in to <https://www.footballindex.co.uk/portfolio> (marked in an orange box in Screenshot 1 below), displays the total value of a customer's portfolio based on the total number of shares held by the customer in different footballers. This value reflects the number of shares held by the customer in each individual footballer multiplied by the price of buying a share in that footballer (the 'Buy Price').

The total 'Value' for shares held in any individual footballer held is also itemised in the 'Value' column of a portfolio, quoting the 'Buy Price' of one share on the top line, and that price multiplied by all shares of that footballer that the customer holds on the bottom line (marked in the purple box in the Screenshot 1 below).

Football Index uses this metric to display the value of the customer's portfolio on the basis that customers can receive the 'Buy Price' (less 2% commission) when their shares are bought by another customer via the 'sell queue'.

The screen also displays the 'Instant sell price' transparently (in the pink highlighted boxes on in screenshot 1 below) to customers in case they wish to cash in on their shares. However, general feedback from customers is that 'Instant Sell' is seen and understood to be a less profitable trading strategy due to the cost of a quick sale.

Screenshot 1

	Shares	Dividends	Cost	Value	P/L	Last Purchased
63 Alexander Isak	1	£0.03	£1.74 £1.74	£2.47 £2.47	£0.73 £0.73	£2.35 £2.47 SELL BUY
267 Hakan Çalhanoğlu	1	£0.02	£1.22 £1.22	£1.38 £1.38	£0.16 £0.16	£1.31 £1.38 SELL BUY
3235 Abdullah Al-Muwallid	1	£0.00	£0.07 £0.07	£0.09 £0.09	£0.02 £0.02	£0.07 £0.09 SELL BUY
3017 Shaquell Moore	4	£0.00	£0.20 £0.80	£0.13 £0.52	£-0.07 £-0.28	£0.11 £0.13 SELL BUY
18 Mason Greenwood	1	£0.08	£2.62 £2.62	£4.33 £4.33	£1.71 £1.71	£4.20 £4.33 SELL BUY
127 Naby Keita	1	£0.10	£1.04 £1.04	£1.93 £1.93	£0.89 £0.89	£1.83 £1.93 SELL BUY
3304 Aleksandar Jovacic	1200	£0.00	£0.07 £84.00	£0.08 £96.00	£0.01 £12.00	£0.06 £0.08 SELL BUY
3243 Armando Cooper	3	£0.00	£0.07 £0.21	£0.08 £0.24	£0.01 £0.03	£0.06 £0.08 SELL BUY
2442 Jose Luis Rodriguez	3	£0.00	£0.23 £0.69	£0.21 £0.63	£-0.02 £-0.06	£0.18 £0.21 SELL BUY
8 Harry Kane	306	£891.74	£2.31 £706.86	£5.52 £1,689.12	£3.21 £982.26	£5.35 £5.52 SELL BUY

Portfolio		
£7,631.76		
24 Hours	0.53%	£39.75
7 Day	0.00%	£0.74
Current	184.51%	£4,949.29
All Time Position	754.63%	£8,912.23
Dividends		
£2,631.79		
Balance		
£1,801.47		
Deposit now Withdraw funds		
Totals		
Cost	£2,682.47	
Value	£7,631.76	
Profit/Loss	£4,949.29	

Response to Request for Information 11.02.20

When a customer attempts to sell their shares, they are presented with two options: (i) the opportunity to sell to other customers by adding a Sell Order to the 'sell queue'; and (ii) to 'Instant Sell'.

The dynamics of each type of transaction are clearly communicated to the customer at the point of selling a share, as displayed in Screenshots 2 and 3 below.

Screenshot 2

This screenshot shows the 'Sell' modal for Kylian Mbappé shares on the Football Index website. The modal is titled 'Sell Kylian Mbappé' and displays the following information:

- Balance available: £1,801.47
- Balance remaining: £1,841.07
- Owned shares: 6

The modal includes a 'Price (£)' field set to 6.87 and an 'Instant Sell Price (£)' field set to 6.60. A 'Shares' input field is set to 6. Below these fields are two buttons: 'Add Sell Order' (highlighted in red) and 'Instant Sell'.

A warning message with a question mark icon states: 'Adding a Sell Order is a request to cash out your bet early. We offer this if another trader buys your bet. We can't guarantee a price. The instant Sell will let you sell your shares instantly with the sell price published at which you may cash out your Bet. We take a 2% commission fee from each completed sale transaction.'

The background shows a list of football players and their share prices, with Kylian Mbappé's share price highlighted as 6.87.

Screenshot 3

This screenshot shows the 'Sell' modal for Kylian Mbappé shares on the Football Index website, similar to Screenshot 2, but with different button options. The modal is titled 'Sell Kylian Mbappé' and displays the following information:

- Balance available: £1,801.47
- Balance remaining: £1,841.07
- Owned shares: 6

The modal includes a 'Price (£)' field set to 6.87 and an 'Instant Sell Price (£)' field set to 6.60. A 'Shares' input field is set to 6. Below these fields are two buttons: 'Confirm Sell Order' (highlighted in red) and 'Set Reserve Price'.

A warning message with a question mark icon states: 'Adding a Sell Order is a request to cash out your bet early. This happens when another trader buys your bet.'

The background shows a list of football players and their share prices, with Kylian Mbappé's share price highlighted as 6.87.

Response to Request for Information 11.02.20

g. An explanation on how the above figure is calculated; and

This is covered above in 'f.'

h. An explanation on how this balance changes on a daily basis as the supply and demand of the bets they hold on footballer changes.

It should be noted that the value of the balance of a customer's portfolio changes each day as the 'Buy Prices' for the shares in the footballers the customer holds shares in changes.

Specifically, the 'Buy Price' of a share in a given footballer increases when there is an indication of surplus demand (more shares being bought, or removed from the 'sell queue'), and decreases where there is an indication of surplus supply (more shares are listed for sale in the Sell Queue, or sold back to Football Index via Instant Sell). The rate of change per share is dynamic according to the price of a footballer and market conditions.

The 'Instant Sell price' of a footballer is calculated based on spread below the 'Buy Price'. As reflected in the game rules, the spread from the Buy Price may be increased to reduce the 'Instant Sell price' or the 'Instant Sell' option may be withdrawn.

'Buy Prices' and 'Instant Sell prices' of each footballer are calculated by our client's system and displayed to customers without the need to refresh a screen. Portfolio Value is automatically calculated when a customer loads their portfolio and is refreshed by the customer to update for the fluctuating value of the customer's portfolio as 'Buy Prices' of a share in each footballer change.

Question 29: What assessments of BetIndex, if any, did the Gambling Commission carry out by way of active

Page

Question 29: What assessments of BetIndex, if any, did the Gambling Commission carry out by way of active regulatory oversight prior to May 2019? [ref B1 p332] 285

Response 286

29. What assessments of BetIndex, if any, did the Gambling Commission carry out by way of active regulatory oversight prior to May 2019? [ref B1 p332]

Response:

From the point of licensing BetIndex in September 2015, we conducted the following compliance activity up to May 2019:

- May 2016 - we reviewed and assessed the Betindex Information security audit
- March 2017- we reviewed and assessed the Betindex information security audit review
- April 2018 - we reviewed and assessed the BetIndex Information security audit review
- January 2019 (24/1/2019) Key Event 1-162235881 - Betindex submitted a key event advising that they had 4218 accounts which had not been age verified and these accounts had been immediately suspended. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] Betindex submitted an action plan setting out how they planned to address the identified failings. [REDACTED]
[REDACTED] (see our response to Question 11).
- March 2019 (01/03/2019) Key Event 1-165377311 - Betindex submitted a key event advising that they had identified 5 active accounts for underage players. These had subsequently been closed and customers refunded. Compliance investigated the circumstances and concluded that Betindex had followed the age verification process then in force.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 30: Please confirm whether the ‘BetIndex Chronology’ referred to at [B1 p340] is the same as the

Page

Question 30: Please confirm whether the ‘BetIndex Chronology’ referred to at [B1 p340] is the same as the Timeline at [B1 pp320-322]. 287

Response 288

30. Please confirm whether the 'BetIndex Chronology' referred to at [B1 p340] is the same as the Timeline at [B1 pp320-322].

Response:

The BetIndex Chronology at p.340 is a title page to indicate this is where the chronology section starts. The page was added to distinguish the section from the Regulatory Framework and Briefing to Ministers which preceded it in the bundle. The Chronology starts with the application form at page 341 and continues through bundles 2,3 and 4.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 31: Bundle 2 Tabs 15 and 16 appear to contain the same email chain. Should one of these tabs contain a

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Question 31: Bundle 2 Tabs 15 and 16 appear to contain the same email chain.
Should one of these tabs contain a different document?

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Response

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31. Bundle 2 Tabs 15 and 16 appear to contain the same email chain. Should one of these tabs contain a different document?

Response:

We can confirm that there has been a duplication of tabs 15 and 16. Both tabs refer to internal specialist advice.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 32: What was the document referred to as ‘BetIndex Structure’ (Appendix 18.1 to the BetIndex

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Question 32: What was the document referred to as ‘BetIndex Structure’ (Appendix 18.1 to the BetIndex Response to the Gambling Commission dated 14 April 2020) [ref at B3 p195] entitled in the original licence application in 2015? Is this the document provided at [B3 pp223-224]? 291

Response 292

32. What was the document referred to as 'BetIndex Structure' (Appendix 18.1 to the BetIndex Response to the Gambling Commission dated 14 April 2020) [ref at B3 p195] entitled in the original licence application in 2015? Is this the document provided at [B3 pp223-224]?

Response:

Yes, it is the same document.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 33: What is the document at [B3 p226-228]?

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Question 33: What is the document at [B3 p226-228]?

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Response

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33. What is the document at [B3 p226-228]?

Response:

This document is a business plan and relates to the original licence application under the name 'FameIndex'. BetIndex referenced this document as evidence that they shared information with the Commission at an early point in the application process. However, the model described within the 'FameIndex' document differed considerably from the eventual model offered by BetIndex which, as we know, included the buying and selling of shares.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 34: What was the settlement with the [REDACTED] [REDACTED] notified as a Key Event in

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Question 34: What was the settlement with the [REDACTED]
notified as a Key Event in November 21019 referred to in the BetIndex Report at
[B3 p280]?

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Response

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34. What was the settlement with the [REDACTED] notified as a Key Event in November 21019 referred to in the BetIndex Report at [B3 p280]?

Response:

As part of ordinary event reporting to the Commission (LCCP 15.2.1(14)) a licensee must report:

The commencement (in whatever jurisdiction) of any material litigation against the licensee or, where the licensee is a body corporate, a group company: the licensee must also notify the outcome of such litigation.

The licensee submitted the following related key event ref. 1-185051161 on 26/11/2019.

We wish to notify you of an investigation which Bet Index was recently subject to, by [REDACTED] [REDACTED] The investigation took place as a result of three operational issues of which you were notified about earlier this year. This investigation is now closed and did not result in enforcement action being taken against the company. A voluntary contribution was made to the [REDACTED] Social Responsibility Fund to reinforce the company's commitment to driving Responsible Gambling. We would like to take this opportunity to assure you that the issues we identified and self-reported, have been fully addressed and appropriate controls have been put in place in an effort to prevent any reoccurrence. We apologise for the delay in reporting the matter of the investigation itself. As we made you aware of the individual issues at the time, we felt we had discharged our obligations fully. However, following the completion of the investigation and further review of the matter, it has been agreed that we are required to notify you of our interaction with th [REDACTED]

Should you have any queries, please do not hesitate to contact us.

As you can see from the report, we were already aware of the events via our key event process. See also our response to question 29.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 35: When and on what basis did the Gambling Commission determine that the BetIndex business model

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Question 35: When and on what basis did the Gambling Commission determine that the BetIndex business model was not akin to a “Ponzi Scheme”? [B1 p314] 297

Response 298

35. When and on what basis did the Gambling Commission determine that the BetIndex business model was not akin to a “Ponzi Scheme”? [B1 p314]

Response:

Our response covers the following:

1. Ponzi Schemes and
2. Pyramid schemes.

Our consideration was based upon the following scheme characteristics and a comparison of the BetIndex offering:

Ponzi Schemes

A ponzi scheme is typically an investment fraud which involves existing investors being paid from funds collected from new investors. There is usually a promise of high return and minimal risk.

Although we had concerns about the presentation of the Betindex product, and the market element of the product, there was a clear lifecycle of the shares which were limited to 3 years and there were evident payments to consumers through dividends. The licensee did not present this as a risk-free investment and it was, although not fully to our satisfaction, presented as both a share product and a bet. Both of which could not be described as risk free or guaranteed returns.

The payment of dividends was not derived primarily from new customers entering the platform. Revenue streams were:

- Income from customer buying a share (less dividends paid to that customer for that future).
- Transaction commission income from a customer selling a share to another customer; and
- Transaction commission income from Betindex’s market maker account clearing down selling queues.

It should also be noted that with any betting licensee new bets taken will all or in part be used to pay out customers and the extent will depend upon liquidity. The vast majority of betting licensees offer betting facilities across a range of sports, leagues and markets, so in the event of Premiership Football being suspended, as occurred due to the pandemic, other licensees were able to generate income through a wider portfolio of betting products.

Our assessment of the product in February/ March 2020 focussed on 3 elements:

1. The business finances (including whether this was a Pyramid scheme)
2. The appropriateness of our licence for the buy and sell, market element, of the product
3. Compliance with the Licence conditions and codes of practice

During this assessment we gathered evidence around the company set up, the finances and saw evidence of how the scheme worked in practice for consumers. Although the assessment identified a number of serious concerns that resulted in commencement of a S116 licence review we did not believe that there was evidence to support that this was a fraudulent undertaking and therefore did not believe that this was a fraudulent Ponzi scheme.

During the assessment and within documents, provided after the assessment, it was clear that consumers were not making a profit purely based on new consumers joining the scheme.

Additional question for BI independent review, July 2021

There were 2 ways in which a consumer could make a profit:

- By accruing dividends for player performance and media coverage
- By selling player portfolios at a higher price than purchased.

Consumers were depositing and withdrawing funds into the product.

At the time of our assessment in February 2020 evidence indicated that the licensee maintained approximately 15% of the 'cost of the share market' value to cover ordinary market conditions. (See also our response to question 28).

The licensee offered a 'buy it now' option where they purchased back shares.

Customer funds, which consisted of money held within wallets and not committed to a share portfolio, were held in a separate, segregated account which was converted to a trust deed account.

We also noted matters such as the banner on the website stating that the product was a gambling product not an investment.

Although we had concerns from a betting product point of view about the process for setting prices (player shares), the product had an algorithm or process for determining player share price and this did fluctuate depending on which player you held shares in. In the event of customers selling shares in a player this would cause the algorithm to reduce a share price and in the event of customers buying shares in a player this would cause the algorithm to increase a share price.

Betindex was a company registered in Jersey and it held gambling licences with the Commission and the Jersey Gambling Commission. Betindex was owned by Fame Ventures Limited which held a remote operator licence with the Commission. Fame Ventures was registered in England and Wales. As part of BetIndex's operating licence with the Commission the individuals managing the company were identified (**Bundle 1 page 465**) along with a betting product, the services to be provided and a business plan (**Bundle 1 page 459**).

The website also clearly set out that the business held a licence with the Commission and had information disclosing the product and service being offered along with customer terms and conditions.

There was information available for customers on the website which included explanations of the product features.

At the time of consideration, since BetIndex's has held its operating licence there have been four to five complaints regarding customers being unable to withdraw monies. These instances appear to be linked to BetIndex requiring identification documents rather than an unwillingness/inability to pay the requested funds to the customer. The level of complaints is not indicative of a pool of customers having difficulty receiving payments.

There is clearly currently an issue with customers being unable to access their funds, but this is solely as a result of the freezing of the accounts by the Administrators. Their stated reason for this was that a clause in their Deed of Trust for customer funds states customer funds includes: *'...any crystallised but as yet unpaid loyalty or other bonuses in respect of any customer, in each case, irrespective of whether the Company and the customer are party to any Bet.'* Their position was that they would not release funds until they had clarity in respect of the dividend liabilities.

Pyramid Schemes

Additional question for BI independent review, July 2021

Paragraph 4 of Licence condition 7.1.1 of the Licence conditions and codes of practice requires licensees to ensure that they do not commit any unfair commercial practices within the meaning of the Consumer Protection from Unfair Trading Regulations 2008, at any stage of their interactions with consumers. Regulation 3 prohibits unfair commercial practices, including those in Schedule 1 of those Regulations. Paragraph 14 of the Schedule 1 of those Regulations lists pyramid schemes as such a commercial practice:

“Establishing, operating or promoting a pyramid promotional scheme where a consumer gives consideration for the opportunity to receive compensation that is derived primarily from the introduction of other consumers into the scheme rather than from the sale or consumption of products.”

The explanatory notes appended to the Regulations also offer further explanation around pyramid schemes:

“Pyramid schemes promise a financial return based on the number of people that a participant is able to recruit to enter the scheme. No new money is created in pyramid schemes. Investors who get in early take their profits from investors who join later. At some point, no new investors can be found and as a result the last investors, who are at the bottom of the pyramid, lose their money. Pyramid schemes are doomed to failure because all they do is circulate money between participants. This means that for every £1 someone makes, somebody else loses £1. The OFT recently estimated that pyramid schemes cost UK consumers about £420m per year.”

The comments in the Ponzi scheme section sets out that:

- The financial return is not based on the number of people that customers (or BetIndex) is able to recruit to enter the product. BetIndex derived its financial returns from introducing new shares into the product for purchase and commission on shares sold between customers. Customers promise of financial return was reliant on purchasing a share that would either return more dividends than the purchase price over three years or by the share value increasing and the customer having the ability to sell the share to a willing purchaser. If either of these did not happen then the customer would not see a profitable financial return.
- New money is created in the portfolio by the introduction of new shares by BetIndex, the portfolio was not capped at the initial shares introduced and with these shares only being churned at ever increasing prices.
- Regardless of potential limitations on a customer’s ability to sell their open shares, the shares always retained the contractual right to potentially earn dividends during the 3-year bet period and BetIndex had evidenced it held sufficient funds to cover the dividends for the next three years. Whether the customer made a profit or loss on those bets would have been due to the purchase price they were willing to accept when entering into the bet and their bet estimate of the dividends that the bet would generate over the three years.
- The Betindex product did involve an element of monies circulating between participants but the insta-sell function and introduction of new shares into the market by BetIndex allowed Betindex to remove monies from the market or introduce new monies.

It is also noteworthy that BetIndex has not paid any dividends to its parent company and all profits have been recirculated back into the business to develop the product. A Ponzi Scheme or Pyramid scheme would suggest that those at the top financially benefit from the activity, but there is no

evidence of the owners of BetIndex removing vast amounts of monies through dividends for their own gain and deprivation of customers holding shares/bets.

The question of whether BetIndex was offering a Ponzi/pyramid scheme was one that we gave significant time and consideration to, and which we kept under active review, as we did with other matters such as Gambling Commission/FCA regulatory boundaries and responsibilities and the ongoing suspension consideration. By its nature, this makes providing a definitive point in time that we came to this conclusion both difficult and potentially misleading. Our analysis above illuminates our thinking at broad level, but we continued to revisit this as the review progressed considering elements such as the multiple income streams available to BetIndex which would be contrary to a standard Ponzi scheme, and as we received greater clarity on the operation of the pricing algorithm.

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A

Question 36: I note that the Gambling Commission considered internally on 24 February 2020 that BetIndex

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Question 36: I note that the Gambling Commission considered internally on 24 February 2020 that BetIndex was very likely to be in breach of the UK Ad Codes and LCCP [B2 p321]. Please confirm what steps, if any, were taken by the Gambling Commission in relation to BetIndex as a result, particularly as regards any correspondence with the Advertising Standards Authority 302

Response 303

36. I note that the Gambling Commission considered internally on 24 February 2020 that BetIndex was very likely to be in breach of the UK Ad Codes and LCCP [B2 p321]. Please confirm what steps, if any, were taken by the Gambling Commission in relation to BetIndex as a result, particularly as regards any correspondence with the Advertising Standards Authority

Response:

The breaches of the advertising codes and the LCCP were included in our findings letter dated 1 April 2020 (see original bundle 3 page 162 to 163). These failings were considered within the compliance assessment and are being considered as part of the s116 review. See also reference in the s116 notice (Bundle 3 Page 441).

If the question has not been answered or only partially answered please explain why:

N/A

Additional notes:

N/A