

CONFIDENTIAL AND NOT FOR PUBLIC DISSEMINATION

Re: The Horserace Betting Levy Board

**SUPPLEMENTARY
Consultant's Advice
to the Horserace Betting Levy Board**

by:

Rt. Hon. Sir Philip Otton

20 October 2008

Betting Exchanges

1. The Bookmakers' Committee recommend that Betting Exchanges should continue to be assessed for Levy on the basis of 10% of GP on British horseracing business, where GP is the commission deducted by the Exchange from the amounts paid out by it to bettors and bet-takers.
2. I have now had the opportunity to meet representatives from Betfair and from the BHA on this issue.
3. As encapsulated in their submission to the Secretary of State in respect of the 47th Levy Scheme and their submission to me, the BHA consider that Betting Exchanges require separate and detailed consideration outside the Levy Board processes and within the Government-sponsored process which already exists for this purpose but which has failed to address with expedition or to reach any finality.
4. The BHA's case is that the Exchange market should not be assessed on the same basis as traditional bookmakers (i.e. GP of the exchange itself). The mechanism should be amended to remedy the present 'lacuna', ensuring a fair Levy return. Under the current regime, Racing does not share properly in a fair and reasonable way. The problem is getting worse. The increase popularity of Betting Exchanges has caused customers to desert traditional bookmakers whose GP are subject to the Levy and Betting Tax, and to place their bets, via Exchanges with unlicensed layers – whose profits are not subject to the Levy. Although the operators of Exchanges are required to pay Levy contributions these are based only on commission which can vary from 5% decreasing to 2% for high-value users. In one case (WBX) only 1% is charged. The BHA estimates that in 2002 Betfair, the current dominant Exchange, had a turnover of £6.1 million per annum and some four years later this had risen to £145 million. Moreover, the net winnings of those betting through Exchanges were of the order of £1.5 billion. Put simply despite accounting for 17% of the market, Betting Exchanges accounted for only 5% of the Levy charge.
5. Thus (they say) the figures reveal a highly disturbing and inequitable situation. In the period 2004-2005 the Levy contribution derived from Betfair would have amounted to a charge of 1.38% of the £1.5 billion or £20.5 million, nearly four times the actual figure paid by Betfair.

6. Accordingly BHA proposes a Levy charge on the Exchanges set at 1.15% of punters' net winnings. This would remove from the Exchange operator the ability to control sales of Levy payment, would be simple to operate and they suggest other advantages.
7. Betting Exchanges (via Betfair), in their Submission to the Secretary of State and in their Submission to me, contend that the BHA case is fundamentally flawed on a number of counts. The first relates to numbers. Any assessment of what accompanies Levy payment in relation to its turnover is irrelevant since Levy is not charged on a percentage of turnover. The metric Levy is GP, which is the product of turnover and margin. If turnover is high, margin will be low, and vice versa; so establishing that the final sum paid is low in relation to the turnover produced is as irrelevant as saying that it is high in relation to the margin that is charged. If Levy is charged on GP, it is unhelpful – indeed, misleading, to calculate how the quantum relates to other metrics, just as an individual's income tax is not compared with that year's capital gains.
8. Any betting operator will charge in the way that all businesses seek to do: to the maximum extent possible while successfully retaining custom. Hence, margin is set at a level to maximise the product of margin and turnover, or *gross profit*. It is this which is charged. Assuming that any two operators have equally capable management teams, it should make no difference to Racing at which of the two operators a customer bets, if Racing is deriving the same percentage of both operator's GP.
9. The second relates to structure. If the contention is that a different basis of Levy altogether should be established for Betting Exchanges, then the question is fairly asked what differentiates an Exchange model from a traditional bookmaking model. The answer is only the respective appetite of each operator for risk, and their respective means of managing that risk. Both operators match supply and demand for opposing views to a certain extent, but a traditional operator will do so imperfectly while an Exchange will do so perfectly, through technology. Clearly the effect of the latter system is that customers are seen to bet with each other; but the simultaneous acceptance of equal and opposite bets by one operator, compared with the time-delayed acceptance of almost equal and almost opposite bets by

another, does not change the fundamental proposition that the operators' profit derives from the difference between what is paid out in winnings and what is taken in in losses, whether that difference is built into the price or declared up front.

10. The fundamental structure or similarity undermines the suggestion that one set of Betting Exchange customers should be charged as if they were bookmakers. Exchange customers can take either side of the bet, it is true; but betting on a horse not to win is not the *legal* preserve of bookmakers, even if it has traditionally been their commercial preserve and even if laying and bookmaking have become synonymous in the deception of the public as a result. 'Layers' on Betting Exchanges are not bookmakers, but punters betting on an outcome not to happen as no Levy is charged punters on other platforms, neither should it be on an Exchange.
11. The question arises of 'illegal bookmaking', which the BHA considers to be part of the reason of the 'lacuna' mentioned above. Those bookmakers who use Betting Exchanges to hedge their positions are already counted for in the Levy calculations; those who are bookmaking illegally and in turn are hedging their business through Exchanges (or indeed anywhere else, since the hedge of an illegal bookmaker will be by definition a 'back' bet) need to be captured for their illegal activity, but that is a problem of law enforcement not limited to Betting Exchanges and is not within the scope of this Report.
12. Finally, Betfair assert that BHA's alleged 'lacuna' stems from apparently illegal bookmaking taking place solely on Betting Exchanges which would otherwise be levied were the business to be conducted elsewhere. It is clear that no individual can be 'in the course of business' on Betting Exchanges alone if 'being in business' requires some kind of customer interaction. As Betfair state:

"if this is seen to be a philosophical argument, then in practical terms, it is difficult to see if anyone can conduct the same business as they would by permit on a Betting Exchange alone, simply by virtue of the need to better an already perfect book in order to be the first price available."

A Betting Exchange 'book', as visible to customers has no margin in it (because the operators' margin is charged separately as a commission, and there is no need for a risk margin added). Thus any prospective bookmaker on a Betting Exchange needs to

price a book below 2% and very often over broke, or on a negative margin. This is not a recipe for a successful business, and the contention that it happens nonetheless runs counter to what appears a widely-held view in Racing that on-course bookmakers in particular have struggled to run their businesses while margins are as low as 12%.

13. By way of clarification BHA emphasise that their position is confined to unlicensed bookmakers. Even Betfair appear to concede that those who are bookmaking illegally and in turn are hedging their business through Exchanges need to be captured for their illegality. Moreover BHA do not wish to target a retired bookmaker who has surrendered his license and is content to watch racing and betting on his PC at home (a service provided by Betfair). They are concerned with the big operators. They point to the Betfair Charging Structure where a Transaction Charge is applied (in addition to the commission charged) to customers if they process a large number of transactions. These apply to customers placing or editing more than 1000 bets an hour. In addition to any commission and transaction charges Betfair customers are charged a Data Request Fee if they make a large number of data requests (API and website) within the same second (sic). In addition a Premium Charge is imposed on Betfair's most successful customers. This activity (BHA contends) is not that of a retired bookmaker but of huge commercial operations but powerful and wealthy unlicensed bookmaker institutions who make no contribution to the Levy.
14. They suggest two options. First, that with their advanced and highly sophisticated technology Betfair (and other Betting Exchanges) could produce an accurate (and if necessary audited) disclosure of this activity so that the Levy can be calculated and applied. Second, if this is too complicated, then an additional 1.15% of GP can be applied across the board to all Betfair's racing GP. Such an approach may not be dissented from by the other members of the Bookmakers' Committee (or the licensed bookmakers they represent).
15. I have set out the positions of the BHA and Betfair in full so as to reveal the complexity of the issue. I doubt if this matter can be resolved within the Levy Board by 31 October (if at all). However I have identified and narrowed the dispute in a way that I hope will be more intelligible particularly if this matter requires Determination.

16. I attach:

- i. The Betfair Submission to the Secretary of State in respect of the Determination of the 47th Levy Scheme.
- ii. The Betfair Charging Structure as revealed on their website.

Overseas Racing

17. By way of elucidation, paragraph 52 of the initial Report should now read:

“Two situations arise:

First, concerns British residents placing bets with British LBOs on foreign races e.g. L’Arc de Triomphe. Originally, turnover on this activity was leviable. BHB (the forerunner of BHA) waived the right in favour of a licensed substitute. This was struck down by ECJ. BHA have indicated that they are prepared to propose that the original situation should be reinstated (i.e. on GP from this activity) and that they might be able to support a recommendation to this effect by the Bookmakers’ Committee. This activity is undoubtedly related to the business of horserace betting. In order for this to occur it would be necessary for the Bookmakers’ Committee to take the initiative by making such a recommendation. It would then be within the power of the Bookmakers’ Committee and the Levy Board to agree to restore this part of the Levy. The value or benefit of such a move would have to be assessed but meanwhile BHA’s estimate of £6 million - £10 million per annum of lost Levy is a useful start to this process. Bookmakers’ Committee may see this as a means to trade off such an amount (or similar) in return for an agreement on an amount for a Turf TV reduction.

The second situation concerns British residents betting on British races by placing their bets outside Britain (e.g. by telephone to Ireland, Isle of Man or Gibraltar). No Levy attaches to these transactions. I fear that any agreement (which I doubt is achievable) would be of no effect. The Levy Board has no power to impose a Levy on this activity. Accordingly I suggest that this situation should be removed from the agreement process. Instead BHA and the Bookmakers’ Committee (and the Government-appointees) should agree to make common cause to the Secretary of

CONFIDENTIAL AND NOT FOR PUBLIC DISSEMINATION

State for an investigation as part of the overall Modernisation Review already initiated by the Secretary of State.

48hr Declarations

18. As already indicated Bookmakers' Committee seek to reduce the 48hr stipulation to 24hr for Turf racing for the season 2009. As I perceive it, BHA is not averse to this suggestion but, not unnaturally, require data to justify such a move. It is necessary to establish the benefit from such an alteration as against the cost or loss of revenue (and GP) from overseas entrants. Providing this proof is forthcoming I see no reason why the Levy Board cannot agree to such a change.

Paragraph 29

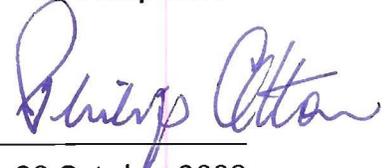
19. On reflection I consider that paragraph 29 requires some refinement which should now contain the addition:

"I understand that virtual racing can include virtual greyhound racing. It is arguable that virtual greyhound racing is not related to horserace betting. It is likely that the SOS would take broad view and conclude that some part of the GP should be reduced to reflect the greyhound racing punter who bets on greyhound virtual races. A pragmatic solution would be to reduce the eligible Levy by (say) 10%."

Competition Issues

20. As I have already indicated I do not propose to address this issue but I understand that the Levy Board's solicitors are to consider the matter.

Sir Philip Otton



20 October 2008

20 Essex Street
London WC2R 3AL

Betfair Charging Structure, 10/09/08

Most Betfair customers are only charged commission on their net winnings in a market, as set out in more detail in **Section 1** below.

However, customers who place more than 1000 bets in any hour may also be charged a transaction fee depending on the number of bets placed and the amount of commission they have already paid, as set out in **Section 3** below. In addition, customers who make more than 20 data requests in any one second may also be charged a fee depending on the number and type of data requests made and whether they were also generating matched bets as opposed to just reading data. Fees relating to data requests are set out in **Section 4** below.

1) Commission, Market Base Rate, Discount Rate, Betfair Points, Betfair Points Statement and Betfair Holidays

Betfair charges a **Commission** on your net winnings on a market. If you have a net loss on a market you do not pay commission.

Commission is calculated by multiplying your net winnings by the **Market Base Rate**, as shown on the Rules tab. From this we will apply a discount. The more you bet with us the greater the discount you will receive.

The size of this discount, or your **Discount Rate**, is determined by the number of **Betfair Points** you have accrued on your account. Betfair Points are earned in proportion to your betting activity - the more you bet, the more points you accrue, the greater your Discount Rate. Please note that your discount rate will be capped at 20% unless you have completed Betfair's [Know Your Customer](#) check requirements.

You earn Betfair Points every time you bet on a market. You will earn 1 point for every 10 pence of commission paid (if you have net winnings) or implied commission (if you have a net loss). Implied commission is calculated in exactly the same way as commission but refers to losses rather than winnings. Betfair Points are awarded equally whether you win or lose.

Example:

*You have net winnings in a market of £400.
The Market Base Rate is 5%.
Your current Discount Rate is 40%.
Therefore the commission you pay is £12 ($£400 \times 5\% \times (1-40\%)$).
You earn 120 Betfair Points.*

Example (using implied commission):

*You have net losses in a market of £100.
The Market Base Rate is 5%.
Your current Discount Rate is 30%.
Therefore the implied commission is £3.50 ($£100 \times 5\% \times (1-30\%)$).
You earn 35 Betfair Points.*

For the purpose of calculating Betfair Points your commission or implied commission on a market is rebased to British Pounds at the time of settlement.

Your Discount Rate is calculated from your current Betfair Points every week. This occurs at midnight (GMT) every Sunday using the table below:

Betfair Points		Discount Rate
From	To	
0	999	0%
1,000	2,499	2%
2,500	3,999	4%
4,000	5,499	6%
5,500	6,999	8%
7,000	8,999	10%

9,000	10,999	12%
11,000	12,999	14%
13,000	14,999	16%
15,000	16,999	18%
17,000	18,999	20%
19,000	20,999	22%
21,000	22,999	24%
23,000	25,999	26%
26,000	28,999	28%
29,000	31,999	30%
32,000	35,999	32%
36,000	39,999	34%
40,000	43,999	36%
44,000	48,999	38%
49,000	54,999	40%
55,000	60,999	42%
61,000	66,999	44%
67,000	72,999	46%
73,000	79,999	48%
80,000	87,999	50%
88,000	95,999	52%
96,000	107,999	54%
108,000	125,999	56%
126,000	149,999	58%
150,000	-	60%

Once your Discount Rate has been calculated, your Betfair Points balance is reduced by 15%. This is known as the **Weekly Decay**. If you continue to bet at the same level each week, your Discount Rate will remain unchanged. If your Betfair Points at any time imply a higher Discount Rate, you will move to that rate immediately.

Discount Rates are applied at the time of market settlement rather than bet placement. These might be different for you in long term markets.

The **Betfair Points Statement** within your My Account section provides a full history of your Betfair Points, showing changes as a result of your betting activity, weekly decay and any relevant promotions. This statement also shows your current Discount Rate.

You are able to prevent the weekly decay of your Betfair Points by using a **Betfair Holiday**. You may continue to bet during your Betfair Holiday but will not earn Betfair Points for any markets settled during this period.

You earn one Betfair Holiday when you register and one additional Betfair Holiday every three months thereafter. You may use your Betfair Holiday at any time but cannot accrue more than four unused Betfair Holidays on your account.

The Betfair Holidays section within the My Account section provides a calendar of the next 26 weeks and enables you to book or cancel Betfair Holidays for any of these weeks.

2) Tote betting

When betting into the AUS Tote Pools via Betfair or placing other Tote bets with Betfair (for example UK Tote bets) you earn 1 Betfair Point for every 1 GBP staked. All Betfair Points earned from UK and AUS Tote bets over the course of a week (Monday to Sunday) will be credited to your Betfair account the following Monday.

For the purpose of calculating Betfair Points your total stake is rebased to British Pounds and you earn 1 Betfair Point for every full Pound staked.

3) Transaction Charges

In addition to any commission payments, Betfair customers will be charged a transaction fee if they process a large number of transactions.

NB – Transaction Charges only apply to customers placing or editing more than 1000 bets an hour.

At the end of every day, we add up all the bets you placed or edited (whether matched, cancelled or lapsed). If this number is in excess of 1000 in any hour of the day then:

i) for customers placing bets through the Application Programmers Interface (API), we will multiply this number by 1p; and

ii) for website customers, we will multiply this number by 2p.

For the purpose of Transaction Charges, bets on financial markets will count as 0.25 of a bet. This will form the basis of the transaction fee, but we will offset this fee against the following amount:

$(\text{Commission} + \text{Implied Commission}) \div 2$

Any remaining amount will be charged to your account on a daily basis. Should your $(\text{commission} + \text{implied commission}) \div 2$ exceed this amount, you will not be charged a transaction fee. Accounts that relate to one person, entity, API subscription or a Master account (Trading version only) with related Sub accounts are treated as one customer for the purposes of transaction charging. Note that no Betfair points will accrue for transaction fees.

Example 1:

You are an API user who pays $(\text{commission} + \text{implied commission}) \div 2$ of £18.50 throughout a given day. However, between the hours of 14:00 and 15:00 you placed 2500 bets and between the hours of 15:00 and 16:00 you placed 3250 bets, but in other hours you placed less than 1000 bets. Your base transaction charge is $(2500-1000)£0.01 + (3250-1000)*£0.01 = £37.50$. Therefore you will be billed an additional $£37.50-£18.50 = £19.00$ on the following day.*

Example 2:

*You are a Website user who pays $(\text{commission} + \text{implied commission}) \div 2$ of £20.00 throughout a given day. However, between the hours of 14:00 and 15:00 you placed 3000 bets on financial markets and 1500 bets on non financial markets. In all other hours you placed less than 1000 bets on all markets. Your base transaction charge is $((3000*0.25) + 1500)-1000)*£0.02 = £25.00$. Therefore you will be billed an additional $£25.00-£20.00 = £5.00$ on the following day.*

4) Data Request Charges

In addition to any commission payments and transaction charges, Betfair customers will be charged a data request fee if they make large numbers of data requests within the same second.

Calculating Potential Charges

At the end of every day, we add up the total number of API and website data requests you made in each second and if you made more than 20 data requests in one second we charge you 0.1p per data request above 20. API calls and website refreshes send requests for different types and quantities of data. We therefore apply a weighting system to calculate the actual number of data requests made in each second.

Data Request Weightings and Exemptions

- Charging only applies to data requests for market data (for example market prices) and private betting data (for example current bets, P&L)
- API market and private data calls are weighted 1 except cross-market current bets calls (i.e where you specify Market ID = 0). These have a weighting of 5
- Market and private data requests made through the website are weighted 2. If you're using the website manually with a mouse, you shouldn't be affected by this charging scheme. If you're refreshing data on the website using an application and want to receive updates more than once or twice a second you may be affected depending on how many markets you read simultaneously and how much data (market prices, current bets, P&L etc.) is sent with each update. Please contact your application supplier if you want more information.

API Market Data Calls

Call	Weighting
Get Market Prices Compressed	1
Get Market Prices	1
Get Market Traded Volume	1
Get Market Traded Volume Compressed	1
Get Detail Available Market Depth	1
Get Complete Market Prices Compressed	1

API Private Data Calls

Call	Weighting
Get Current Bets	1*
Get Current Bets Lite	1*
Get MU Bets	1*
Get MU Bets Lite	1*
Get Bet History	1*
Get Market Profit and Loss	1
Get Bet	1
Get Bet Lite	1
Get Bet Matches Lite	1

* Where market ID = 0 the weighting is 5. Four requests in a second would not incur a charge, a 5th request in the same second would be charged at 0.5p.

Potential Charges Offset by Commission, Implied Commission and API Subscriptions

The following amounts are multiplied by 5 and the total is used to offset any potential charge:

- Total commission you generated during the day
- Total implied commission you generated during the day
- API subscription payments adjusted to a daily figure. A £200 monthly subscription equates to a daily amount of £6.58 [$=(£200*12) / 365$].

Any remaining charge is deducted from your account the following day. Accounts that relate to one person, entity, API subscription or a Master Account with related Sub- accounts are treated as one customer for the purposes of data request charging. Note that no Betfair points will accrue for data request fees.

You are allowed 20 data requests in any one second*



Any requests over this limit are charged at 0.1p*



At the end of the day, you pay
THE TOTAL CHARGE INCURRED
less

((YOUR REAL + IMPLIED COMMISSION FOR THE DAY + ANY API
SUBSCRIPTION ADJUSTED TO A DAILY FIGURE) X 5)

*Note the Data Request Weightings and Exemptions that apply to API
calls and Website refreshes

• **Example 1**

You are an API user who generated commission of £6 and implied commission of £4 throughout a given day.

*You have also paid your £200 subscription in the last 31 days for direct access to the full API. This equates to a daily payment of £6.58 $[(£200*12) / 365]$. For £2000 annual subscribers the daily payment would be £5.48 $[(£2000 / 365)]$.*

*However, between the hours of 14:00 and 15:00 you made 36 Market Data and Private Data calls per second, but in other hours you made 20 or fewer calls per second for Market Data and Private Data. Your base data charge is 0.1p multiplied by the number of seconds in which you made the additional 16 data requests above the free threshold of 20: $(3600*16)*£0.001 = £57.60$.*

*However, because of your commission, implied commission and API subscription you will not be billed: $(£10+£6.58)*5 = £82.9$ which is greater than the charge of £57.60.*

• **Example 2**

You are an API user who uses a Betfair or 3rd party application. You generate commission of £4 and implied commission of £3 throughout a given day.

Your application allows you to choose the frequency with which you request data. You keep the settings at a rate of 5 per second which you know from Betfair or your application vendor means you are making 10 data requests a second (5 market price updates and 5 P&L updates per second).

However, between the hours of 14:00 and 15:00 you decide to view 3 markets at the same time. Because the requests for data are market based this means you are now making 30 data requests per second.

*Your base data charge is 0.1p multiplied by the number of seconds in which you made the additional 10 data requests above the free threshold of 20: $(3600*10)*£0.001 = £36$.*

*Therefore you will be billed £36- $(£7*5) = £1$ on the following day. If your total commission plus implied commission had been £7.20 or more, no charge would be applied.*

• **Example 3**

You use a mix of the free access API and an application that requests data from the website. You generated a total commission of £2 and implied commission of £4 throughout a given day.

However, between the hours of 13:00 and 16:00 your application requested market price updates 1.1 times per second from the website and once per second via the API. Website requests are weighted 2 and API 1 so this equates to 23 data requests a second.

*Your base data charge is 0.1p multiplied by the number of seconds in which you made the additional 3 data requests above the free threshold of 20: $(10800*3)*£0.001 = £32.40$.*

*Therefore you will be billed £32.40- $(£6*5) = £2.40$ on the following day.*

The number 5000 above is calculated as follows: We charge 0.1p per data request above the 20 per second free threshold. The offset is (commission + implied commission) * 5. $(£1/£0.001)* 5 = 5000$ free requests. Every £1 in commission (or implied commission) therefore gives you 5000 free requests above the 20 per second threshold.

Guideline to the impact of commission or implied commission on increasing free requests above 20

Your Commission + Implied Commission in a day (£)	1	10	100
Free API Calls above 20 per second allowed in the day	5,000	50,000	500,000

Average calls per second that can be made in 1 minute without incurring a charge	>100	>100	>100
Average calls per second that can be made in 10 minutes without incurring a charge	28	>100	>100
Average calls per second that can be made in 1 hour without incurring a charge	21	33	>100
Average calls per second that can be made in 2 hours without incurring a charge	20	26	89
Average calls per second that can be made in 4 hours without incurring a charge	20	23	54
Average calls per second that can be made in 8 hours without incurring a charge	20	21	37

5) Premium Charges

In addition to the other charges detailed above, a small number (less than 0.5%) of our most successful customers will incur Premium Charges.

Premium Charges will take effect from 22nd September 2008 with the first charges paid the following week (week commencing 29th September 2008).

Please note that if you become eligible to incur Premium Charges, we will contact you before any charges are paid.

Calculating Potential Charges

Each week Betfair will calculate your 'gross profits'* made, and your 'total charges'** paid over the previous 60 week period. The details of these calculations are explained below.

You'll only be considered for the Premium Charge if your account is in profit over the previous 60 weeks, and only if the total charges paid during that period are less than 20% of your gross profits.

The vast majority of customers, and even the majority of those whose betting on Betfair was profitable over the previous 60 weeks, do not meet both these conditions and will not incur the Premium Charge.

While those conditions accurately describe our most successful customers, they might also apply to new customers who have only bet in a few markets, or those whose accounts are in profit because of a significant big win. To ensure that those accounts are not inadvertently charged, we've added two further conditions: any single win that constitutes more than 50% of gross profits over the previous 60 weeks will be excluded from the calculation, and customers will only be considered for the Premium Charge if they have bet in more than 250 markets during that 60 week period.

Each customer will also have an allowance in each 60 week period of £1,000 against the Premium Charge. This means that every customer considered for the Premium Charge will be exempted from the first £1,000 of the charge in each 60 week period.

Each week the customers who meet all the conditions set out above will be charged the lesser of:

- The difference between 20% of the previous week's gross profits and the total charges paid during the week; and
- The difference between 20% of the previous 60 weeks' gross profits and the total charges paid during that period.

This means that customers will never be faced with a Premium Charge that is more than 20% of their gross profits for the previous week.

Please note that the second of the two calculations set out above can only ever reduce the Premium Charge and will apply on the rare occasion that the difference between 20% of the previous 60 weeks' gross profits and the total charges paid during that period is less than the same calculation for the previous week.

Premium Charges will be deducted from customer accounts weekly (on Wednesdays) in relation to the previous week's activity (Monday to Sunday).

Accounts that relate to one person, entity, API subscription or a Master Account with related Sub-accounts (Trading version 2.0) are treated as one customer for the purposes of calculating Premium Charges. Note that no Betfair points will accrue Premium Charges.

By 'gross profits' we mean the amounts won, excluding total charges, less the amounts lost, on all Betfair markets.

By 'total charges' we mean all commission generated by Betfair as a result of your betting, plus any Transaction Charges, a Request Charges and Premium Charges you've incurred. 'Commission generated' includes the commission paid on your bets, but also the commission that Betfair makes from the other customers who win in markets in which you've lost, which we call 'implied commission'. When you win, Betfair collects commission at your rate of commission, but when you lose, the commission collected by Betfair from the winners is at their rate. So we'll determine the commission generated by your betting activity to be:

$$\text{Commission generated} = (\text{Commission} + \text{Implied Commission}) \div 2$$

where

$$\text{Implied Commission} = \text{market losses} \times \text{average market commission rate}$$

we divide by 2 because otherwise we'd be counting each pound of commission twice.

Premium Charge Summary

You will only be considered for the Premium Charge if, over the previous 60 weeks, you satisfy the following criteria:

- Your account is in profit;
- Your total charges paid are less than 20% of gross profits; and
- You bet in more than 250 markets.

Two further conditions reduce the likelihood that you will be required to pay the Premium Charge:

- Any single win that constitutes more than 50% of your gross profits over the previous 60 weeks will be excluded from the calculation; and
- Each customer will have a 60 week allowance of £1,000 against the Premium Charge.

Each week the customers who meet all the conditions set out above will be charged the lesser of:

- The difference between 20% of the previous week's gross profits and the total charges paid during the week; and
- The difference between 20% of the previous 60 weeks' gross profits and the total charges paid during that period.

Examples

Example 1

You have won gross profits of £10,000 over the previous 60 weeks having bet in 800 markets. You have paid total charges of £980; all of which has been paid through commission generated. You have not been charged any Premium Charges over the previous 60 weeks although you have fully used up your annual allowance of £1,000.

During the previous week you won £500 and paid total charges of £80. You are therefore charged £20 in Premium Charges (£500 x 20%) - £80 = £20).

Example 2 – Charge Allowance

You have won gross profits of £10,000 over the previous 60 weeks having bet in 320 markets. You have paid total charges of £1,050; £850 commission generated, £200 Transaction Charges and £0 Premium Charges.

During the previous week you won £500 and paid total charges of £50. In the absence of a charge allowance you would have been charged Premium Charges of £50 ($(£500 \times 20\%) - £50 = £50$). However, the £50 is offset against the £1,000 charge allowance meaning that no additional Premium Charge is paid. You then carry over the balance of your charge allowance (£950) to offset against potential future Premium Charges.

Example 3 – Excluding 'big' wins

You have won gross profits of £8,000 over the previous 60 weeks having bet in 500 markets. You have paid total charges of £1,025, all of which has been paid through commission generated.

During the previous week you won £5,000 from a single market and paid total charges of £125. As the win constitutes more than 50% of your total gross profits over the previous 60 weeks, it is excluded for the purposes of calculating the Premium Charge. However, the commission generated on the win does contribute towards total charges paid.

After the win is removed you have gross profits of £3,000 and total charges of £1,025 and therefore incur no additional Premium Charge.

Determination of the 47th levy scheme: Betfair response to BHA submission

This paper is a response to the BHA's submission to Government in relation to the determination of the 47th levy scheme. In part 3.2.3 of that submission the BHA suggests that betting exchanges should be subjected to levy on a different (and much more punitive) basis than the rest of the betting industry. Given the draconian nature of the BHA's proposal, Betfair feels compelled to address the points raised in some detail.

This response is divided into 3 sections as follows:

- Section A counters 4 general themes from the BHA submission.
- Section B addresses specific points made in the BHA submission, which Betfair believes to be particularly misleading or inaccurate.
- Section C describes why Betfair believes the charging mechanism proposed by the BHA (a levy based on the 'net winnings' of exchange customers) is deeply flawed.

Section A

1. *It is a fallacy that exchange gamblers making lay bets are conducting the same activity as bookmakers*

A common theme in the BHA submission is the characterisation of betting exchange customers making lay bets as "unlicensed layers", who are engaging in activity which should be distinguished from gamblers making back bets (whether through an exchange or elsewhere).¹ Since 2001, traditional bookmakers have (without success) attempted to persuade, among others, HM Treasury, DCMS and the Gambling Commission that betting exchange layers are bookmaking and should be licensed and taxed accordingly.

Backing and laying are interchangeable. The DCMS recognised this fact in its response to the Parliamentary Committee on the Gambling Bill, by stating that any attempt to distinguish between backing and laying: "*would introduce unnecessary and unwise regulatory loopholes*".²

A lay bet struck through an exchange is simply a bet that an outcome will not happen. It is equivalent to backing the other outcomes ('the field') to win. There is no additional cost associated with backing the field through an exchange, instead of laying a specific selection, because the exchange over-round hovers at around 100% on both the back and the lay sides. Consequently it is no surprise Betfair data confirms that layers enjoy no advantage over backers – either group is as likely (or unlikely) to be profitable. This was demonstrated, through the provision of extensive data by Betfair, to HM Treasury officials during their 18-month review of the tax treatment of exchanges and their customers.

¹ For examples, see BHA submission at paras 3.2.3 (b)(ii); 3.2.3 (b)(iii); 3.2.3 (b)(vi); and 3.2.3 (d) (iv).

² Para 107, Government response to report of Joint Committee on the Draft Gambling Bill, June 2004.

Notwithstanding the above, any attempt to pigeonhole exchange customers as either 'backers' or 'layers' is simplistic. Most Betfair customers make both back bets and lay bets. Again, this was demonstrated to HM Treasury officials. A Betfair customer will back or lay an outcome depending on whether he or she believes that the market has underestimated or overestimated that outcome's prospects.

The BHA bemoans the fact that the profits of exchange layers are not subject to levy. This ignores the fact that the profits of gamblers across all betting platforms, whether they are supporting or opposing outcomes on British racing, are not subject to levy.

2. *The exchange business model is merely an extension of the traditional bookmaking model*

In its attempt to single out exchanges for a more punitive levy charge, the BHA claims that the business model of an exchange is '*fundamentally different*'³ from that of a traditional bookmaker. Betfair does not accept this proposition.

Before September this year Betfair was licensed as a bookmaker in the UK. Betfair is now licensed by the Gambling Commission as both a betting intermediary and a general betting operator. This latter licence is the same as that held by traditional bookmakers. Betfair can choose to operate its exchange under either licence.⁴ Indeed, the Gambling Commission has recognized that these two classes of licensee pose identical regulatory risks, and as a result it has imposed a general set of licence conditions and codes of practice which apply equally to all remote betting.

Betfair is a no-risk bookmaker. It has a perfectly-balanced book at all times, because it will not accept a bet unless it can off-set the risk with other balancing bet(s). 'Balancing the book' in this manner was – and still is – the essence of bookmaking. A traditional bookmaker who has successfully balanced his book has effectively pitted his customers against each other, charging the margin built into his prices for providing this bet matching service.⁵

Betfair uses exchange technology to manage its risk perfectly. Traditional bookmakers, although their own risk management tools have improved significantly in recent years,⁶ choose not to invest the huge resources necessary to operate a no-risk betting platform. Instead they are prepared to take some level of risk, so that (unlike Betfair) they do not have to refuse a bet until they wait for an equal and opposite balancing bet(s). The degree of risk a traditional bookmaker is prepared to take will depend on a variety of factors including its confidence in its odds compilers,

³ BHA submission para 3.2.3 (d)(i).

⁴ Betdaq operates its UK exchange by standing as counterparty to all bets, just like a traditional bookmaker. Currently Betfair operates as an intermediary in the UK, but a simple contractual change (i.e. standing as counterparty to all bets), would result in Betfair operating as a general betting operator, like William Hill and Ladbrokes.

⁵ "The bookies act as agents for the market and take a percentage of the losers' money before redistributing it among the winners. [...] The crux is that winning punters do not take their profits from the bookies, but from the losing punters." From 'Against the Crowd' (1995), by Alan Potts

⁶ Most notably through use of EPOS technology.

the identity of the punter and what level of price sensitive information it has on the event.⁷

The crucial issue is not the appetite for risk, but how betting platforms make money. After all, the Tote is not singled out for a charge on a different basis, but it does not take risk as a bookmaker does. All betting operators make money in the same way: they pay out less to their customers in winnings than they take in from other customers in losses. Each business is set up to maximise its take from the customers it is targeting. Suggestions that Betfair – a commercial entity – somehow seeks to pay back more to its customers than it needs to to retain their business suggests that it is run by business-illiterates, which seven years of success would imply is a bizarre proposition.

The only difference between Betfair's business model and that of William Hill, is that Betfair adopts a more conservative attitude to market risk. The use of 21st century technology to eliminate risk means that Betfair can charge its customers a lower price for gambling and can provide more choice.⁸ This should not mean that the BHA can demand that Betfair be subjected to a 300% increase in levy contributions.

3. Turnover is no longer a relevant metric on which to base a charge on betting operators

For over 5 years the UK betting industry has been subjected to betting duty and levy based on gross profits of operators. Operator turnover is no longer a relevant metric for either charge. Yet, throughout the BHA's submission in relation to exchanges, the BHA continues to refer to turnover as if it is relevant. Indeed the introduction to that submission argues that: "*The levy mechanism must be amended.....ensuring a fair levy return relating to every pound staked.*" In a gross profits era, the number of pounds staked (i.e. operator turnover) is not relevant.

Again, the BHA's analysis in para 3.2.3 (c) is based on the 'return to the punter'. This is a turnover-based metric which is meaningless. Gross profit is the product of turnover and margin. Implying that exchanges pay a low level of return to racing relative to its turnover is as absurd as implying that it pays a high return relative to its margin.

{ A levy based on the net winnings of gamblers is a charge based on quantity rather than price. It would represent a return to a turnover-based levy. The BHA is asking Government to impose a turnover levy on some betting operators (exchanges), but in relation to other operators (traditional bookmakers) seems prepared to stick with a levy based on their gross profits. This discriminatory distinction flies in the face of the comprehensive analyses conducted previously by HM Treasury, DCMS and the Gambling Commission. }

⁷ "The Group relies on information from various sources [including] betting patterns of customers known to have access to information or whose opinion on individual horses or events is respected by management ("warm sources")." William Hill plc prospectus, May 2002.

⁸ For example, offering 'in-running' betting on horseracing is just about impossible for an operator taking market risk.

4. *The claim that punters are migrating from traditional bookmakers to exchanges is an unproven assumption, which even if true, only tells half the story*

Intuitively Betfair agrees that some gamblers will have switched at least some of their betting activity from traditional operators to exchanges. However, the BHA provides no evidence for this sweeping claim.⁹

The BHA's hypothesis also assumes that a gambler who has switched to exchanges is placing the same bets as previously with traditional bookmakers. This is not credible. Because the cost (i.e. the margin or commission) of each bet struck through an exchange is lower than the same bet with a traditional bookmaker, it is likely that (at least) some gamblers who have switched their betting to exchanges have increased their betting volumes.¹⁰

Indeed, the overwhelming balance of academic opinion concludes that the price elasticity of demand for gambling is high and rising. As the price falls, betting activity will increase such that the total take will at the very least remain the same.¹¹

Given one of the key attractions of betting exchanges is their superior pay-out rate, it is logical that exchange customers are likely to be more price sensitive than gamblers who conduct their activity exclusively with traditional operators. Does the BHA believe that if all Betfair customers stopped betting through Betfair tomorrow, they would be either willing or able to replicate their betting with UK-based traditional betting operators?

Separately, Betfair has brought new revenue to British racing by providing additional levy yielding betting opportunities for gamblers:

- disenfranchised by traditional bookmakers for having the temerity to win;

⁹ "The increased popularity and prevalence of betting exchanges has led to a situation whereby a significant number of people who previously placed bets via traditional bookmakers, whose profits are subject to the Levy, instead place them, via exchanges..." Para 3.2.3 (b)(ii), BHA submission.

¹⁰ "I was profitable before Betfair and have been profitable since, but exchange betting has changed the way I play. The main change is that I now make a lower percentage profit but the volume of money I am turning over has increased enormously." Professional punter, Dave Nevison, speaking to the Racing Post, 25 August 2005.

¹¹ See for example the following analyses:

- "The Impact of Taxation on the Demand for Gambling" by Paton, Siegel and Vaughan Williams (November 2002) concluded that "... the overall demand for gambling is extremely price elastic. The short run elasticity estimates are - 1.053 and -1.139, while the long run estimates are -1.718 and 2.017,...." And "A key result is that the demand for betting appears to be highly sensitive to changes in tax rates. Not surprisingly, the reduction in the rate of betting tax in October 2001 induced a large increase in the demand for betting.
- "A Time Series Analysis of the Demand for Gambling in the United Kingdom" by Paton, Siegel and Vaughan Williams (2001) ran two tests resulting in estimates for gambling elasticity of demand of -1.19 and -2.50;
- "Elasticity of Demand for Gambling" by Suits (1979) concluded that the elasticity of demand for gambling was between -1.36 and -1.82;
- "An Inquiry into the Economics of Race-Track Gambling" by Green (1976) estimated the elasticity of demand for gambling at -1.57.

- not prepared to bet to bloated margins traditionally charged on racing, especially when other lower margin betting products are now so readily available;
- who want to bet on exchange markets that didn't exist previously, such as 'in-running' betting and 'place only' betting at fixed odds;
- who want the ability to request their own odds instead of the 'take it or leave it' offering available from traditional bookmakers; and
- who want to 'trade' sports betting on a platform in a manner that is comparable to what is available in financial markets.

The fastest growing segment of Betfair's customer base comprises gamblers based outside the UK. Betfair is helping to grow the British racing product by introducing it to many gamblers who had never previously bet on the sport.

The BHA therefore paints an absurdly one-sided picture. Without evidence but on the basis of perception, it suggests that a segment of customers are producing lower returns by virtue of moving business from the traditional operators; and where there *is* empirical evidence of growth being stimulated by exchanges and new money being provided, it ignores it completely.

Section B

The BHA submission at para 3.2.3 (b)(i) states: *".....a small recreational layer winning £100 has a £5 commission deducted by the exchange, on which the exchange currently pays betting tax at 15% (75p) and the Levy at 10% (50p).....In contrast, a licensed bookmaker winning £100 is charged 15% betting tax (£15) and 10% levy (£10) on the lost bet placed by the punter."*

Although the BHA's submission does recognise that an exchange charges a commission (from a backer) when a layer loses a bet, the claim highlighted above is hugely misleading. A traditional bookmaker does not pay levy on 100% of the £100 it wins, because that win is offset by what it loses on the event. The bookmaker pays GPT and levy which is determined by its actual margin achieved – just as Betfair pays based on its actual margin (its commission).

Indeed, a traditional bookmaker may have many winning £100 bets (i.e. bets where punters lose) but lose overall on the event. In that case, not only does the bookmaker pay no levy, but its losses on the event can be set-off against future profits to reduce levy payments.¹² Betfair's no-risk bookmaking model means it always makes a profit and therefore always pays levy.

¹² Perhaps the most stark example of this was caused by the exceptional run of winning favourites at the Cheltenham Festival in 2003. Losses sustained by bookmakers as a consequence, meant that they effectively paid no levy for the last the last 2 months of the relevant levy period. In contrast, Betfair accrued for levy on every single race in the period.

The BHA submission at para 3.2.3 (b)(iv) states: *"Racing is not against the principle of low margin exchange operators taking market share from traditional bookmakers."*

It is difficult to take this claim seriously. The net winnings charge on exchange customers as proposed by the BHA would impose a pricing floor on exchange operators. The lower the margin charged by the exchange, the more punitive a charge based on 'net winnings' would be. The charge would mean that, unlike all other betting operators, exchanges could not set their prices at the point they believe would maximise profits.

The BHA's proposal would put "*low margin exchange operators*" in a pricing straightjacket. In fact it would either drive them out of business, or out of the UK.

The BHA submission at para 3.2.3 (b)(v) states: *"Betting exchanges, together with those who use their facilities, have benefited from these changes, as layers can set odds impervious to the requirement to pay 10% Levy and 15% Gross Profits Tax. This allows the layers to set more attractive odds to the punter and hence drive traffic away from the traditional platforms..."*

This is an entirely bogus argument. The current gross profits charging mechanism for GPT and levy allows all UK-based operators to "set odds impervious to the requirement to pay [tax and levy]." If GPT and levy were abolished in the morning would traditional bookmakers suddenly start betting to over-rounds of 101%? Indeed, would they cut their margins at all? Why do the prices of Victor Chandler and Stan James (whose remote businesses operate from Gibraltar with no GPT and zero levy contributions) not differ in any meaningful way from those of UK-based bookmakers? Have Ladbrokes ever said "we cannot compete on price with Chandler (a major bookmaker on any analysis) because he does not have to factor GPT and levy into his prices"?

The margins of traditional bookmakers are where they are because: (i) they are unlikely to be able to lay all selections in proportion (i.e. they cannot balance their books); and (ii) they need to build a buffer into their prices to protect against mistakes their odds compilers may make (so called 'ricks') in pricing up an event – even though they can pick and choose the customers with whom they are prepared to do business.

Exchange customers (backers and layers) are forced by the market to bet to around 100%. They cannot build in a buffer to their prices to protect themselves against ricks and because they do not know who is on the other side of their bet, they do not have the luxury of being able to decline betting against other successful punters. Making a book on an exchange by laying the field is as feasible as doing so by backing the field. Both are just about impossible with over-rounds of close to 100% for backers and layers.¹³

¹³ On the first day of the 'Betfair SP' (12th December 2007 at Southwell), the Betfair SP was 'overbroke' (i.e. under 100%) on 4 of the 7 races in question. The biggest over-round on the 7 races was 102%. The prices from which the Betfair SP's were derived were effectively the prices of each selection at the 'off' of each race. Does the BHA believe that Betfair layers are acting as bookmakers in such an environment?

Exchange backers and layers are gamblers. Some of them gamble profitably,¹⁴ but then the existence of professional punters for a hundred years and more, demonstrates that a small number of them have always been able to make their betting pay.

The BHA submission at para 3.2.3 (d)(ix) states: *"If the exchanges are bookmakers, then we question why they take deductions from punters, when the key proposition behind the gross profits tax and levy was to end such deductions."*

This is an absurd argument. Betting operators make money because punters lose money. How you 'hide' that charge doesn't stop it being a charge. Bookmaking operations charge customers, like any other leisure-service operator does.

A traditional bookmaker builds its margin into the prices it offers to its customers. Betfair charges its margin in a more transparent manner – by charging a commission, stated up-front, from a customer's winnings on a market. If the commission charged by exchanges constitutes "*deductions from punters*" then the margin a traditional bookmaker builds into its prices similarly constitutes "*deductions from punters*", charged in a different form.

The BHA submission at para 3.2.3 (d)(v) states: *"Ultimately, it is unfair that levy payable should be dictated by commission charged by the agent matching punter and layer, rather than being directly linked to revenues deriving from the betting activity."*

Much of the BHA's submission implies a belief that Betfair is somehow doing something other than operating a business. The fact is that like all other businesses, Betfair balances what it charges its customers with the likelihood of them otherwise leaving and taking their business elsewhere: in other words, it seeks to maximise profit, on the horseracing part of its business as on all others.

Betfair does this in a global market. It accepts business from more than 100 countries around the world, in the internet age. It does not do business in a small village in the 1960's, where it is the only shop in town and can charge what it likes and get away with it. This is why it operates on a low margin, to attract business from around the world, and keep it.

Betfair's business model manages risk perfectly, allowing it therefore to offer better value for every bet. That this does not change what people lose, is proven by the fact that betting margins have fallen across the world in the last ten years, on all products; but punter loss has gone up. This apparent discrepancy is the result a wider audience being attracted from other leisure activities as the cost of betting has come down.

The revenues that the betting exchange operator generates constitute its "*revenues deriving from the betting activity*" and this is subject to levy at the same rate as any other UK-based betting operator. As previously stated, the one and only key metric is

¹⁴ As stated above, Betfair data confirms that, over time, customers making back bets are as likely (or unlikely) to produce a profit as customers making lay bets.

the profit of the operator (which equates to the overall loss of the operators customers), which the operator works to maximise because that is what makes him a business.

Nothing else is relevant. Discussing metrics like turnover or margin is as irrelevant as discussing number of employees, the cost of the electricity bill, or a company's carbon footprint. Also irrelevant are the risk of the operator, or the position for or against an outcome taken by its customers. The profits made by customers of all betting platforms are not subject to levy – whether they are betting with William Hill, Sporting Index or Betfair.

The BHA's claim here infers that any winnings achieved by a customer of William Hill or Sporting Index do not constitute "revenues deriving from the betting activity", yet winnings achieved by a Betfair customer do so. Where is the rational justification for such a distinction?

The BHA submission at para 3.2.3 (e) states: ".....a levy system that takes no proper account of the level's [sic] of exchange activity and allows the exchange themselves to set commission rates and hence rates of levy payments."

Because the levy system charges on operator profits, it allows all betting operators to set their commission rates or margins as they choose. As discussed above, operators set their margins (or commissions) at levels which they believe will maximise their profits (which in turn will maximise their tax and levy contributions). Will the BHA make a submission to Government if William Hill starts betting to an over-round of 105% on every British horserace?

The BHA wants to stifle the ability of exchanges to control their pricing, but doesn't propose doing the same for traditional operators. This is because the limitations of the traditional bookmaking model oblige operators to charge margins with which the BHA is content. Ironically, at the same time, the BHA points out that it has lost market share in the world of betting – with no apparent realisation that in a competitive world, the way to compete is to reduce margin rather than maintain it at a high level. Far from being threat to racing's funding by charging a lower margin for its product, Betfair is a life-line for racing because it makes its product more competitive in an increasingly competitive betting world.

Section C

A net winnings charge will be the end of the exchange model in the UK

Under the current gross profits levy mechanism, the interests of racing and all UK-based betting operators are aligned. It is in racing's interests that operators in the UK are allowed to maximise their profits. The imposition of a 'net winnings' levy would mean that the interests of racing and exchanges are no longer aligned. Levy avoidance looms.

An exchange operator who realises that a 'net winnings' levy would restrict his ability to compete on price could instead opt to compete on betting 'quantity'. Instead of calculating a customer's 'net winnings' based (for example) on a single horserace,

the operator could calculate and charge a commission on a customer's 'net winnings' over a racecard, or on all the races run in a given day. Spread-betting firms have for many years offered indices based on multiple events such as an entire racecard.

The exchange operator could take advantage of a levy based on customers' net winnings by providing more betting content on which 'net winnings' was calculated and commission charged, while simultaneously increasing commission rates. This would mean the exchange customer would pay more commission, but pay it less frequently. The BHA would receive a fixed portion of that customer's 'net winnings' on the infrequent occasions that the figure was calculated. It is probably not unreasonable to assume that the customer would be no worse off, and that the beneficiary of such a mechanism would be the exchange operator, at the expense of the levy.

More obviously, the imposition of a net winnings tax on exchanges would provide a gilt-edged opportunity for a jurisdiction outside the UK to become the home of betting exchanges. If that jurisdiction were in the EEA (or in a white-listed jurisdiction), operators there would be allowed to freely advertise their service into the UK. Betting exchange customers, many of whom are sophisticated and correspondingly price sensitive, will gravitate to where they can bet at best price. In the absence of the statutory obligation to contribute to the levy, racing would be reliant on the benevolence of such off-shore operators.

Conclusion

The BHA (in alliance with the traditional bookmakers) has already failed to convince HM Treasury that exchanges and/or their customers should be singled out for a more punitive basis of taxation. This latest effort to convince another Government department to revisit that issue, is opportunistic. The BHA is using a dispute between racing and the traditional bookmakers on a separate matter, to have another bite at the cherry in relation to exchanges.

The BHA bemoans the fact that the betting industry has benefited from a switch from a turnover charging metric to one based on operator profits.¹⁵ However, levy receipts demonstrate that the racing itself has been a significant beneficiary of that change.¹⁶ It would seem that the BHA is content for traditional bookmakers to continue paying levy based on gross profits, yet because exchanges provide their customers with more betting options and enable them to bet to reduced margins, those exchanges should be directly subjected to a turnover based levy. The BHA wants to have its cake and eat it.

There is absolutely no justification to single out exchanges or their customers for discriminatory treatment in relation to levy contributions. The arguments proposed by the BHA do not stand up to scrutiny. The BHA would appear to have no comprehension that the punitive nature of the net winnings charge would spell the end of the betting exchange model in the UK.

¹⁵ See para 3.2.3 (b)(v) of the BHA submission.

¹⁶ In the four years that preceded a levy based on operator profits, the average annual levy yield was £54m. For the four years following the introduction of a levy based on operator profits, the levy averaged over £90m annually. *Source, HBLB website.*

The BHA seems to have decided that it wants exchanges to be saddled with a 300% increase in levy contributions and in an effort to justify this it is proposing a deeply flawed charging mechanism. In the unlikely event that such a charge could be absorbed by exchanges, it would also help to prop up the margins on British racing for traditional bookmakers. Such a penalty imposed on exchanges which simultaneously propped up those traditional margins, is something the BHA would no doubt welcome.¹⁷

¹⁷ See paragraph 3.19 of the Appendix to the BHA's submission.