

To: Sir Philip Otton

Date: 17th October 2008

Betting Exchanges

1. At our meeting today, you asked us to clarify the position of Racing with respect to betting exchanges and the Levy, and specifically to confirm the operational details of the proposals put forward by Racing in our submission to the Secretary of State as part of the determination of the 47th Scheme. As we set out at the meeting, we have developed our understanding and thinking since that time, and as you know the Levy Board has already accepted our case on two key matters and the DCMS is currently considering these and consulting with colleagues from other departments.

Research - The Impact of Exchange Betting on the Market and how the Levy framework should respond

2. As set out in section D2.3 (b) of our submission to you dated 8 October 2008, betting exchanges were still in their infancy when the 41st Scheme was determined. This Scheme moved from a turnover basis to a Levy charged on the gross profits of bookmakers. The analysis that underpinned the move to this new methodology was based therefore on the prevailing business model – that of a traditional bookmaker. The market has changed substantially since then, including the significant impact of this new form of betting.
3. Racing therefore has called upon DCMS to carry out a comprehensive review of this issue, and addressing therefore the whole mechanism by which betting exchanges pay Levy, to ensure that Racing receives a fair and equitable Levy return. This request has been echoed and supported by the Levy Board in their letter to DCMS of 2nd October 2008.

Action to be taken now

4. In our meeting today, we highlighted to you the issue that can be addressed now, to ensure a Levy return from activity of exchange users who are acting in the course of a trade by the nature of their activity on the betting exchange trading, but who are not bookmakers licensed by the Gambling Commission. The largest exchange, Betfair, has shown through its charging policy, and most importantly its own recent changes to that policy, that they are able easily to identify such individuals and treat them as traders.
5. Racing's case is that these individuals (and any others who meet what we think would be a test set lower than Betfair's premium charging bar) are liable to pay Levy (and tax) on their exchange activity. These people should be identified so that Levy can be collected from them, as if they were a licensed bookmaker.

Net Winnings Proposal

6. In our submission to the 47th Scheme, Racing proposed an alternative approach to achieve the same objective as the levy charge on traders as set out above, and also to address, as far as we could assess it, the broader market issue. We proposed that a charge could be made on the platform operator (ie the exchange company such as Betfair) in the same way as is the case under the 46th Scheme. Under our proposal, exchanges would pay Levy equal to 1.15% of their customers' total net winnings on BHBB. This would replace the 46th

Scheme in relation to exchanges whereby exchanges pay Levy equal to 10% of their own gross profit (i.e. commissions received) on BHBB.

7. Our proposal was intended to create a fair and reasonable return through the Levy from the activity concerned, but in an administratively efficient and simple way.
8. The exchange would be able to pass this new charge on to their customers as they saw fit, and hence if this proposal were adopted no additional Levy charge would be applied direct to individual exchange customers. We accept that there are numerous other possible charging models and the proposed full review into the quantum would stand best chance of producing the optimal solution for charging Levy to betting exchanges and / or their customers.