

Extracted Information

14 April 2020

BetIndex Limited Response to GC Findings Letter 1 April 2020

Response

3. Indication of where in BetIndex's terms and conditions it mentions BetIndex has a trading account which will be buying and selling shares to help put liquidity in the market

Background

In July 2019 we decided to overhaul the terms and conditions for FootballIndex. Bird & Bird LLP (Commercial Law Firm with Gambling Expertise) were instructed to conduct a review and focus on any missing elements particularly in relation to the adherence to the LCCP. The terms and conditions were then brought in house so that the Compliance Team could review them.

In November 2019, Bird & Bird LLP were again instructed to respond to queries raised by the Compliance Team, draft the necessary summary of key conditions and confirm that they complied with consumer law generally, in particular the Consumer Rights Act 2015 and the Consumer Protection from Unfair Trading Regulations 2008.

In mid-December 2019, Bird & Bird LLP flagged that further work was required in relation to the 'disclosure to customers' regarding the insolvency rating system so there was a further delay to the updating of the terms and conditions. In order to ensure that all users across all forms correctly "accepted" the new terms and conditions, work was required on the app and that created a further delay. Bird & Bird LLP finalised and signed off the terms and conditions at the end of March 2020; the Executive Team and relevant PML holders also then signed them off, and they went live on 7 April 2020.

Confirmation of Trading Account in Terms and Conditions

The terms and conditions that went live on 7 April 2020 contain information setting out that FootballIndex has a trading account which will be buying and selling shares to help put liquidity in the market. This is covered at 9:13 and references the term "Market Maker". It states:

"9.13: Sometimes we allow 'market makers' to place bets on the Service, to ensure that the market runs smoothly and to enhance your ability to buy and sell Shares when you wish to, this activity may affect the price of Shares. Alternative Terms of Service and access to functionality may apply to "market makers"."

This can be seen in the extracts of the terms and conditions at Appendix 3.1. In addition, the Market Maker FAQs have also been attached at Appendix 3.2. The Market Maker FAQs are accessed via a link in the terms and conditions.

While previous versions of the terms and conditions contained no direct reference to a trading account being used to buy and sell shares to help put liquidity in the market, from 2017 the existence of a Market Maker has been apparent when joining the sell queue. It was and is explained that joining the sell queue is a request by customers to cash out of their bet early and this is offered if another trader or the Market Maker buys the bet.

Please see attached historical examples of screenshots from 2017 and 2019 (Appendices 3.3a-b), that show messaging visible in the user interface from the launch of the product in October 2015 until December 2019 for the website and until January this year for the App, customers were made aware of the Market Maker. It was clearly stated:

Response

"Joining the Sell Queue is a request to cash out your bet early. We offer this if another trader or the market maker buys your bet. We can't guarantee a price but you will receive the Buy price paid at the time of the transaction less a 2% transaction fee. You may set a reserve price or may cancel your Sell Order at any time."

During a major platform upgrade, these messages were inadvertently omitted from the Website and App when they were updated (Web: 04/12/19 iOS: 13/01/20 Android: 20/01/20). However, Compliance testing procedures have since been enhanced and these messages have now been re-instated to the Website and App.

8. Policies and procedures around the Market Maker and what parameters are implemented to review the actions of their account.

Customer Knowledge of the Market Maker

Information in relation to the Market Maker is also as set out in Response 3, in the section dealing with the updated terms and conditions.

Policy

Please see the Market Maker Policy at Appendix 8.1. This policy has been under development for several months and is in line with current processes. The policy requires Board review and final sign off at the next Board meeting due at the end of May. In the meantime it has been approved by Senior Management.

10. Profit and Loss Data split by user for the Market Maker account and all Test Accounts that have been used

Response

Please would you clarify what you mean by "...by user for the Market Maker account and all Test Accounts...". We will then provide any further information as required.

The spreadsheet enclosed at Appendix 10.1 shows profit and loss data (bets purchased, bets sold, dividends, commissions and Gross Gambling Revenue ("GGR")) split between Market Trader, Test Account and Normal Customers.

11. Bank statements showing the funds being transferred into the test/Market Maker account

Three Market Maker/Test Accounts are included on the Customer Management System ("CMS"); these are not separate bank accounts but are "E-wallets" set up in a similar manner on the CMS as customers' E-wallets. As explained the Market Maker/Test Accounts are used to ensure that the market runs smoothly and to test changes and new functionality on customer accounts. The account reference numbers for these three accounts are 10 (which was set up in October 2015 and is still open but not actively used), 194233 (main market maker account active since October 2018) and 408487 (test account active since September 2019).

The following tables show the total funds being transferred into the Market Maker and Test account E-wallets:

Funds credited to E-wallet for Market Maker account (194233)

Response

Date	Funds transferred
23-Oct-2018	£45,000
24-Oct-2018	£145,000
26-Oct-2018	£200,000
26-Nov-2018	£200,000
26-Mar-2019	£200,000
11-Apr-2019	£518,530
09-May-2019	£500,000
18-May-2019	£200,000
22-Jul-2019	£250,000
29-Jul-2019	£13
08-Oct-2019	£500,000
13-Dec-2019	£250,000
17-Dec-2019	£5,148
	£3,013,691

Funds credited to E-wallet for test account (408487)

Date	Funds transferred
09-Sep-2019	£80,000
13-Dec-2019	£50
17-Dec-2019	£0.17
	£80,050

Funds were transferred from the test account (10) into account 194233 in March and April 2019 and into account 408487 in September 2019.

No cash withdrawals have been made from these accounts.

Cash transfers totalling £590,000 (see orange shading in the above table) have been transferred from Index Labs Limited to BetIndex Limited's current account (held at Nedbank) to fund the amounts credited to the Market Maker account. The balance of the amounts credited to the Market Maker and test

Response

accounts have been recorded as a loan from BetIndex Limited to Index Labs Limited since Index Labs Limited is funding the market maker account. In this way all funds advanced by Index Labs (whether as cash or funds settled through intercompany) represent real cash being credited to the Market Maker E-Wallet as opposed to artificial credits.

The cash payments made by Index Labs Limited into BetIndex's current account held at Nedbank have been extracted from the online bank statements (no hard copy bank statements have been issued):

NARRATIVE	DATE	DEBIT	CREDIT
BACS CREDIT FAME VENTURES FAME VENTURES LTD	24/10/2018	£0.00	£20,000.00
TRANSFER ██████████	25/10/2018	£0.00	£150,000.00
BACS CREDIT FAME VENTURES FAME VENTURES LTD	25/10/2018	£0.00	£20,000.00
TRANSFER ██████████	15/11/2018	£0.00	£200,000.00
TRANSFER ██████████ FAME VENTURES	29/11/2018	£0.00	£200,000.00
Total			£590,000.00

7 May 2020

BetIndex Limited Response to GC Findings Letter 1 April 2020

1b. We are also concerned that there are insufficient independent safeguards in place to ensure that BetIndex are not unfairly affecting the outcome of the share price within the market.

Response

The "Market Maker" was covered in detail in Response 8 of the GC Request for Information dated 14 April 2020. We can now confirm that the Football Index Risk Management and Market Maker Policy ((Appendix 1b(i)), sets out the oversight measures that are now in place, namely:

"8.4 Board oversight

The senior Market Maker and Risk Manager reports directly into the CFO of Index Labs, who is also a PML holder.

Weekly activity reports, referencing the information outlined in 8.3 are circulated to the Governance, Risk & Compliance Committee.

Risk Management and Market Making activity remains on the Board agenda for the group of companies which meets every two months. A report outlining medium and long term trends in relation to the activity is included in Board papers, together with all weekly activity reports, which Board members are required to review before the meeting and raise any queries or concerns in relation to their content.

8.5 Compliance monitoring

The Compliance Team use the weekly reports which are provided by the Market Maker and Risk Manager to conduct regular spot checks in relation to their activity. This data is cross referenced with appropriate reports generated by the Business Intelligence team to ensure independent visibility across the Market Making and Risk Management activity.

The aim of these checks is to verify that the reports being provided to relevant Board members are accurate, remain relevant and are fit for purpose. The Compliance team may make recommendations for changes to the process as a result of these checks.

Risk Management and Market Making activity remains on the agenda for the Governance, Risk & Compliance Committee which meets every month. The results of the weekly monitoring process are discussed and any actions arising are agreed collectively.

9. REGULAR REVIEW

Assessments of the Company's gambling services will be made on a regular basis. The Company will make such changes as are reasonably necessary to comply with changes that are published in the Licence Conditions & Codes of Practice or any other applicable rules or regulations.

This Policy will also be reviewed annually or as required. Any review will be approved by the Governance, Risk and Compliance Committee in the first instance. All relevant stakeholders and decision makers will be consulted prior to final approval from the Board."

The Football Index Risk Management and Market Maker Policy was approved by the Board on 27 April 2020.

1c. We are concerned whether the activities of the market maker and oversight of this activity by Betindex and key person is appropriate and suitable activity to be conducted within a licensed activity.

Please see above narrative and supporting documents at 1b in relation to the Market Maker.

In addition we can confirm that the Market Maker completed specific LCCP training [REDACTED] and a PML application will be submitted for the Market Maker [REDACTED]

We have also historically (Betexchange), and in a licence application in process (Tradex), applied for a betting intermediary licence which would enable a clear and effective separation of concerns by establishing market making to take place as a true third party, contractually bound. We believe this would provide a superior operating model forcing increased visibility terms of fairness and transparency.

2f. We are concerned that the presentation of the product contravenes the Consumer Protection from Unfair Trading Regulations 2008.

Regulation 6 – misleading omissions. We are concerned that consumers of the Betindex product are not provided with full details in relation to how the product works and the practices of the 'market maker'. We were shown evidence that the market maker has affected the share process through manipulation of the share price algorithm and by playing the product through Betindex's own account. The market maker also has access to information in relation to the sale queue and other factors which are not available to consumers. None of this information is clearly provided to consumers.

We have always had terms and conditions and game rules in relation to how the product works. However, most updates and information in respect of the product have been provided in the FAQs section. The FAQs are continually being updated. Please see the five pages of screenshots at Appendices 2f(i) - 2f(v) which show the archive titles of the FAQs. Similarly, please see the five pages of screenshots at Appendices 2f(vi) - 2f(x) which list the live titles on the FAQs. Should any of these be required they can be provided.

By way of addition to our comments in relation to the Market Maker in our response dated 14 April, please see Appendix 2f(xi) an archived FAQ. It was archived on 11 June 2017, but shows that customers had been informed of the Market Maker prior to this time.

Current Position

In order to educate our customers on how Football Index works, we maintain a website with key information presented in a more accessible format than the formal rules or terms document. The Football Index Academy is linked in our footer on the website, emailed to all new customers who accept email, and linked in the Football Index App. While we attempt to maximise understanding by using concise descriptions, we believe that the descriptions are in general comprehensive, for example this detailed article about Media Dividends. <https://www.footballindex.academy/media-dividends/>.

Working to effectively onboard our customers is also a key objective of our UK team who are engaged in testing different methods of communication to more effectively inform customers of how Football Index works. The updated terms and conditions of 7 April 2020 contain information setting out that Football Index has a trading account which will be buying and selling shares to help put liquidity in the market. This is covered at 9:13 and references the term "Market Maker". It states:

"9.13: Sometimes we allow 'market makers' to place bets on the Service, to ensure that the market runs smoothly and to enhance your ability to buy and sell Shares when you wish to, this activity may affect the price of Shares. Alternative Terms of Service and access to functionality may apply to "market makers"."

Response

In addition, there are now specific Market Maker FAQs which have been published. These are accessed via a link in the terms and conditions.

This was covered in detail at Response 3 (14 April 2020) to the GC Request. For this reason the relevant extracts and documents have not been produced again.

3b. There is an algorithm in place to calculate the share price of players and this algorithm is not explained to consumers. It is also not explained that the algorithm can be manipulated by the market maker.

Please see response 1b above which addresses this concern.

Comment

Please note we do not publish our price algorithm as we believe it would open the platform up to a very small risk of manipulation, and more importantly, would reduce our flexibility to adapt to changing volumes of bets passing through the platform. Just as a betting operator doesn't publish the mechanism by which it arrives at the odds offered, we don't believe that our customers need to be provided with information as to how we arrive at the price of a bet.