

RESPONSE TO THE PAPER ENTITLED 'BETFAIR COMMENT ON SUBMISSIONS TO THE HBLB CONSULTATION EXERCISE REGARDING BETTING EXCHANGES'

Further to the provision of the above named document there are a number of points which require additional clarification most specifically in relation to Annex 1 (page 10).

There is little to be gained at this stage by entering into a cross debate on the minutiae of the document so we have restricted our comments to the most salient statements, although it should also be noted that any failure to refer to other claims by Betfair should not be taken as acceptance by the FRB of any inaccuracy or misinterpretation. The FRB review was intended to promote discussion and cooperation between the industry and the betting exchange operators and as such was a starting point and was not portrayed as an exhaustive document which is the reason for the number of caveats and generalised statements. The review was compiled without the detailed knowledge of the relevant statistics and company data which could only be available to Betfair itself.

The overview statement is that Betfair's comments on the Report on the Changing World of Betting Exchanges 2004-2010 is both unnecessarily adversarial and negative. The Report had praised the quality and professionalism of the accounting systems at Betfair and therefore recommended that Betfair should work in tandem with the industry to resolve the issues between licensed bookmakers and exchange operators.

It is therefore rather disconcerting that Betfair have taken such a negative approach to the Review. There is no clearer illustration of this than their demand for evidence with regards to the increase in non-recreational layers. This was not difficult for Betfair to calculate and confirm or deny rather than take a negative position. The same remark applies to several other comments regarding facts which Betfair are fully aware remain privy to their own Board.

Betfair continue to remain in denial regarding the existence of professional layers on betting exchanges who are not licensed bookmakers and in doing so are restricting the progress to the resolution of the problem of illegal bookmaking.

As a Listed Company on the Stock Exchange it would have been presumed that Betfair would endeavour to be more willing to assist rather than resist progress.

Indeed in the interests of transparency it would have been appropriate for Betfair to make it clear that while they project their role as exchange operator they are decidedly more covert with regard to their very different role in the Multiples Market where they act as the bookmaker.

To quote from extracts of the Betfair promotional video on their website regarding their role they state that:

“Betfair acts as a market platform which matches a backer and layer...Betfair then matches his bet with somebody...traditional bookmakers need you to lose to make money. In contrast Betfair loves winners. They only take commission and because it is a no risk business they can consistently give better value to customers.”

Only this is not true in the case of the Multiples Market.

If a punter backs on the Multiples Market the layer is exclusively Betfair and not “*somebody*”. These transactions are placed through BCSL (Betfair Counterparty Services Limited) based in Malta. BCSL are often referred to as Betfair Malta.

Quite probably as a bookmaker Betfair do not love winners quite so much on their Multiples Market!

This raises another intriguing matter. As BCSL hedge back into Betfair’s Singles market such a transaction would require BCSL to act as far more than an exchange operator and is far removed from the concept of peer to peer betting as portrayed by their advertising campaign.

Essentially Betfair act as not only an exchange operator but also as a bookmaker and trader on their own exchange.

Betfair have stated that there is no evidence of an increase in the professionalisation of laying on the exchanges. This seems to conveniently overlook the success of their own counterparty service company. We are of the firm opinion that given evidence of the current situation the Government would accept the requirement for the categorisation of the non-recreational layer.

The most disappointing aspects of Betfair’s comments are that firstly they appear to be in denial of the categorisation of non-recreational layers and secondly a lack of willingness to cooperate in the process of identification of the category of users who act as non-recreational layers. Betfair has the required information readily available and we feel that they should be willing to work with the industry to establish appropriate thresholds. To adopt the stance that because the Report was deliberately non-prescriptive Betfair should dismiss it out of hand would not appear to represent the actions of an organisation seeking to resolve a long standing problem. This is an area of major disappointment to the FRB.

The final two points which need clarification are firstly in relation to the taxation of non UK licence holders and secondly the delineation of backers and layers.

On the former matter we wish to clarify the point made on page 23 of the Report in which the FRB called for the taxation of non-recreational layers. This specifically referred to layers on Betting Exchanges rather than any other non-UK based operator.

On the latter issue it is difficult to understand that Betfair can maintain their position that it is arbitrary to make a distinction between a backer and a layer. There is a fundamental difference between a punter and a bookmaker.

While both actions contain risk when enacting a bet to win on the betting exchange a punter is acting neither in the role of a bookmaker nor in competition with a licensed bookmaker.

However when effecting a lay transaction the exchange layer is acting directly in the role of bookmaker and is in competition with the licensed bookmaker. Indeed by assuming the role of bookmaker the exchange layer falls within Section 55 of the 1963 Act.

To deny that there is a definitive demarcation between the role of backer and layer suggests a level of unwillingness to enter into the resolution process which is not in keeping with the principles of a Listed company.

From our perspective there would appear to be no merit in the Betfair statement that laying one horse in a race is the same as backing all the other runners in a horse race except one.

This can be illustrated by an example of a randomly selected race from Wolverhampton on 18 November 2010.

The race had 8 runners. To BACK horse numbers 2 to 8 with the same £2.00 stake (the Betfair minimum stake) would produce the outcome as illustrated below which reports a strong chance of making an overall loss on the bets:

Horse number	Stake	Price	Profit/Loss
2	£2.00	3.35	Loss -£7.30
3	£2.00	3.50	Loss -£7.00
4	£2.00	15.50	Profit £17.00
5	£2.00	50.00	Profit £86.00
6	£2.00	80.00	Profit £146.00
7	£2.00	100.00	Profit £186.00
8	£2.00	180.00	Profit £346.00
Total Stake	£14.00		

Therefore in order to make a guaranteed profit the backer clearly would require a staking plan with variable amounts placed on each of the 7 runners starting with the minimum stake on the outsider of the field.

Horse number	Stake	Price	Profit
2	£155.80	3.35	£175.93
3	£147.00	3.50	£168.00
4	£25.30	15.50	£46.00
5	£7.50	50.00	£29.00
6	£4.65	80.00	£26.00
7	£3.70	100.00	£24.00
8	£2.05	180.00	£23.00
Total Stake	£346.00		

To LAY horse number 1 at the Betfair price of 3.25 to the identical liability of £346 would have provided a level profit to stake of £154 regardless of the winner (except the layed horse). ***It is obvious that the lay strategy is far superior to the back strategy despite the fact that the liability is identical.***

This simple comparison clearly illustrates that there is a very significant difference in the profit margins achieved by LAYING one horse rather than BACKING the remainder of the other horses in the race.

At the comparative Betfair odds available to the required levels of staking and liquidity it would have been impossible to back the 7 runners to achieve the same profit over stake that could be achieved by laying horse number 1.

It is also important to restate that whether a Betfair user is laying one horse or all the runners he/she is still acting in the role of bookmaker and as such is effecting a transaction. There is nothing in Betfair's comments which convinces us that there is any justifiable reason to deny the obvious distinction between backer and layer except for their fallback position that the Government in 2004 were not persuaded that there was a case for differentiation. Six years on there is now an opportunity for all parties to revisit this principle.

In conclusion, the industry should seek a path forward in liaison with Betfair and the other exchange operators in order to establish thresholds and categorisation of the non-recreational users which would then facilitate the existence of a level playing field between licensed bookmakers and layers on the exchanges. In the event that Betfair remain in denial of the need for categorisation it is our view that the industry should collectively take its own calculations and proposals for the categorisation of a non-recreational layer forward to be determined by Government.