BetIndex Review

Topics for discussion with Gambling Commission on 22.7.21

[redacted] (Executive Director Licensing and Compliance)

[redacted] (Executive Director for Research and Policy)

[redacted]

[redacted] Regulatory Criticisms

1. Opportunity for GC to comment on [redacted] specific Regulatory criticisms:

    a. Grant of licence was contrary to licensing objective that gambling is conducted in a fair and open way:

        i. [redacted] state that licence condition 7.1.1 requires licensees to ensure that gambling is offered on terms that are not unfair within the meaning of the Consumer Rights Act 2015. [redacted] allege that the ability of BetIndex under the game rules to unilaterally change the nature of the dividend structure so as to alter, remove or reduce the obligation to pay dividends was an obviously unfair/presumptively term because it created a significant imbalance between the consumer and the trader.

        ii. The BetIndex model was bound to fail and should not have been licensed as this should have been apparent at licensing or subsequently. [redacted] state that the shares were always time limited (3 years/end of career of player) and dividends modest and therefore essentially the underlying product had no sustainability. Only way to sustain the model was to misrepresent the value of shares by (i) representing that value was based on buy prices not sell prices or mid point prices (ii) manipulating the market by BetIndex itself or through intermediaries buying shares at an overvalue to inflate the floor price bids in the secondary market (iii) using time limited promotions such as bonuses and dividend increases (iv) misrepresenting the total value of shares in “the Footie” index. [redacted] argue that these measures were themselves unstainable and would inevitably have led to a loss of confidence/”run” on the product and therefore the failure of the operator.

iii. GC should have, but failed to, ask BetIndex for an explanation of the fairness of its terms. If the GC had asked they would have concluded that the terms were not fair and accordingly would not have granted/revoked the licence

2. Other points arising from [redacted]/Other Materials

    a. Extent to which the GC is able to/does investigate the nature of bets being placed with a provider? It is alleged in the [redacted] materials that in contrast to single event bets, BetIndex customers were placing much larger bets with BetIndex in relation to their overall income/wealth and were transferring money from financial investments (ISAs/savings accounts) into BetIndex because of apparently greater returns.
    b. Ability of GC to use licence conditions and enforcement powers to control the presentation of gambling products: Many consumer complaints are focused on the contention that the language of financial investment (traders/index/shares/dividends etc) created a false impression that they were making an investment in an asset with long term/intrinsic value rather than engaging in entirely speculative gambling.
    c. GC's awareness of allegation that BetIndex could manipulate the trading price of a share to inflate the apparent value of share when that value could not, it is said, be achieved by all customers
    d. GC's awareness that stated value of share was the buy value not the sell value

<u>Points of Clarification arising from consideration of GC answers to questions</u>

3. Licensing application – extent to which reconsidered following Fame Ventures' application.

4. [redacted]'s complaint in January 2020 – although not a Ponzi or pyramid scheme as legally defined (see GC Response to Q35), BI's business model could be said to depend on influx of new customers. Note GC reconsidered internally in March 2021 whether pyramid scheme.

5. Issues of clarification over what was the GC's understanding as to the FCA's position(s) concerning regulation of BI over the relevant period?

6. What was the extent of the GC's ability to protect consumers in the absence of the Financial Services Compensation Scheme.

7. Check GC's understanding re BI's protection of customer funds prior to and on 11 March 2021. GC understood medium protection meant that customers would always be able to withdraw funds in their wallets which were not wagered on a bet. Was GC's concern limited to sums in customer "wallets" rather than sums which had been used to purchase shares? GC subsequently informed in March 2021 that the definition in the Trust Deed included as yet unaccrued dividend payments, and that BI did not have sufficient funds to cover all future liabilities. Was this something that could have been understood earlier?

8. GC's own reflections on lessons that should be learned or actions that could have been carried out differently.