

Appendix A

Terms of Reference

Changes in Wagering Within the Racing Industry

Objectives

The primary objective of this study is to identify the implications of key changes which have been occurring to the operation and organisation of the Victorian wagering industry, including those related to the emergence of new technologies and the co-location of gaming facilities with wagering and in particular the current and likely future impact of these changes on the industry itself. Gambling groups within the industry and problem gamblers will be examined with a view to identifying any at-risk groups and what measures, if any, might be appropriate from a government, industry or community perspective to protect them.

Scope

It is expected that the report will:

- examine the available literature and current Australian research on trends in the racing industry in terms of its impacts on gamblers;
- describe the changes which have taken place, or are likely in the near future, in terms of co-location of wagering and EGMs (electronic gaming machines) and accessibility to wagering products, including telephone and internet wagering;
- determine trends in the age, gender, ethnicity and social-economic status of those for whom wagering is a significant component of their expenditure on gambling and to identify any groups, including those under age, who are at risk;
- determine the differences in the profile of gaming and wagering gamblers, the factors behind their choice (including advertising and other promotional measures) and their propensity to be engaged in behaviour conducive to risking unaffordable gambling losses;
- draw on a range of research methods and innovative research strategies; and
- examine by observation and/or survey whether the co-location of wagering facilities with EGMs changes the patterns of gambling expenditure for 'recreational', heavy and, if feasible, problem gamblers.

Deliverables

The outcomes of the research will include a final report that:

- describes the wagering industry and changes which have, and which in the future are likely to impact on gambling behaviour;
- describes the characteristics of those gamblers for whom wagering is their major form of gambling expenditure or time spent gambling, the characteristics that differentiate them from those mainly involved in gaming, and the interaction between wagering and EGM gambling;
- describes the impact of changes to venues, promotions to target audiences, technology (telephone and internet particularly) have brought about to total gambling outlays and the relative expenditures on different types of gambling by gamblers;
- analyses whether recent changes impact on any particular groups with regard to under-wage gambling or established or new groups which may be identified as 'at risk' of entering into problem gambling; and
- identifies any measures the industry might adopt, or any matters on which government might regulate, in order to minimise the risk of increasing problem gambling behaviours or of attracting vulnerable (particularly young) people to gamble when gambling would not otherwise be of interest, or available to them.

Appendix B

Granger Causality Testing of Racing Expenditure vs. EGM and Casino Gaming Expenditure

The purpose of this statistical exercise was to comment on the validity of the hypothesis that the increase in gaming opportunities in most jurisdictions across the country, particularly since the early 1990s, has caused a decline in racing expenditure. We find that it is likely that the increased availability of EGM and casino gaming has caused wagering expenditure to decline to an extent, although the State-level data provide only weak evidence and a significant degree of uncertainty remains.

Ideally, we would like to estimate demand curves for gambling based on measures of the full price of each form of gambling, which would include the expected rates of return, the availability of gambling opportunities and potentially also indicators of the social stigma (and criminal penalties where illegal) associated with the activity. In the absence of reliable data, we use consumption of other forms of gambling as crude indicators of the availability of gambling, and look for an association between consumption behaviour.¹

While statistical analysis is commonly capable of detecting a correlation between variables, finding evidence that a change in one type of behaviour (for example, increased EGM expenditure) *causes* a change in another type of behaviour (for example, decreased racing expenditure) is more difficult to establish. In particular, there are no simple ways of identifying the causal relationship between current consumption of two different products, because the individual's consumption decisions are intimately connected. From the point of view of annual aggregated data, all consumption decisions are essentially made simultaneously, so that changes in the availability or price of any one product (for example, by allowing EGMs or by proscribing off-course bookmaking) affects the level of consumption of most other products. Hence, it is difficult to determine the nature of the relationship driving the correlation between expenditure on any two different items. The two methods of addressing this problem are, first, to explicitly model the consumption decision of all goods and services consumed in the economy (or at least all goods and services that are *a priori* considered by the researcher to be close complements or substitutes in consumption to the product of interest), which is an Herculean task. Second, by looking at correlations between *past* changes in consumption of one product and *current* changes in consumption of another. The second method is far simpler than the first, and is the essence of the Granger causality test.

In particular we statistically estimate the following panel regression equation (where 'i' indicates the State, and 't' indicates the time period):

$$\Delta RacingExp_{i,t} = \sum_{j=1}^k \alpha_j \Delta EGMExp_{i,t-j} + \sum_{j=1}^l \gamma_j \Delta CasExp_{i,t-j} + \sum_{j=1}^m \delta_j \Delta RacingExp_{i,t-j} + x_{i,t} \beta + e_{i,t}$$

Here the expenditure data used are annual changes in real expenditure per adult (that is, net losses adjusted for inflation using the relevant capital city consumer price indices). We choose to consider the changes in expenditure rather than the level of expenditure since both intuition and statistical analysis (the Dickey-Fuller test) suggest that the level of expenditure may not have a constant mean.² The $x_{i,t}$ is a block of dummy variables, one for each state and one for each year, that allow the average change in racing expenditure to vary between states and over time. By including these dummy variables, we consider the ability of the expenditure data to explain variation in racing expenditure between states in a given year and within states over time, but not variation over time at the national level or persistent differences between states (which may, for example, reflect differing consumer preferences).

¹ Regressions were also performed including a dummy indicator of whether a casino existed in the previous year, and whether EGMs were available in the previous year, though the results were not qualitatively different.

² The problem here is that if we were to use a non-stationary series as our dependent variable, for example one which follows a trend over time, and regress it against another non-stationary variable which also follows a trend over time then the model will almost certainly 'explain' a good deal of the variation in the dependent variable. But we are simply picking out the trend in the dependent variable, not a meaningful causal relationship between the

The Granger causality test asks the data whether there is any evidence that the set of coefficients α_j are not all zero, so that past changes in EGM expenditure have some effect on current period changes in racing expenditure. If there is significant statistical evidence then we say that changes in EGM expenditure *Granger-cause* changes in racing expenditure (or say that EGM expenditure causes changes in racing expenditure in the sense of Granger-causality). Notice that given any two time-series variables, it may be the case that neither Granger-causes the other (for example, if different people bet at racecourses and played EGMs then the consumption decisions would be essentially made independently), or it may be the case that both variables Granger-cause the other (for example, where the same gamblers like to bet on races and play EGMs, and consider these activities to be close substitutes).

Summary regression results are displayed below. We have chosen to exclude Queensland and the Northern Territory due to volatility in the data (though the results are practically unchanged if we retain the Queensland data except for those data affected by the blip in racing expenditure in 1993/94). This leaves six States and Territories each with expenditure data available from 1976/77 to 2001/02, for a total of 156 observations on the level of expenditure. We chose to start with three possible lags of the changes in expenditure (hence 132 usable observations), subsequently reducing the number of lags in the regression where coefficients were found to be highly statistically insignificant. We have presented regression results in the table below (omitting from the tables the coefficients on the state and time dummy variables, the latter were anyhow insignificant). The quality of the fit of the model to the data is only modest: more than half of the variation across States and years in the growth of wagering expenditure per adult is not able to be explained by the model.

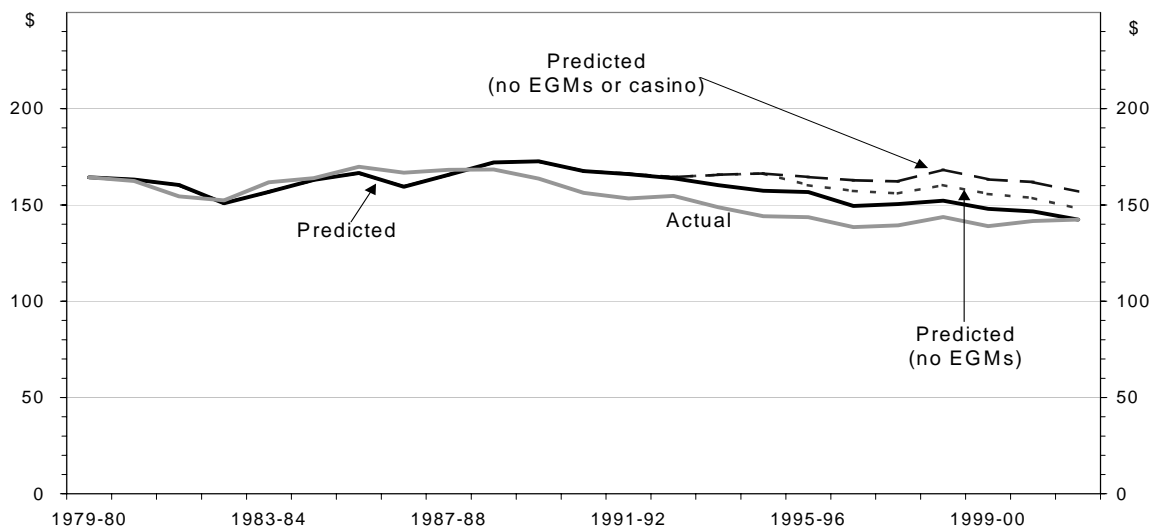
Table B1: Granger-Causality Test With State and Time Dummy Variables

Dependent variable is annual change in real per adult racing expenditure (\$ 1989/90) 132 observations, 31 coefficients estimated, $R^2 = 0.434$			
EGM expenditure			
	Coefficient	Calculated t-statistic (1 restriction, 101 degrees of freedom)	Prob (t > calc t)
$\Delta \text{EGMExp}_{i,t-1}$	-0.0657	-3.16	0.002
$\Delta \text{EGMExp}_{i,t-2}$	0.0793	3.42	0.001
$\Delta \text{EGMExp}_{i,t-3}$	-0.0231	-1.10	0.273
Long-run	-0.0094	-0.34	0.735
		Calculated F-statistic (3 restrictions, 101 degrees of freedom)	Prob (F > calc F)
Joint significance of lags of EGM expenditure		5.21	0.0022
Casino expenditure			
	Coefficient	Calculated t-statistic (1 restriction, 101 degrees of freedom)	Prob (t > calc t)
$\Delta \text{CasExp}_{i,t-1}$	-0.0331	-1.45	0.150

variables. The normal statistical analyses are not valid and if interpreted literally, as though they were valid, would grossly overstate the strength of the relationship between the variables.

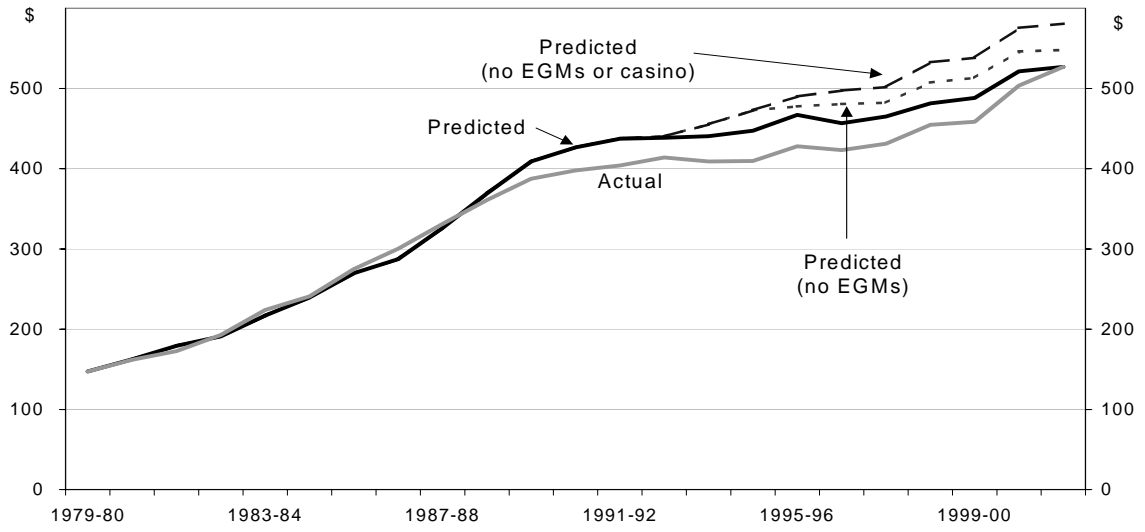
The Granger-causality test provides some statistical evidence that changes in EGM expenditure cause changes in racing expenditure; though there is a significant degree of uncertainty about the magnitude and direction of this effect, our best guess is that every \$1.00 increase in EGM expenditure (which might, for example, follow from easier access to gaming venues, better rates of return or more effective advertising) typically causes a change in wagering expenditure of around -\$0.01 within three years (a 50 per cent confidence interval is between -\$0.03 and +\$0.01). Interpreted literally, this suggests that in the absence of gaming machines in Victoria, wagering might have been around \$6 higher per adult in 2001-02 (an increase of four per cent). On the other hand, there is weak evidence that rising casino expenditure (for example, following the opening of the Crown Casino complex) may cause some decline in wagering expenditure. Our best guess is that a \$1.00 increase in casino expenditure may cause a change in wagering of -\$0.03, though again we emphasise that there is a wide degree of uncertainty about this estimate (a 50 per cent confidence interval is between -\$0.02 and -\$0.05). Interpreted literally, this would suggest that in the absence of the Crown Casino in Melbourne, racing expenditure in Victoria might have been a further \$9 higher per adult in 2001/02 (an increase of six per cent). These predictions for Victorian racing expenditure are illustrated on the graph below. The graph also illustrates that a substantial component of the slowing growth in racing expenditure from about 1990 cannot be predicted by the model (so does not simply reflect availability of EGMs or casinos, nor an Australia-wide change in preferences) though this gap has closed in the past year or so.

Figure B1: Actual and Predicted Real Racing Expenditure Per Adult – Victoria Estimated Effects of EGMs and the Casino, 2001-02 \$ per adult



Source: SACES calculations; and, Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976-77 to 2001-02.

Figure B2: Actual and Predicted Racing Expenditure- Victoria
Estimated effects of EGMs and the Casino, \$ million



Source: SACES calculations; and, Tasmanian Gaming Commission, 2003, Australian Gambling Statistics 1976-77 to 2001-02.

Appendix C

Licensing of Wagering and Gaming, Competition and Regulation

Government issues licences and regulates both the wagering and gaming industry in Victoria. It is also a beneficiary of wagering and gaming turnover. The Victorian Government has announced a review of the following licences:

- licence for lotteries, currently held by Tattersalls with a decision expected in 2005;
- licence for wagering, currently held by TABCORP (Vic) until 2012, with a decision expected sometime in 2007; and
- licence for gaming, currently held by TABCORP (Vic) and Tattersalls to 2012, with a decision expected sometime in 2007.

In relation to wagering the Victorian Government has a beneficial interest in the tax-stream derived from individual bookmakers, racing clubs and profits from wagering earned by TABCORP (Vic). Obviously, the value of the wagering licence is important to a publicly listed company such as TABCORP (Vic), its shareholders and the financial markets assessment of future earnings and dividends. The racing industry, through the joint venture agreement (JVA) with TABCORP (Vic) receives 25 per cent share of profit from TABCORP's wagering and gaming business. The racing industry (as indeed are each of the parties) is free to promote the industry, to enhance attendances and to boost wagering turnover. The industry operates within a regulatory regime built up over a considerable length of time as well as industry codes of practice. The forum of Racing Ministers is an important forum for individual State Ministers to coordinate and collaborate on cross jurisdictional and intra-State policy matters. The researchers note that not all State Ministers are opposed to the Commonwealth's decision on betting exchanges.

It is unsurprising that the States, the racing industry and the holder of a wagering licence might find mutual ground on which to oppose the entry of a competitor. The potential entry of internet based betting exchanges represents a challenge to the existing licences and regulatory regimes. The Commonwealth in announcing that they would not prohibit betting exchanges specifically noted the 'potential for enhanced protection measures to be introduced in an online gambling environment [while they] found no compelling evidence to suggest that betting exchanges were likely to contribute to an increase in the level of problem gambling'.³ The decision of the Commonwealth invited all State Ministers to review their licensing regimes across all wagering services.

For their part, operators of betting exchanges claim that betting exchanges will offer improved returns for punters, that wagering is more sophisticated and this is where the growth in wagering turnover has come from in recent times (i.e., new products, sports betting) and that existing providers have failed to pass on to customers the benefits of cost savings from technology. The transactions costs for betting exchanges are much lower than for existing providers, and this is an important difference between betting exchange and TABs. It is likely that high stakes, large volume punters will seek out betting exchanges in preference to TABs.

In essence, the betting exchange operators challenge the existing relationship between government, the racing industry and the monopoly licence holder. Each side to the debate has championed its own cause — the 'integrity issue', 'fleecing of the punter', 'failure to pass on cost savings' — yet the reality is that new technology platforms (i.e., internet) are providing new mediums for wagering.

Certainly one immediate implication is how State regulators deal with new entrants into the marketplace.

³ Minister for Communications, Information Technology and the Arts, News Release, 12 July 2004, 106/04.

While it is difficult to predict the future with any certainty, the entry of betting exchanges into wagering and sports betting could have a number of potential effects, including *inter alia*:

- dilute the value of the existing wagering licence on the assumption of lower than expected returns from wagering;
- impact on the revenue base and final profit, thereby potentially reducing the distribution to the racing industry;
- encourage TABCORP (Vic) to seek tax relief from government;
- encourage more aggressive cost cutting for product fees, for PubTABs, etc;
- encourage the promotion of telephone and internet account betting that have lower overheads per wager;
- reduce distributions to the racing industry will put pressure on race meetings that are uneconomic to run;
- the racing industry may need to seek out higher levels of sponsorship if distributions were to fall.

When licensing betting exchanges State Governments will seek to:

- provide for a tax revenue stream (as with existing operators);
- support product fees for the racing industry;
- obtain the highest price for operating licences;
- regulate to ensure access to credit audit trails and that operators meet industry codes of practice, including responsible gambling;
- regulate to require adherence to financial reporting requirements (i.e., to Austrac, AFP, etc.);
- retain authority to approve new wagering products and to ensure harm minimisation procedures are in place.

All these 'future scenarios' reflect the need for greater efficiency, for cost savings and reform in response to competition. These same challenges have been required of other industries in Australia, so it is difficult to argue that the wagering sector should be immune from competition.

Competition in the form of new products is likely to intensify and this poses the most significant threat to problem gambling. Sports betting is the most likely arena for immediate competition. Spread-betting, so popular in sports betting is a particularly volatile form of betting with the capacity for the punter to lose heavily (or win heavily).

Products such as 'spinner bet option' where a punter is effectively playing a game of two-up in nominating odds/even/or one of each, in the number of the horses finishing first and second, is a further example of wagering converging to gaming. A responsible gambling regulatory framework will be required to respond to wagering products that are actually 'lottery or RNG products' to provide appropriate warnings, to ensure information on the products is available and to approve any new products.

Finally, much has been made of the 'integrity issue' to oppose the introduction of betting exchanges on the basis that 'betting to lose' will prejudice the integrity of the sport. It is ultimately the responsibility of the sport to look after the stewardship of that sport. In sports betting, with binary outcomes, the effect of betting on team A to win is the same as betting on team B to lose. More sophisticated betting opportunities are then introduced into what is a betting to win/betting to lose situation. In racing the stewardship of racing rests with the industry, race stewards and investigators, etc. The ability to audit credit accounts and to investigate betting trails in many instances provides for greater regulatory control, supervision and inspection than currently exists in race wagering.

Appendix D

List of Interviewees/Organisations

Victoria Racing Victoria Limited	Mark Close Manager, Government Relations
Harness Racing Victoria	Duncan McPherson General Manager, Strategic Planning and Product Development
Greyhound Racing Victoria	John Stephens Chief Executive
Victorian Bookmakers Association	John Clancy Chief Executive
Australia and New Zealand Greyhound Australia	Neil Brown Chief Executive (Director of Sandown Greyhound RC)
Australian Harness Racing Council Inc	Rod Pollock Chief Executive
Moonee Valley Racing Club	Paul Brettell Chief Executive
Country Racing Victoria	Mark O'Sullivan Group General Manager
Victoria Racing Club	Dale Monteith Chief Executive
Sandown Greyhound Racing Club	Jeff Davies Chief Executive Officer
Radio Sport 927	Matthew Corby Marketing Manager
TABCORP (Vic) Holdings Ltd	David Campbell Research Manager
	Michael Piggott Executive General Manager - Wagering
	Neale Wheat Group Financial Manager
	Charles Read Executive General manager Strategy and Development
Department of Justice	Ged Prescott Manager, Office of Gaming and Racing
Office of Gambling Regulation	Phillip Shelton Acting Assistant Director Gambling Operations and Audit
	Phillip Bennett Manager, Gambling Products
Interactive All Sports Betting (IASbet)	Mark Read Executive Chairman
	Roger Smeed Chief Executive
Department of Human Services	Tony Carr Research & Data Gambler's Help

**South Australia
SA TAB**

SA Bookmakers' League Inc

Thoroughbred Racing SA

Bruce Houston
General Manager

John McBain
Secretary

John Cameron
Chief Executive Officer

Appendix E

Interview questions

I have a series of questions to guide the interview. They cover:

- perceived changes in type and style of wagering, and access to wagering;
 - impact on, and role of, the industry in responding to or bringing on these changes;
 - impact on, and role of, punters;
 - the role of government with respect to these changes from the perspective of control and regulation, ongoing support of the racing industry, and the tracking of existing and emerging demographics of users.
1. I should like to begin by asking you to say who you are, which organisation you represent, and what your organisation does.
 2. The internet and the many options it offers in the form of off-shore betting, betting exchanges, online telephone betting etc, presents perhaps the biggest new change in wagering. Can you suggest other changes to wagering that are confronting your industry?
 3. Are you and your organisation at all concerned about the introduction of betting exchanges and other forms of online and phone wagering. If so, why? If not, why not?
 4. We hear a lot about problem gamblers, but usually only in relation to electronic gaming machines. Would you say this is a problem in wagering too? Will problem gamblers be affected by the industry changes we've spoken of today?
 5. Are there any variations in attitude to these changes between city/country, or between states?
 6. Are there any tensions arising because of these differences? I have in mind here interstate rivalries. But also tensions within and between the racing and wagering industries.
 7. Consider implications of merger and takeover proposals between TABCORP (Vic), TabLimited (NSW) and UniTAB. Comments about possible course and meeting closures as part of an overall rationalisation process - how do you respond to these comments? Also benefits of larger national wagering pool following rationalisation?
 8. Could the changes taking place affect the provision of races at traditional times, places, horses and venues?
 9. With specific regard to punters have you seen any recent changes in their demographic or to their preferred mode of wagering?
 10. To what extent do you think punters will accept new forms of betting linked to the internet and other forms of digital technology?

11. Ignoring the financing of racing and other such factors for the moment - would easier access to wagering and betting through the use of new technologies offer any real advantage to the punter or the industry?
12. Do you have any thoughts as to whether the introduction of these new modes of wagering will have any impact on the number, or type of problem gamblers?
13. How does the industry currently identify the demographics of punters, and would changes in the wagering industry make this easier or harder?
14. Some industry analysts have questioned TABCORP's approach to wagering. They say that it no longer regards it as an ongoing growth market, and might be happy no longer to be a player in the interests of pursuing other gambling industry options such as gaming and casinos. Is this a fair assessment? If so, is this likely to be a problem for the racing industry?
15. Can TABCORP's claims that betting exchanges will be bad for racing be sustained?
16. Can the Government regulate wagering in an appropriate way. Or is government dependency on gambling taxation making it difficult for it to act like this?
17. Do you think that the government, or the industry for that matter, have any real chance of banning, or even regulating, internet wagering either onshore or offshore?
18. Should companies like Betfair be given government approval?
19. The expiry of TABCORP's license in 2012 opens up many opportunities for re-organising the industry which are being openly spoken about by industry analysts. What would your organisation like to see put on the table as we approach this important date?

Appendix F



MEDIA RELEASE

Wednesday

26 November 2003

RACING VICTORIA LIMITED ADOPTS RESPONSIBLE WAGERING CODE OF PRACTICE

The Racing Victoria Limited Board has adopted a *Responsible Wagering Code of Practice*, as part of its commitment to the promotion of responsible wagering.

RVL is dedicated to adhering to high standards in all wagering-related activities, especially in the areas of betting supervision and communications about wagering.

RVL's *Responsible Wagering Code of Practice* is based on the seven objectives contained in the Australian Racing Ministers' Conference National Guidelines for Responsible Wagering Practices. RVL has added two new objectives to its Code of Practice (Objectives 8 and 9).

RVL Executive Chairman Graham Duff said:

"RVL recognises the importance of promoting responsible wagering practices to protect the Victorian community and minimise harm associated with problem wagering. RVL is committed to a Responsible Wagering Code of Practice, which promotes responsible wagering practices and minimises the difficulties faced by people who are problem wagerers."

The objectives of RVL's *Responsible Wagering Code of Practice* are:

- Objective 1:** To provide consumers with the information required to make considered and informed decisions in relation to wagering products.
- Objective 2:** To provide consumers with the information likely to prevent the development of wagering-related problems or to assist consumers at risk of, or experiencing, such problems.
- Objective 3:** To provide wagering services in a manner that encourages responsible wagering patterns and behaviour.
- Objective 4:** To ensure all appropriate personnel are capable of delivering the responsible provision of wagering.
- Objective 5:** To require that service providers act in an ethical manner.
- Objective 6:** To provide that advertising and promotion is conducted in a responsible manner.
- Objective 7:** To require that the performance of responsible wagering practices are evaluated.
- Objective 8:** To encourage and support responsible wagering practices by racing industry stakeholders.
- Objective 9:** To support research into problem gambling.

As part of the *Responsible Wagering Code of Practice*, RVL will seek to ensure racing clubs conduct their race meetings with full regard to responsible wagering practices. Both TABCORP and the Victorian Bookmakers Association have their own responsible wagering code of practice and RVL encourages and supports TABCORP and Victorian bookmakers in their conduct of responsible wagering.

The proposal to adopt a *Responsible Wagering Code of Practice* was strongly endorsed by the RVL Board and Member Shareholders.

Appendix G

Statement from William Angliss Institute of TAFE on TAB Accreditation and Training

TABCORP and William Angliss Institute of TAFE have worked together for a number of years under a joint venture arrangement between the Institute and the gaming industry to provide TAB accreditation and training. TABCORP has been active in designing and promoting a responsible service of wagering program which is a component of the Responsible Gambling Code related to wagering.

The Institute offers courses that are compulsory for people who want to work in a Hotel or Club, in a licensed gaming area and in wagering facilities such as PubTAB, ClubTAB, Kiosk or TAB Agency. Training is conducted at William Angliss and occasionally at TABCORP Head Office.

The Wagering courses offered are TAB for Beginners (3 hours), Seller Accreditation (2 days), Cash Control (one day) and PubTAB Management training (3 days). All of the courses do not have Responsible Wagering modules. Comments from Institute staff indicate that approximately 1200 people per annum attend some form of wagering training.

There are also two other options for people who are working in wagering. They are able to undertake on-the-job training and once they have completed approximately 72 hours of employment, then they are able to sit the Seller test. After the same amount of employment they are able to sit the Cash control test. The testing is both practical on the terminals as well as theory – generally takes about three hours to complete (depending on levels of competency per individual).

Over the history of the joint venture, a number of short courses have been developed for existing staff from TABCORP, Tattersalls, and Crown Casino. One such course is that for Responsible Wagering. The Centre for Economic Studies was informed of these courses when it was undertaking the research into the Self-Exclusion Program and is aware of a number of short courses developed for existing employees. Training is provided in relation to the AHA and industry sponsored Self-Exclusion program. Evidence of training is required to work in the industry. The employer, the employment agency where it is deemed necessary to help with employment placement and sometimes the individual, most often meet the cost of training.

Appendix H

Spread Betting Products

Spread betting products originate from the financial sector and stockmarket and have been applied to sports betting. The ACT Review of Race and Sports betting noted that 'spread betting represents a unique, highly volatile and high risk form of wagering which the Commission considers can be distinguished from other forms of gambling ...'.⁴ Essentially it involves the bookmaker predicting the outcome of an event and the punter either 'buys' (predicts the outcome of the event or index will be above prediction) or 'sells' (predicts lower than quote). The punter decides on the size of the betting stake. If you win then the return is your stake times the eventual margin you predicted above or below the bookmakers spread.

Conversely, if you lose, you lose an amount of your stake times every run or goal you were above or below the bookmakers spread. Unlike fixed odds betting you do not know how much you could win or lose. The punter can place limits on losses/wins through stop/loss arrangements which are an important harm minimisation measure and place successive bets ('in-running') to offset losses. The single protection a punter has is the punter/client arrangement where sufficient funds must be in the account to cover the margin exposure.

Further explanations and examples drawn from the internet are set out below.

Source: <http://www.online-spread-betting.com/sports.htm>:

What is Spread Betting on Sport?

Spread betting can be applied to a huge range of sporting events and matches. There are three basic categories into which bets fall: Total Number Bets, Supremacy and Match Bets and Performance Index Bets. These are decided by the totals of certain numbers in sporting events from which winners are declared, i.e., goals in football; runs in cricket; points in rugby; shots in golf. The key idea underpinning all bets is the spread, representing the difference between the prices at which you can back your selection to do well and badly.

How does it work? Imagine the First Test between England and the West Indies. How many runs will England score in their first innings? Example: Total Runs The quote might be 260-280. This means England are expected to score between 260 and 280 runs. If you think the pitch is full of runs, and that a total of 400 is likely, you should BUY at the higher quote i.e., 280. If, on the other hand, you think England will get nearer 200, you should SELL at the lower quote of 260. You specify your unit stake, i.e., the amount per run you wish to bet, when you open the bet. You always buy at the higher quote and sell at the lower quote. Say you think England will do well, and BUY for £2 per run at 280. This means for every run above 280 that England score, you win £2. If they make 400, you win $(400-280) \times £2 = £240$. But for every run below 280 that they total, you lose £2. If they are all out for 200, you lose $(280-200) \times £2 = £160$. If, instead, you were confident England would do badly, you could SELL for £2 per run at 260. So for every run below 260 that England total, you win £2. A final score of 200 nets you a profit of $(260-200) \times £2 = £120$. But every run above 260 loses you £2, and a total of 400 means a loss of $(400-260) \times £2 = £280$.

⁴ ACT Gambling and Racing Commission, Discussion Paper. 2004. Review of Race and Sports Bookmaking.

This demonstrates the key difference between spread betting and fixed-odds betting. Profits, and losses, are made in proportion to whatever unit stake you choose, but the stake is not the limit of your financial risk. With a £10 bet with a High Street bookmaker, that £10 is all that can be lost. A £10 per run bet on cricket can win, or lose, many times more than the £10 unit stake. With supremacy and match bets, the chief interest is not simply in who will win, but by how much. Betting takes place on the margin of victory, or supremacy, of one team or performer over another.

What is Financial Spread Betting on the Stock Exchange?

Spread Betting is a form of trading in which you bet on the price movement of a share, index, bond, commodity or currency in the same way as described above. It is a way of participating in the stock markets without actually owning any shares.

Appendix I

Victorian Racing Industry's Joint Venture with TABCORP

In 1994, the Victorian racing industry (VRI) and TABCORP Holdings Limited formed an unincorporated joint venture for the operation of a wagering and gaming business in Victoria. This coincided with the privatisation of the former Totalisator Agency Board, the public float of TABCORP and the issuing of a wagering and a gaming licence by the Victorian Government under the *Gaming and Betting Act 1994*. The joint venture agreement and licences are in place until 2012. The *Act* specifies that the VRI will be no worse off under the business arrangements relating to the renewal of those licences.

The VRI's participation in the joint venture is conducted under the auspices of VicRacing Pty Ltd and Racing Products Victoria Pty Ltd. Both companies have six directors (four nominated by RVL, one nominated by Harness Racing Victoria and one nominated by Greyhound Racing Victoria).

VicRacing Pty Ltd and TABCORP have one vote each on the Joint Venture Management Committee. All decisions by the Committee must be unanimous, thereby giving both parties equal control over the conduct of the joint venture.

VicRacing holds the VRI's equity interest in the joint venture and is entitled to a 25 per cent share of the joint venture's total profit (incorporating the net profit arising from TABCORP's wagering and gaming businesses).

Racing Products Victoria supplies racing services to TABCORP in return for the following fees –

- (i) a \$50 million per annum racing program fee (indexed from 1997-98 to growth in wagering profit) for supplying the racing product;
- (ii) a product supply fee of 18.8 per cent of wagering revenue (equating to around three per cent of turnover); and
- (iii) a \$2.5 million marketing fee (indexed from 1997-98 to growth in wagering profit).

In turn, VicRacing and Racing Products Victoria distribute this income to the three codes based on the following formula -

- joint venture profit, marketing fee and 25 per cent of the product supply fee are allocated to the codes based on off-course wagering market share
- racing program fee and 75 per cent of the product supply fee are allocated on a fixed basis of 73 per cent thoroughbred code, 18 per cent harness code and nine per cent greyhound code.

Appendix J

Wagering Facilities, Process and Protections for all (including minors)

Following from comments raised about wagering and crime TABCORP provided the following description of the terms and conditions related to the use of credit card accounts and deposit facilities.

TABCORP has stringent terms and conditions placed on the use of credit card accounts as a deposit facility. There are a number of stages to opening accounts and there are in place checks and balances related to the operations of those accounts. These are as follows:

TAB account holders wishing to use their credit card to deposit betting funds into their TAB account must return the completed Application Form to TABCORP. Account holders should allow approximately five working days for applications to be processed.

TAB account holders may apply to make credit card deposits with one credit card only. The credit card must be in the same name as the TAB account holder.

Credit card deposits into TAB accounts may only be made by telephoning Customer Service. Credit card deposits may not be made at TAB retail outlets.

Credit card deposits will be limited to one per day per customer.

The minimum credit card deposit that may be made by TAB account holders is \$100, subject to the account holder having sufficient credit available. The maximum deposit is \$10,000 unless a request to exceed the maximum deposit is made in writing to TABCORP and TABCORP confirms its acceptance in writing. TABCORP reserves the right, at its sole discretion, to reject any applications.

Subject to the account holder having sufficient credit available, the maximum deposit that may be made is the lower of the amount nominated by the TAB account holder in writing and \$10,000. TABCORP shall not be held responsible, however, in the event that credit card deposits are accepted by TABCORP in excess of the maximum amount nominated.

In accordance with legal requirements, funds transferred from a TAB account holder's credit card to a TAB account will not be available for betting until the funds have been received by TABCORP from the credit provider. At no time will TABCORP provide any credit to the TAB account holder.

An administration fee of up to \$3 may be charged by TABCORP in respect of each credit card deposit made by a TAB account holder. This fee is subject to change.

Funds deposited from a credit card to a TAB account that have not been used for betting are not available for withdrawal. Funds transferred from a credit card into a TAB account cannot be transferred back unless an error has been made by TABCORP.

The interest free period (if applicable) that applies on funds deposited from an account holder's credit card will be determined by the terms and conditions set by the credit card issuer.

TAB account codes must be kept in a safe, secure place. Identifying a TAB account code to TABCORP gives TABCORP authority to place bets and to deposit funds from an account holder's registered credit card into his or her TAB account. TAB account holders must notify TABCORP immediately in the event that an account code is lost or stolen. Prior to this notification all responsibility and liability for any loss occurring as a result of any misuse rests solely with the TAB account holder.

Lost or stolen credit cards must be reported to the credit card issuer immediately. Prior to this notification all responsibility and liability for any loss occurring as a result of any misuse rests solely with the TAB account holder.

TAB account holders may withdraw TABCORP's authority to deposit funds from their credit card into their TAB account at any time by giving written notice to TABCORP.

TABCORP reserves the right, at its sole discretion, to withdraw access to its credit card deposit service to any TAB account holder at any time without notice. TAB account holders currently held in detention in Australian or foreign prisons are not eligible to use the credit card deposit service.

The TABCORP Rules relating to Betting Transactions in Victoria, and the Sportsbet Rules, form part of these conditions. Conditions as at February 2000. TABCORP reserves the right to vary these conditions and the administration fee referred at any time, at its sole discretion.

Finally, in relation to unusual, suspect and/or large transactions TABCORP has in place procedures to detect and report all such activities.

All cash transactions of \$10,000 or more must be reported to Austrac. These procedures are considered sufficient.

Protections Against Betting By Minors

TABCORP has a stringent process for guarding against betting by minors. Outlined below are the major points of control already in place to prevent gambling by minors via the internet or over the phone:

- An account must be opened to allow an individual the ability to bet via the telephone or via the internet. Opening of an account by a new customer may only be approached in two ways: within a TAB retail agency or via the internet;
- When *opening an account via a retail agency*, visual identification and at least one form of photo ID must be presented. However all agents strongly urge customers to present the full 100 points of ID;
- When *applying for an account Online*, prospective customers must confirm their age and are advised they must be 18 years of age or over, which they must confirm via ticking a specific field. Even if they do go ahead and complete this process when not of legal age, they must still place funds into their account;
- Majority of people place funds into their account via a TAB retail agency or via credit card. The credit card must be registered with TABCORP (via sighting of credit card along with 100 points of ID), or it may only be used for a one-off, \$100 deposit over the phone;
- With TAB racing accounts, withdrawal of funds from accounts opened via the internet can only take place once 100 points of ID has been produced and recorded in the TAB system.

With TAB sports betting accounts, steps have been taken to implement the same withdrawal inhibitor.

The researchers view is that these arrangements are appropriate and demonstrate a commitment to ensure the integrity of the product that TABCORP offers