



# **Investigation of on Behalf of the Swedish Gambling Authority**

**Paul Scotney**

November 2014

## **Introduction**

1. The Swedish Tote betting operator AB Trav och Galopp (ATG) was established by the state in 1974 with the aim of raising money to guarantee the long-term financial stability of trotting and thoroughbred racing in Sweden. ATG has the sole right to offer gambling on horses in Sweden; Surplus profit generated by the ATG's business continues to make a major contribution to the health of equine sport in Sweden.
2. In its organisation and administration ATG must comply with the regulations, instructions and conditions issued by the Swedish Gambling Authority (SGA) who is responsible for supervising and controlling the company's activities in accordance with section 48 of the Swedish Lotteries Act (1994:1000). They SGA are mandated to carry out regular inspections and checks as and when necessary.

## **Background**

3. As a result of a number of recent incidents of concern involving certain international tote partners SGA have become increasingly concerned about the efficiency of ATG's operation in these areas. As a consequence they have commenced an investigation and to assist them they commissioned the services of Sports Integrity Service Ltd ('the investigation team') to give an independent view of ATG's handling of these incidents and where necessary make recommendations for improvement.
4. The mission statement outlined by the SGA required the investigation team to focus mainly on international tote transactions, with the starting point being an incident on the 5<sup>th</sup> September where approximately 19 million SEK was allowed to enter one of ATG's tote pools. Prior to this there were a number of other incidents of concern to the SGA that also occurred during ATG's interaction with other international tote partners. In summary they were mainly communications and IT malfunctions. These were also taken account of by the investigation team throughout the investigation process.
5. The investigation team comprises of individuals who have extensive experience of international tote betting systems, fixed odds betting and dealing with sporting integrity issues around betting.

## **Swedish Gambling Authority Injunction on ATG**

6. As well as launching an investigation into these incidents the SGA served an injunction on ATG requiring them to start the process of instigating a number of systems and process changes (See Appendix 'A' for full details of injunction).

## **Methodology**

7. The investigation team analysed a number of documentation provided by the SGA and ATG. They also carried out a number of interviews of key personnel at ATG. The investigation team was also able to attend a trotting meeting at Solvalla during which

they were able to observe some of the tote operations for that meeting and one elsewhere.

### **Observations Post the Churchill Downs Incident**

8. The monetary conversion error by the United Tote operator is the sort of human error that could occur at any time in the international tote environment and cannot be completely discounted from happening again. What can be done though is to have 'checks and balances' that reduce the chances of it happening and a more robust contingency plan to deal with this sort of incident in the future. If the guest location handles the currency conversion (which is not the ideal situation); an electronic document with the conversion rate needs to be emailed to the SGC official and the System Hub of ATG. This conversion rate needs to be checked against a reference document, such as the previous days Riksbank rates; and then initialed off by the ATG prior to importing betting form that source.
9. As regards the money conversion process, this type of error could be further legislated against by ATG carrying out the conversion process instead of allowing the guest pool to do so. The investigation team believes this is already happens with some of the other pools at ATG. This happens in other international tote environments based on the conversion rate set by the National Bank of the Host using the previous business day's noon midpoint exchange rate. In this case, ATG would set the conversion rate to the number of decimal precision that they need in the system, and the conversion rate would be transparent since it is a published rate by the National Bank of Sweden "The Riksbank"
10. Another obvious step to take is ensure there is proactive monitoring of volumes of money entering into the pool; to the credit of ATG they already have instigated a change in this area. Specifically they have produced calculations on the estimated volumes of money that should be in the different pools at certain stages in the run up to a race. If this system had been in place prior to the Churchill Downs incident then clearly they would have seen the large volume of money entering the pool much sooner which would have given them sufficient time to identify and rectify the mistake.
11. The investigation team also noted that ATG have outlined in their response to the SGA injunction a protocol stating what action they would take in the event of another Churchill Downs incident. This is a step in the right direction however the investigation team urges caution about a having a contingency plan that relies heavily on decisions being taken by people not 'on duty' at the time.
12. Instead the aim should be to have the right qualified tote operators 'on duty' that can make fast time decisions and are supported by clear protocols. A further observation of the investigation team is that ATG may wish to consider to structural changes within the organisation to provide more clarity in this area (see later).

### **Observations on other Relevant Tote Incidents**

13. In relation to the other incidents (summarised in paragraph 4), which were caused by communication breakdowns or technical malfunctions; again these are the sort of

incidents that can happen to any international tote operations. Recommended ATG to have in place written contingency protocols for each of the incidents in question including a clear definition of roles and responsibilities of ATG staff.

### **Roles and Responsibilities within ATG**

14. Whilst the investigation team was not specifically asked to comment on the structure of ATG it is very likely that elements of it negatively impacted on some of the incidents outlined earlier. Specifically the investigation team found that 'roles and responsibilities' of individuals were not clearly defined with apparent crossovers between roles. A manifestation of this is the potential for 'conflicts of interest' coming into the decision making process such as decision being taken for a commercial reason rather than a security one. The investigation team got the impression that the decision to leave the 19 million SEK in pool in the earlier described incident for as long as they did may have been a consequence of this sort of confusion.
15. Another example of where commercial considerations has the potential to override security considerations is the decision making process for entering into a business relationship with a new international tote partners without adequate due diligence being carried out (on the new partner). It is the view of the investigation team that this could well be happening at ATG and therefore there should be someone within the security department who is trained in due diligence processes and is quite separate from any commercial elements of the decision making process.
16. In general it was difficult to understand who was overall responsible for certain functions within ATG particularly around the management and decision making of tote operations. The structure appears to have key individuals directly related to this function sited within different departments (IT and Security). There is also the issue of the International department coming under sales yet it is clear to the investigation team they do much more than develop business opportunities for ATG including interacting with international partners on operational issues around tote management and IT issues.
17. During interviews with ATG staff it was also clear that similar confusions existed amongst them; when asked to explain the rationale for the structure the standard response was that it was a structure established by the previous Chief Executive. There was also clear evidence that this confusion was creating tensions between teams particularly between the International team and other parts of the organisation. During the meeting with the members of the International section the interview team was impressed with their commitment, professionalism and vision, however there were clear frustrations on their part, in particular a belief the organisation undervalued this part of the business.
18. An example they gave was that if something went wrong anywhere else in the organisation then all of ATG's resources would very quickly be mobilised to help resolve the problem. If it was an international tote issue then the converse would be the case with them very often left to deal with the international partner even if the issue was a technical one. Anecdotal evident suggests the ability of internal team to speak English may also be a factor in leaving them to deal with international partners. In support of

this notion some of the ATG staff from outside of the international team they gave the impression that Swedish customers were quite rightly the priority for ATG and that the international department was the poor relations of the organisation.

19. It appears that ATG do not have in place clearly defined 'job descriptions' for key individuals within the organisation which would be an opportunity to clear up the ambiguities around roles and responsibilities.

### **Response to the SGA Injunction**

20. As already outlined in this report it is unlikely that ATG will be able to establish structures, systems and processes that ensure that those types of incidents outlined in paragraph 4 above will not happen again, communication failure and human error are inevitable 'risk areas' for international tote systems.
21. However the chances and impacts of them happening can be minimised by some simple (and some more complexes) changes some to ATG's structures, systems and processes; the injunction covers most of the key areas. The observations by the investigation team on the individual elements of the injunction summarized below are in italics:

- Enable the control of placed bets and commingled pools that deviate from the expected gambling pattern. It must be possible to perform the controls before the bet is added to the betting system and is allowed to influence the odds. The control option must encompass all of ATG's gambling forms and distribution methods.

*This will be difficult but not impossible to achieve although encouragingly ATG have outlined progress in this area. As mentioned at paragraph 17 they have already instigated some element of monitoring which the investigation team observed during their visit to the race track at Solvalla.*

- Establish a chain of command defining which roles or functions are authorised to make decisions on refusing to accept bets or approving placed bets that deviate from the expected gambling pattern.

*ATG have again outlined in the injunction response which looks like a good response within the present structure of the ATG management team however the inspection team are of the firm view that this could be improved further through structural changes. (see later)*

- Hone its procedures for real-time monitoring of odds fluctuations.

*This is part of the work in progress by ATG and outlined above under the first bullet point.*

- Clarify the division of responsibility for measures and decisions in the event of abnormal odds fluctuations. It must be clear in ATG's description of procedures which roles or functions are authorised to make different decisions.

*During all wagering activity, there needs to be one member of the Management Team to be the 'On-Site Operations Manager' who can lead a rapid-response to any tote or wagering incident. Including having the authority to make the decision to purge ("clear and close") any bets or pools by source to protect the integrity of the wagering. These actions need to be clearly documented by time when there are occurring and communicated by report to the SGA*

*Again ATG are working on this sensible recommendation which should take the form of a written protocol but may need to be supported some structural changes to the organisation (see conclusions later)*

- To clarify to the Gambling Authority which roles and functions in ATG's organisation have particular responsibility for compliance with internal and external rules and regulations?

*The inspection team were unsure who within the present structure has been responsible for compliance issues although ATG has rightly committed to establishing a specific post.*

### **High Staking Betting Players and Syndicates**

22. An emotive area for all interested parties, which includes ATG, the Swedish Gambling Authority and all the punters based in Sweden, is that of 'professional money' coming into tote pools. It of course becomes more emotive when those individuals/syndicates win a large amount of money as most probably happened in the Estonia incident.
23. However it's an inescapable fact that professional punters/syndicates will continue to seek out tote pools with liquidity and employ quantitative based algorithms to bet into the these pools. The issue is highlighted by large carryover pools, mainly in the ATG case, the V75, that gathers a lot of attention when it jackpots are highlighted by the Swedish press.
24. The amount bet by professionals will dwarf every other source of international play, so there will be a lot of interest from foreign operators who can handle this play and funnel them into the ATG. What makes this even more lucrative to these foreign operators and attractive to the professional players is the very high takeout on these pools – over 30% in some cases – which fund the process. The players can bet with a significant rebate (or rakeback) that may be upwards of 10% on the V75 thus employing even more combinations and the foreign operator who is paid on volume makes more money.
25. This is a problem that every racing organization has had to deal with and manage, so ATG and the Swedish Gambling Authority are covering the same territory that others have. What has to be realised is that full card simulcasting (export) of racing product has limited interest except for large races with international horses. For example Swedish trotters which is an excellent product, has limit interest outside of the Nordic countries, and then only to pockets of harness racing enthusiasts. This means that the

international sales for such an event are limited and inevitably will continue to be targeted by professional playing groups as outlined above.

26. Going forward ATG (and the Swedish Gambling Authority) needs to find the right balance on how it manages the issue of international professional money. One change already made has been the barring foreign wagering sources unless they are 'legitimate horse racing associations'. There have also been limits introduced on the number of combinations from each association that can be played. However this has encouraged foreign sources trying to coming under or through foreign racing associations, with the ATG International Group then not knowing who their customers are which undermines the pressures of KYC.
27. Other 'checks and Balances' could be considered in this area and are outlined in full in appendix 'B'

### **Conclusions**

28. The recommended systems and processes changes contained within this document, including those outlined in the SGA injunction will help either prevent the previously referred to incidents happening again or at the very least ensure the more effective post management of them.
29. However the investigation team of the view that other changes should be considered by the ATG, particularly around how the company is structured. The reason being that the anomalies around tote management, specifically not having the right decision maker on duty at the time and not being a part of the same team most probably negatively impacted on the management of some incidents of concern, particularly the Churchill Downs incident. In relation to some of the other incidents involving foreign tote operators, another anomaly appears to be an over reliance on the international team to sort out problems with international partners even though they may be caused by an IT or communications failing.
30. A specific observation of the investigation team is that the present ATG structure does not seem to have one senior person overseeing the operational elements of the business; instead the operational functions are spread across a number of functional areas which are more akin to support functions (IT, Security etc.). This is out of line with other similar organisations who usually has an identified 'Head of Operations' (although the name will vary).
31. Based on the experience of the investigation team (with the knowledge of how tote systems are managed in other jurisdictions') our recommendation is for ATG to consider having one person within the organisation who has the dedicated functional responsibility of overseeing all operational elements of betting and tote management, including the line management of all individuals relevant to this function - with equal focus on the international and national elements of the business.
32. Ideally this person should have an extensive knowledge of the subject both from a national and international perspective and should be independent from the Security and IT Departments. As suggestion the creation of an Operations Department (as

referred to above in paragraph 29) would be one option, with the head reporting directly to the Chief Executive - which appears to be in line with the other functional heads outlined in the documents provided to the investigation team.

33. In relation to the international team their focus should essentially be about liaising with, and retaining existing international partners and establishing new ones and not being central to resolving the inevitable tote-related problems when they arise. They can of course assist but the structures in place should ensure all of the resources within ATG are available to assist them.
34. In essence this would mean any future problems that ATG experience within the international tote environment would be managed by the operations department with assistance from the International, security and IT departments.
35. As the investigation team spent such a relatively short time at ATG they are reluctant to be more specific about further organisational changes.
36. One area that the investigation team was left unsighted on was the strength of the relationship between ATG, the Swedish Trotting Association and the Swedish Jockey Club. Whilst it was not specifically a part of our remit to look into this area (or sufficient time) the investigation team makes the following observations based on their extensive experience of dealing with betting-related corruption in sport. The experience of other countries (like Great Britain and the US) is that it is vital there exists a robust relationship between betting operators and sport; this includes written protocols around information sharing when suspicious betting activity occurs. It is also important that the sport in question has the right structures and processes in place to investigate any possible corruption that is separate and complementary to what the police may do.
37. It was a surprise to the investigation team that the SGA does not have any influence over either the Swedish Trotting Association or the Swedish Jockey Club. This is not the case in other countries, for example the Gambling Commission in Great Britain has a central role in ensuring both the betting operators (including the privately owned tote) and the sport cooperates when there is any suggestion of corruption.
38. This includes the powers to assist both parties in an investigation. There is also legislation in place that requires the cooperation between all of these parties especially around information sharing and investigating malpractice under the rules of the sport.
39. The reason the investigation team feels it appropriate to raise this issue is should ATG have in place all the necessary 'checks and balances' outlined in this report they will count for little if there is corruption within the sport that is not being adequately addressed. Given the large amount of money that is at stake in Swedish trotting (the V75) manipulation of the sporting event is a very real possibility. ATG will eventually have in place a betting monitoring system that has the ability to identify suspicious betting on trotting in Sweden which when it happens may be the result of corruption in the sport. If the sport does not have the expertise or resources to deal with it then the problems will in the very least persist and in the more worryingly cause long run damage to the reputation of the sport.



40. In Great Britain British Horseracing has a fully resourced integrity unit which was established 10 years ago after a number of betting-related corruption scandals - which almost destroyed the sport. The Swedish Trotting Association or the Swedish Jockey Club may have adequate systems and processes in place but if they have not now is the time to reconsider their position. In Great Britain it would be the role of the Gambling Commission (and the Government) to put pressure on the sport to do this, it is unclear who would do that in Sweden.
41. In the light of the above comments the investigation team would urge the SGA to put pressure on whoever they consider appropriate to ensure there is a strong and meaningful relationship between ATG and the Sweden Jockey Club to have the confidence that any suspicions of corruption are being adequately investigated. An appropriate consideration would be an independent 'risk assessment' of the sport around all of these areas.

### **Mission Statement**

42. As a part of the agreement the investigation team gives below its views on specific areas required by the SGA, some of the non-technical elements are covered in the main body of the document but a summary of the more technical side to the questions are outlined in italics below;

- How are ATG's international transactions in tote done – structure, actors and risks?

*ATG staff informed us that Finland and Denmark are using ABI (ATG Betting Interface) protocol, which is based on bet by bet transaction sent to Host. Between Norway and ATG they use ITSP (Inter-Tote System Protocol) version 5.14 which is further modified by ATG to handle some of the V pools. ITSP Developed in North America under TRA-2020 committee supervision is a Host driven protocol.*

*An option would be for ATG to open a subsidiary to take international business and customers directly, which would be preferred by most professional betting groups. Having said that, many Horse Racing Associations (such as the Hong Kong Jockey Club, the Stronach Group (Santa Anita, Gulfstream, etc.) and New York Racing Association, require at the very least, some, and more commonly, full KYC from all business partners including full identification and segregation of professional betting groups.*

*ATG staff also informed us that all other interfaces with international community are using ITSP version 5.18. There are now more up-to-date versions of ITSP available on the market (see later for comments on version 6.00) that would improve ATG's efficiency in key areas.*

*In terms of risk - there are players that will come through a variety of sources including existing Horse Racing Associations who will be seeking discounts or bonuses (or rake back) based on betting volume. If the host (ATG) is prohibited or prevented from dealing directly with these professional groups for whatever reason, they will find other ways to gain access to the large pools.*

*There is a KYC risk by pushing these groups away, and there is a wagering integrity risk because the guests do not have the same concern as does the host when a betting program malfunctions and blows up a pool. There is always the concern of AML and the farther away the end player, the harder it is for compliance by the host. For example, the placing of an upper limit on the number of combinations from a single foreign operator means that the professional group will end up betting through multiple foreign operators to get their total number of combinations into the pool.*

*Rebates/Bonuses/Rewards/Rake backs are common practice throughout the pari-mutuel industry worldwide. In a typical business relationship, the product (the horse racing) & pool manager, called the Host, will contract with an International partner, called the Guest, to offer bets and access to the Host pools (see Appendix 'C' for full outline of an example.*

- To what extent and in which parts is ATG vulnerable to mistakes and errors made by international business partners?

*In the current Tote to Tote environment, the Guest Tote has all the security features and has an open pipe to the Host (ATG), including currency conversion, minimum bet values, and requirement to stop betting and cancelling. ATG cannot insure that the Guest Tote is going through the same degree of rigor as the host, who is legally responsible for the correct pricing of the pool and the liability if that price is incorrect. If for example the minimum bet value for a V75 is 1 Krona and the Guest has done the conversion incorrectly, the pool could be swept with a wager that is less than the minimum bet. Only at settlement time would this be revealed. The Guest could also mistakenly have Cancel-delay features turned on a number of seconds into the race, and after pool close time. This would give the Guest's bettors a major advantage over the ATG customers in Sweden.*

*The Host (ATG) can verify certain perimeters of the International Guest when the two tote systems link. ATG can check races, pools, minimum and maximum bets permitted by the Guest for each pool (of what may be called games) as well as settings on the Guest's Tote System, such as if the Guest will be permitted cancellation of tickets for x seconds after Betting is Closed (called "Cancel-delay") or if the Guest will close pools in the event of a communication failure with the Host, and how many seconds that this needs to be effective for.*

*Currently ITSP does not notify Host of Currency conversion rate even though it is understood that every guest will use [www.XE.com](http://www.XE.com) rate. To minimise this risk ATG has a choice of carrying out the currency conversion at Host end, avoiding incident such as operator mistakenly entered wrong rate recently. If not ATG should request hard copy of all information entered manually by Guest to connect to ATG such as currency conversion rate before any wagering is turned on for that site.*

*Training of Tote Operators and Tote Managers is highly recommended to ATG for all elements of international ITSP operations. It is an inescapable fact (that the international racing industry accepts) that issues are always arisen and like other*

*International partners ATG has to be proactive to build 'check and balances' for operational staff to minimise risk.*

- What actions does ATG take to make sure that international partners manage their obligations in a correct way?

*Other than by contract and by tote testing it's very difficult to insure compliance by the Guest Tote. Some straightforward recommendations include:*

*Adoption of the latest version of Inter Tote Systems Protocol "ITSP" version 6.00 which identifies Currency type by Guest; and reduces the time that the Guest Tote System can remain open in the event of a communication interruption (from 45 seconds to 6 seconds).*

*Have the Host accept the Guest Currency and do all currency conversion by the Host. This is one of the soundest measures of International Betting (and especially supported by ITSP 6.00 which shows the currency per imports.) The international standard of currency conversion is to use the Host National Bank midpoint noon rate on the previous business day. Through this fashion, the currency conversion rate in the Host Tote has a national standard and is transparent, researchable and verifiable by every participant.*

*ATG have the opportunity to address all liability issues upfront in Simulcast contracts. North American racetracks use a standard simulcast contract which can be downloaded from <http://www.tra-online.com/download.html>. This document can be used as a starting point for ATG and make changes as required to address their areas of need.*

- What controls are made of a bet before it is accepted in tote?

*All tote company vary slightly on this, but the norm is for the regulator or internal compliance to require configuration settings prior to accepting bets (such as runners per race, scratches, pools, Guest Totes, minimum bet values, currency exchange rates, breakage rules, etc.)*

*After that the controls are in the hands of the terminal/teller or the account wagering provider, or the virtual terminal protocol. These would include bet limits, bets against funds balance in the account, and immediate cancelation of bets made in error. These limits on bets vary by operator, but they are typically settable functions based on either the base amount of the bet (e.g. 299 Krona) or the total amount of the bet (Trio ticket limited to 1099 Krona).*

- Does ATG monitor and screen turnover and movements of odds once bets are accepted in the gaming system? If so, how?

*This is an area that ATG is working on and they have committed to having something in place by the end of the first quarter of 2015. They are working on a way of monitoring the live time movement of odds which is a step in the right direction*

*however should they experience difficulties getting this right they could look to other tote partners to help (USA or Canada, see below). Another option would be to consider employing a commercial operation (Betgenius or Betradar are the most prominent in the international market) to help them develop something or carry out the function on their behalf.*

*In terms of other international tote systems limited systematic monitoring is done in real time other than by the betting manager watching pools and odds, or the regulatory officials or betting customers noticing something out of the ordinary.*

*In Canada and the USA, the Thoroughbred Racing Protective Bureau through its Betting Analysis Platform, databases and examines odds and the degree of odds movements for all Thoroughbred Racing Associations Racetrack pari-mutuels and drills down on the causation of large changes, and the location of what caused the change.*

*This is done within 48-72 hours after the event. If a guest location is producing these large odds changes, the track and the regulator will be notified, and an investigation into the Guest may ensue. Even though this is an investigative and analytic tool, it produces an accurate record for the regulator of what occurred with the odds, and produces a metric for the operator on what deviations should be triggered in their automatic monitoring programs going forward.*

- How are deviations in odds and turnover managed by ATG? What actions are taken?

*As Above in last bullet point*

- How late can bets from Sweden be placed compared to bets from international business partners? Is the betting stopped at the same time or is there a time difference?

*In essence ATG can control this through either ABI in the Scandinavian countries or through ITSP with the remainder.*

*ATG are similar to other totes in that they want to take bets right to the start of the race, and in pari-mutuel betting this is even more significant with the large amount of betting by high-volume betting groups wanting to have the latest and best information before they download their wagers.*

*There is a significant commercial cost to stopping betting well before the start of a race in order to have odds finalised prior to the race starting.*

- At what point is betting stopped before a race – an international perspective.

*For the reasons outlined above in the majority of other jurisdictions betting is stopped when the race starts the rest just shortly before, such as when the trotters reach the starting post or in thoroughbreds, when the last horse loads in the gate.*

*In exchange trading environments "Betting Exchanges," such as Betfair, Betdaq, or Citibet (Philippines) trading of win and place positions typically continues throughout the race until the results are official.*

*In North America, betting is stopped for all participants when the horses leave the starting gate, for runners, or when the harness horses break the starting post. In Great Britain betting will stop as soon as the race starts.*

- Do other companies have a proprietary technology solution for the transmission and reception of international bets or do they use a technology provider?

*In general all Internet Betting companies use proprietary technology solution for transmitting and receiving wagers to totalisator system. International or domestic bets will be processed by Host and Guest methods used currently by Totalisator Systems.*

*All tote companies use ITSP for most pool betting, and then some (Hong Kong Jockey Club for the Triple Trio; PMU for the Quinte+; ATG for the V75) have a bet-by-bet transaction protocol or lagging protocol.*

*The TRPB in the US has developed a Transaction Audit File that is transmitted by the Guest Tote immediately upon closure of the pools, and received by our secure database with a time stamp. This had an availability for audit by the Host track and racing officials.*

- A run through on how other major tote providers are handling international transactions and odds fluctuations caused by placed bets. What considerations are made prior the acceptance of bets before presented in the totlisator/pool?

*All Totalisator System works the same way albeit with different hardware processors, operating systems and programming language. In simulcast environment it is extremely difficult to monitor odds fluctuation. If the Guest Tote has transacted the bet, and include the bet into the pool matrix update to Host, the only action the Host has (up to pricing the pool) is to 'clear and close' the entire pool matrix from the Guest Tote, and remove all the betting from that Guest into the Host pool.*

*Most ITSP pools cycle into the ATG Host and could have some triggers for alerts, based on models, but other pools only merge at the start of the race or even at the time of preliminary results. Of course total betting per pool per international Guest is a metric that could be used for automatic review triggers. There is no indication that anyone is currently using such a system*

## Appendix 'A'

### Injunction

The Swedish Gambling Authority hereby orders AB Trav och Galopp (ATG) to:

1. Enable the control of placed bets that deviate from the expected gambling pattern. It must be possible to perform the controls before the bet is added to the betting system and is allowed to influence the odds. The control option must encompass all of ATG's gambling forms and distribution methods.
2. Establish a chain of command defining which roles or functions are authorised to make decisions on refusing to accept bets or approving placed bets that deviate from the expected gambling pattern.
3. Hone its procedures for real-time monitoring of odds fluctuations.
4. Clarify the division of responsibility for measures and decisions in the event of abnormal odds fluctuations. It must be clear in ATG's description of procedures which roles or functions are authorised to make different decisions.
5. To clarify to the Gambling Authority which roles and functions in ATG's organisation have particular responsibility for compliance with internal and external rules and regulations.

The above measures must be taken and submitted to the Swedish Gambling Authority by 26 September 2014. If it is not possible to complete all these measures by 26 September, a plan of action for their implementation must be presented.

### Background

On 5 September 2014, at the Östersundstravet track ahead of race number 8, a place bet was received from the USA of approximately SEK 19 million spread between three horses. Apart from the US bet, the total amount of the place betting was approximately SEK 16,000. According to information from ATG, the total amount gambled on this kind of bet does not usually exceed SEK 50,000. On 6 September 2014 the Swedish Gambling Authority paid an inspection visit to ATG at Hästsportens Hus to find out information about the event. On 10 September 2014 ATG visited the Swedish Gambling Authority to provide further information about the event. The following has emerged:

The start and betting cut-off time for race number 8 on the night in question was set at 21:09. However, the start was delayed because one of the horses bolted. At 21:11 a bet was received from a business partner in the USA (Churchill Downs) in the amount of approximately SEK 19 million. The amount deviated dramatically from the expected gambling pattern. The judge in Östersund reacted on the odds fluctuation resulting from the US bet and contacted the race operator. The operator checked with the tote supervisor, who instructed the judge to postpone the start of the race a further few minutes. The tote supervisor contacted the tote manager, who in turn contacted ATG's head of security. Before a decision could be made, the race started with the SEK 19 million included in the basic data for calculating the odds. When the race started at 21:27, betting was also cut off. The system opened for payouts with the current odds at 21:34, and then closed again at 21:38. Approximately SEK 22,000 was paid out before the system was closed for payouts.

Churchill Downs initially claimed that the bet was genuine, only to change its mind in its next contact with ATG and claim that a technical fault had occurred and that the SEK 19 million never was gambled. Churchill Downs said instead that the actual stake was USD 30. On receiving that information, the tote manager decided to clear the betting pool of the SEK 19 million and to manually recalculate the odds. The race was then reopened for payouts at 22:32.

At the meeting on 10 September, ATG said that the intermediary collecting bets from Churchill Downs and forwarding them to ATG had in all probability experienced an error in registering the exchange rate. This registration error supposedly led to the USD 30 that was actually bet being miscounted as SEK 19 million due to the erroneous exchange rate.

Section 15 § 1 paragraph 2 of ATG's betting regulations state that the calculation of winnings cannot be altered once the payout of winnings has begun. In this instance ATG has broken its own betting regulations by stopping payouts and recalculating the winnings, and then starting payouts again.

#### ATG's procedures for control of abnormal bets

According to ATG, it is not possible to stop abnormal bets of the type in question (place bets from abroad) before they are included in the gambling system. The lack of control of placed bets can result – and indeed has now resulted – in incorrect or for some other reason abnormal bets being added to the gambling system and being allowed to influence the odds and the information to punters. In the case in question, an erroneous registration of the exchange rate has likely resulted in a dramatically abnormal bet that has been allowed to influence the betting system. Had ATG had systems and procedures in place for scrutinising and rejecting abnormal bets, the game in question would not have been affected by the erroneous bet.

The Swedish Gambling Authority considers very serious the fact that patently abnormal bets can influence the gambling system with no control or scrutiny on ATG's part. The security of the game cannot be guaranteed when there is a risk of e.g. errors in the information transfer from business partners going through the system with no response from either ATG or the business partner. Gamblers may be and have been affected by misleading information in the form of incorrect odds.

The Gambling Authority orders ATG to establish procedures which enable the control of placed bets for all types of game and distribution method. It must be possible to stop bets that deviate from the expected gambling pattern for a particular game, and for the authorised decision-maker to scrutinise and approve such bets before they are allowed to influence the odds and the information provided to punters. ATG ought to have sufficient knowledge and experience to determine under which circumstances a bet may be considered abnormal.

By not stopping and scrutinising abnormal bets, ATG is not preventing the company's products from being used for criminal purposes, fraud, and plain and simple errors. Under these conditions, the Gambling Authority does not consider the game to be secure.

## Chain of command

Where abnormal bets are identified, there must be a set chain of command defining which functions at ATG are entitled to decide on accepting or denying current bets. The size of the bet should be decisive in determining which functions are entitled to make decisions.

## Monitoring of odds fluctuations

ATG's procedures for monitoring odds fluctuations ought to be honed. The incident that occurred on 5 September was discovered when the judge in Östersund noticed dramatic fluctuations in odds resulting from the SEK 19 million from the USA. A more structured and meticulous study of odds fluctuations would enable ATG's own personnel to discover sudden fluctuations and abnormal patterns. It is the Gambling Authority's opinion that clearly defined roles and procedures for the monitoring of gambling should be a natural part of ATG's operation. The current procedures should be reviewed and honed.

## Appointed contact

The reporting from ATG to the Gambling Authority in this matter has not been satisfactory. The first report from ATG was not received until the morning of 6 September on the request of the Gambling Authority. The Authority did not receive an incident report in the required form until 7 September, almost 48 hours after the incident occurred.

ATG does not have a specially appointed person with overall responsibility for compliance with the conditions and requirements to which ATG's operation is subject. A Compliance Officer of this kind is common among most other gaming companies around the world. It is the Gambling Authority's opinion that ATG should seriously consider setting up such a function. Furthermore, ATG should clarify to the Gambling Authority how it works with internal scrutiny and controls of rule compliance.

## Concluding comments

The Gambling Authority considers this event to be very serious. ATG's procedures for the control and analysis of placed bets that deviate from the expected gambling pattern did not work in this case. In the race in question, ATG has acted in contravention of its own betting regulations.

ATG has no knowledge of who the customers abroad are. In the near future, regulations to prevent money laundering and the funding of terrorism are expected, which will include ATG's field of operations. These regulations include a requirement on customer knowledge, which leads the Gambling Authority to question whether foreign gambling in its current form can be carried out at all in compliance with the regulations.

This injunction has been decided upon by head of department Jeanette Johannssen following a presentation by assistant head of department Erik Sjöholm.



## Appendix B

### Suggested Recommendations for safer International Tote Cooperation;

- In North America, many Thoroughbred Racing Association members require a Due Diligence Report on each Account Wagering Group (or from the Swedish perspective, each foreign operator). The process would include background database checks of all principals (ownership of 5% or more, directors and officers; key managers); Confidential business disclosure, including locations of executive and operational offices, control of records and finances, regulatory oversight IT infrastructure, wagering systems and products, advertising, and affiliates; product pricing, all significant vendors; banking and insurance firms; auditors letter and breakdown of customer market. Interviews with Chief Executive, senior Operating Officer, Tote Manager, Regulator; Media Article search; and any other item germane to the company.
- Foreign operators need to segregate their professional computer betting groups/players. This is done in such a fashion that the source of the wagers is transparent to the operator in transaction files, audit files and settlement reports.
- Each professional player/group needs to be identified. This is done by a Background Exam of each player group which includes support teams and the use of static IP addresses for betting. This can be a condition of the agreement that any foreign operator has to register and segregate professional players.
- Each professional player/group needs to have betting software tested prior to use. This is also true of foreign operators. ATG most likely needs a test tote or have a vendor with a test tote. The purpose is to make sure that the betting meets all requirements of the tote system, and conforms to certain parameters as established, such as maximum bet size and number of combinations per batch.
- Pricing for the ATG product is then differentiated between the day-to-day walk-up racing business of an operator and the high volume professional play. Typically professional players deal with various operators to get the lowest possible price (through the highest rebates). By segregating professional players ATG can establish a professional player rate, by pool, and perhaps by win/loss rate, or other metric, that is an even standard
- ATG can provide a portal for direct international play. This is the best way to manage this business unit. Non-wagering fees, such as access fees, information fees, and software support can be directly charged to the professional group. If the effect of having this play is in the pools anyway, then ATG should have an opportunity to derive revenue from the players/groups.
- Overall takeouts may need to be revisited, and/or incentives increased to day-to-day domestic and Nordic countries customers. They cannot continue to fund both professional players and the exceedingly high takeouts. Takeouts need to go down

for Win Place and some combination pools. Lower overall takeouts reduce the margin that operators can rebate to professional players. Lower takeout attract more play and operators generally place a higher level of resources and controls on more popular events, so indirectly it leads to a safer tote. Hong Kong is fairly standard for takeout rates, 17.5% on straight pools and 25% on exotics. Many places such as the New York Racing Association have a three tiered structure with Win/Place/Show at 16%; horse features such as the Tvilling (Quinella), Doubel (Double); and Exacta (Komb) having a mid-level rate of 18% and 3 or more horse feature pools are at 24%.

- The structure of the V75 may need to be revisited. If a double jackpot gets swept by professional play, the unit price may need to increase, such as when the pool jackpots, the minimum play moves to 2 Krona or a cap needs to be placed on any one winner (5 million Krona per winning ticket). There are some varying ways to structure this.

## Appendix C

If for example the Host's win pool (or game) has a commission (or takeout rate) of 20%, the host make require the Guest to pay 7% on all Win Betting made through the Guest. Therefore the Guest retains 13% of the commission on Win betting and this goes to costs, marketing, perhaps a horseman's pool for prize money, domestic pari-mutuel taxes by the state, and profit.

The Guest may make a percentage of this 13% as a reward for players who bet. Obviously if the Guest does not have a horseman's group, and/or is in a low or no-tax jurisdiction, there is a lot more of the 13% that is available for customer rewards. Professional betting groups then negotiate based on volume with a number of Guests looking for in part, the highest rebate. Say the professional betting group is able to recapture 10% of their betting volume in a rebate. They are able to bet more into the pools that is lower-risk against other players who do not have that advantage.

If the Guest has successfully negotiated an agreement with a professional player group, this also drives up the Guest's volume of betting on the Host, and this may be used by the Guest to secure a lower fee. Say this happens and this Host fee goes down to 6%, then the Guest is able to offer the professional player a rebate of 11%, which will produce more betting, etc.

As well the Guest is able to attract other professional betting players through the higher possible rebate. Also, a corollary risk, winnings from the pari-mutuel pools gravitate from the highest contribution sources (entertainment players that have no rebate and whose betting is supporting taxes and horseman purses) to the lowest contributors (professional players that have a profit rate motivation for participating and as such rely on the former group of players.)

The effective result is that the Professional Players gravitate to the Guests that have the lowest tax rates (or no tax rate) and typically the lowest level of compliance and regulation. And this becomes the largest growing segment of the international business that the Host increasingly relies on.