

Starting Price Regulatory Commission. The Starting Price – a consultation

The central task of the Starting Price Regulatory Commission (SPRC) is to ensure the integrity of the starting price system (SP).

In the 2015 Grand National, the starting prices of the 39 runners represented an overround of 165%. Allegations were made publicly that off-course bookmakers were manipulating the system to the detriment of punters. Some serious allegations were also made that unlawful behaviour was occurring in the on-course market.

None of these allegations has so far been backed by hard evidence. The Starting Price Regulatory Commission invites anyone who has such evidence to produce it as a response to this consultation.

Besides protecting the integrity of the SP however, the SPRC has a wider role in regard to the SP system. In the words of its memorandum of association it has a duty “*to make recommendations as regards the policies and principles by which on-course starting prices...shall be collated and calculated to produce a single, fair and impartial starting price.*” It is empowered to make any recommendations to the operators of the SP system which it “*shall in its absolute discretion consider appropriate.*”

For many years, the SPRC has sought to improve and refine the workings of the SP mechanism. Its conclusions and changes in this regard are set out in successive annual reports (www.thesprc.org). It has made many refinements to improve the system's workings. The current formula for determining the SP is set out below

Rules for determining the Starting Price (SP)

The starting price for each horse is the market price at the off generally available to good money on the boards of those bookmakers in a sample whose each-way terms for a given race most closely reflect the each-way terms on offer for that race in the off-course retail market.

a. Decision rule for calculating SP

For each horse in a race the prices on offer by all bookmakers in the sample are ordered into a list from longest to shortest. The list is then divided into two equal halves and the SP is the shortest odds available in the half containing the longest odds. The SP or a longer price will have been offered by at least half the bookmakers in the sample.

b. Selected definitions

i Bookmaker

A bookmaker is defined as an on-course bookmaker betting in accordance with the Gambling Commission’s Licence Conditions and Codes of Practice. For the purpose of SP sample

selection, these rules categorise bookmakers as SP Qualified or Non-Criteria. A SP Qualified bookmaker displays prices against every runner for at least ten minutes before the scheduled off time of each race and continues to do so up to the off. A Non-Criteria bookmaker does not display prices in this way.

ii Good money

Generally that offered by a Starting Price Qualified Bookmaker who, in the judgment of the SP Validator following consultation with the Betting Operator, is prepared to lay a single bet to lose at least £500 on each horse in a scheduled race at that meeting.

c. Each-way terms

The sample is selected (see below) partly on the basis of each-way terms offered. Customary each-way terms are:

RACE TYPE & NUMBER OF RUNNERS	FRACTION OF WIN ODDS	PLACES
All races with less than 5 runners	n/a	No places offered
All races with 5,6 or 7 runners	1/4	1 st & 2 nd
All races with 8 or more runners except those listed below in this table	1/5	1 st , 2 nd & 3 rd
Handicaps, Nursery and Rated Stakes Handicap races with 12 to 15 runners	1/4	1 st , 2 nd & 3 rd
Handicaps, Nursery and Rated Stakes Handicap races with 16 or more runners	1/4	1 st , 2 nd , 3 rd & 4 th

Criteria each-way terms offer 1/5 of the odds in Handicaps, Nursery and Rated Stakes Handicaps (first four places) in races with 16-21 runners.

d. Sample selection

The maximum sample size is 24 and the normal minimum is 6. If there are fewer bookmakers available, as often occurs at winter all weather meetings, the minimum sample size can be lower, but never less than 3. The sample is selected in the following order or precedence:

- SP qualified bookmakers offering customary eachway terms
- SP qualified bookmakers offering criteria each-way terms
- SP qualified bookmakers offering win-only terms
- Non-criteria bookmakers

SPRC has also kept under constant review whether the system as a whole remains fit for purpose, or whether a substitute for the Starting Price, going beyond the on-course market, should replace or supplement it. So far it has not felt that the case for wholesale change has been made.

It is important to note the limits on the Commission's powers. The SPRC is not a **statutory** body and it has no statutory powers. It is specifically enjoined to make recommendations in respect of an on-course based system, though it has a wider remit which could extend beyond that. Its right is simply the right to recommend. It cannot order anyone to do anything. Moreover it neither can nor would wish to substitute a set of prices based on its administrative fiat for those that emerge in the market place. Within those constraints, the SPRC is willing and eager to exercise its powers (such as they are) should correctable flaws in the current system emerge.

The SP system is harder to run than it used to be. The betting market has undergone a revolution. The off-course market is strong and competitive. Online and mobile betting continues to increase. The betting exchanges facilitate sophisticated arbitrage manoeuvres, with their influence extending to the on-course market. In parallel, the amount of racing has increased significantly. But some meetings, particularly twilight meetings, attract only small numbers of racegoers and punters. The impact of all this change is that the on-course market has declined, with few bookmakers present at some meetings though not of course at the Grand National. The SP is therefore based on a smaller and less representative market.

Does this mean that the SPRC, based on the on-course market, has had its day? It is easy to forget the advantages of the SP. It is a tried and tested system. It is simple to understand, punctiliously administered and the number of complaints the SPRC receives about its operations is, despite the latest coverage, negligible. It does what it says on the tin.

Sophisticated punters who prefer a different flavour have opportunities to place their money elsewhere, for example taking guaranteed prices, or bookmaker special offers, or using the betting exchanges. That many still choose the SP is testimony to the advantages of the system. Further, the introduction of "guaranteed best odds" has reinforced the need for the SP as a reference point. Precipitate wholesale change could lead to the disappearance of a simple way of settling bets that punters and layers alike value and trust.

Moreover, it is not easy to devise a replacement for the SP. It is true that alternatives to the present SP can be conceived. Indeed they already exist. Betfair produce and promote an SP of their own. SPs are returned on certain races from overseas on which on-course betting does not take place, racing from Meydan for example. However to devise a system which openly and transparently produces such prices on an industry scale is a challenging task. It is not to be taken for granted that a system which relied on bookmakers divulging the state of their books, rather than on open display as on the racecourse, would attract ready punter confidence – particularly if there were no independent verification of the bookmakers' returns.

Central to the present debate on the future of the system is the question of fairness, with the focus on the 2015 Grand National overround. It is alleged that, in order to produce the 165% overround, the off-course bookmakers laid off heavily into the market. The on-course bookmakers reacted by shortening their odds on the horses backed, without extending those on horses not backed. For some critics, what happened at Aintree went beyond the traditional

practice of hedging into the ring and represents a form of market manipulation. They also point to examples of various forms of such manipulation from lesser tracks on lesser events when the on-course market is thin.

The overround is not without complications of its own. It is a very imprecise measure of bookmakers' actual profitability. In addition, a different picture is presented depending on whether one looks at total overround or overround per runner.

Nevertheless, the large total overround in the case of the 2015 Grand National is clearly of concern to the SPRC from the point of view of fairness between bookmakers and punters, as are allegations of wrongdoing on-course. Accordingly, as part of its continual review, it is launching this consultation, inviting all concerned to give the Commission their views.

In particular, views are sought on the following:

- (i) the viability of continuing with a system based broadly on the existing system;
- (ii) possible improvements to the system – particularly to address the issue of meetings where there is a poor attendance by on-course bookmakers;
- (iii) alternatives to the present system. We would expect any respondents whose view is that the present system is no longer viable to give their views as to the broad structure of an alternative system and to demonstrate its workability;
- (iv) In addition, we would welcome any concrete and specific evidence of illegitimate manipulation of the system.

SPRC - Lord Donoughue, Lord Lipsey, Sir David Metcalf

Secretary to SPRC - Jim Donnelley

Legal Advisors - Olswang