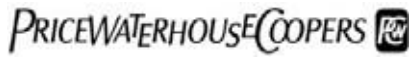




Accuracy attested by:



Geolocation: Ensuring Compliance with Online Gaming Regulations

Neustar has provided geolocation intelligence for these online gaming companies:



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Executive Summary

There is an emerging trend across Europe and farther afield of jurisdictions beginning to regulate online gambling. In Europe online gambling regulations are currently at the centre of intense and polarised debate between those advocating for more restrictive, state-based policies and those who are seeking a liberalisation of the European market. In this report we outline the concept of IP geolocation, the role of geolocation technologies in these debates, in new or emerging online gaming regulations and what use has been made of geolocation.

The following are the key themes of this report.

- Geolocation and local legislation. The way in which geolocation can ensure the integrity of a country's gaming framework is examined in the context of so called 'ring-fencing' of jurisdictions.
- Geolocation as a licensing requirement. An examination of a trailblazer jurisdiction in Italy shows the role geolocation can play in a country's licensing process.
- Geolocation and technical standards. There is emerging evidence that online gaming technical standards will require geolocation technology as part of registration and bookkeeping requirements.
- Geolocation ordered by courts. There has been evidence of court ordered geolocation in those jurisdictions which enforce monopolistic or prohibitive gaming regimes.
- Geolocation and taxation. To combat revenue bleed to unlicensed operators, taxation concerns are also driving debate forward on the many uses of geolocation technologies.
- Geolocation and criminal liability. The use of geolocation technologies can provide evidence that an online gaming company is not accepting play from jurisdictions with restrictive regimes in place and therefore ameliorate a potential business and/or personal risk.

1. Geolocation: IP intelligence

Accepting a single wager or payment from a country that has laws restricting Internet gambling can bring stiff legal consequences, including asset freezes, monetary fines and even imprisonment. Recent publicity related to the detaining of gaming executives has motivated the online gambling industry to take new legislation seriously.

Along with rising fraud rates, gaming operators and payment processors are attempting to mitigate their risk of doing business by knowing who their customers are, particularly where they are located and how they are connected to the Internet. Many of these enterprises are turning to a technology known as “geolocation” which makes it possible to know the geographic location of their website visitors.

Geolocation technology uses Internet infrastructure information to determine the geographic location of Internet Protocol (IP) addresses associated with Internet-connected devices. This can be used by online gambling sites to determine the location of would-be bettors in order to comply with national, as well as local laws. Traditionally, the most obvious application of geolocation for online gaming sites and payment processors would be to deny bets placed from users in countries such as the United States.

However, due to the increased scrutiny placed on the gaming industry by regulators, as well as the heightened concerns of gaming company shareholders towards any missteps, simply blocking a user based on the country they state they are in is now deemed insufficient.

Public-source geolocation data, widely available in the industry, can help identify the location of IP addresses at the country, state and city levels. However, often the IP location is not necessarily equivalent to the actual location of the end user. In fact, in some cases the user could be connected from a continent thousands of miles away. As an example, gaming companies are likely to be familiar with the concept of a user leveraging an anonymising proxy to obtain illegitimate access.

Neustar IP Intelligence has spent more than six years analysing IP location, determining which IP addresses are representative of user location and which require more scrutiny. The combination of this Internet domain knowledge with IP geolocation information is something Neustar has coined “IP Intelligence.” Neustar’s customers, especially in the UK, have been early adopters of IP Intelligence technology.



“We carefully selected Neustar to handle our IP recognition because they are rightfully seen as best of the breed. Operating in the gambling space means that first and foremost we have to be 100% about who our customers are and where they are based,” – Totesport

2. Geolocation and Local Legislation

Main Findings:

- Jurisdictions across Europe and further afield are moving toward jurisdiction- specific online gaming regulations.
- As this trend continues operators are facing the need to comply with multiple license requirements and monitor the geographical scope of their operations.

In the last few years, many jurisdictions have begun to regulate online gaming for the first time, introducing country or province specific legislation, a so called 'ring fencing' approach to regulation. In Europe these moves are largely the result of the eroding away of the concept of mutual recognition which many online gaming operators have cited in the past to justify their right to offer cross-border services across Europe.

The concept of mutual recognition resulted in operators claiming to only need to abide by the regulations in force in the country which issued their online gaming license. However, while this concept is being abandoned, jurisdiction-specific legislative requirements for online gaming are being put in place.

Many countries have either started offering online gaming as part of a monopoly, such as Svenska Spel in Sweden, or have adopted regulations to permit private operators to enter the market. The United Kingdom, Italy, Estonia, the Spanish provinces of Madrid and the Basque Country, and South Africa are examples of this later trend.

The emerging trend in online gaming regulation in European markets is to restrict licenses to one jurisdiction. For example, both the French and Belgian parliaments have adopted in the past year online gaming bills where the licenses will be purely limited within the countries' boundaries. The onus will be on operators to demonstrate, prior to licensing and throughout the duration of their operation, that only residents of the country in which the license is issued can access the website dedicated to that specific market.

It is likely that following the example of the French reform, the use of geolocation technologies to ensure that players fall within the territory of the license will become necessary. When an operator has multiple licenses across multiple jurisdictions, this will further necessitate this requirement.

1.7. (NAME) (S) _____

20. Gambling limit : Daily R _____
Monthly R _____

I, _____ (FULL NAMES) HEREBY ACKNOWLEDGE THAT THE INFORMATION SUPPLIED IN THIS APPLICATION IS TRUE AND ALSO CONFIRM THAT I AM 18 YEARS OR OLDER AND IT IS NOT AGAINST THE LAW OF MY COUNTRY, WHERE I PRIMARILY RESIDES, TO PARTICIPATE IN INTERACTIVE GAMBLING.

I ALSO ACKNOWLEDGE THAT ALLOWING ANY PERSON UNDER THE AGE OF 18 TO HAVE ACCESS TO THE GAMBLING ACTIVITIES USING MY ACCOUNT AND/OR DETAILS AND ASSISTING HIM/HER TO FACILITATE BETS IS A CRIMINAL OFFENCE IN TERMS OF THIS ACT.

To be signed in the presence of and certified by a Commissioner of Oaths.

SIGNATURE OF APPLICANT _____

South African player registration form

In some regulated markets, geographic considerations have been set on licenses:

In Alderney, a general condition of an eGaming license states that a licensee must: "use reasonable endeavors to keep abreast of international developments as they affect the lawfulness of any form of eGaming in order, so far as is reasonably practicable, not to allow eGaming where to do so would constitute criminal activity by its customers."

South Africa's licenses are that all foreign players registering on a licensee's website make a sworn declaration to the effect that they are from a jurisdiction where online gaming is not deemed illegal by the authorities. The registration form which needs to be signed by all players under South Africa's (yet to be enacted) Interactive Gaming Regulations is shown here.

Geolocation technologies could for example, aid in these due diligence requirements required of Alderney license holders and by South African regulations.

3. Geolocation as a Licensing Requirement

Main Findings:

- Geolocation technology is a requirement in online licensing applications in Italy.
- Once licensed, geolocation technology enables an operator licensed in Italy but active in other jurisdictions to eliminate regulatory risk related to which customers it can accept.
- Italy's influence as a 'trailblazer' jurisdiction is influencing other jurisdictions' approach to online gaming regulation and may see the use of geolocation in licensing spread to newly regulated markets.

With revenues of over €3.5bn for 2009, Italy's online gaming industry has become an influential example of how to regulate this type of gaming. While Italy has pursued an incremental approach to online gaming, only allowing lotteries, certain types of betting and tournament poker; in coming months further forms of online gaming will be permitted, such as casino gaming.

An operator wishing to obtain an online gaming license in Italy is required to note during its license application the technology that will be used for geolocation. For example, for online skill gaming (tournament poker) which is for now the largest online gaming sector, an operator is required to provide a plan for the implementation of a skill game. Part of this plan requires the operator to mention the technology that will be used for geolocation.

The use of geolocation technology is required in order to enable an operator to identify the geographical origin of the player who attempts to access the gaming website. This is needed in order to prevent Italians having access to non-authorised sites managed by the same operator. For example, an operator with a global brand and website called www.tournamentpoker.com, will be required to have geolocation technology in place to prevent access to www.tournamentpoker.com for players located in Italy, however, allowing Italians to play on its Italian licensed site of www.tournamentpoker.it.

While Italy continues to expand the types of online gaming permitted in the country, the experience and lessons of the Italian system are being closely watched by many countries considering regulating online gaming for the first time. For example, France has studied Italy's model and has developed a similar system which is expected to come into force some time during the year.

As more and more jurisdictions learn from Italy's experience, it is likely that some form of geolocation component will become a necessary part of newly regulated online gaming markets.

4. Geolocation and technical standards

Main Findings:

- Geolocation will be included in online gaming technical standards in France.
- Geolocation will play an integral part in the new standards for record keeping.
- Existing websites will need to integrate geolocation systems to adapt to emerging regulations, especially if they have both an international platform along with a jurisdiction-specific licensed website.

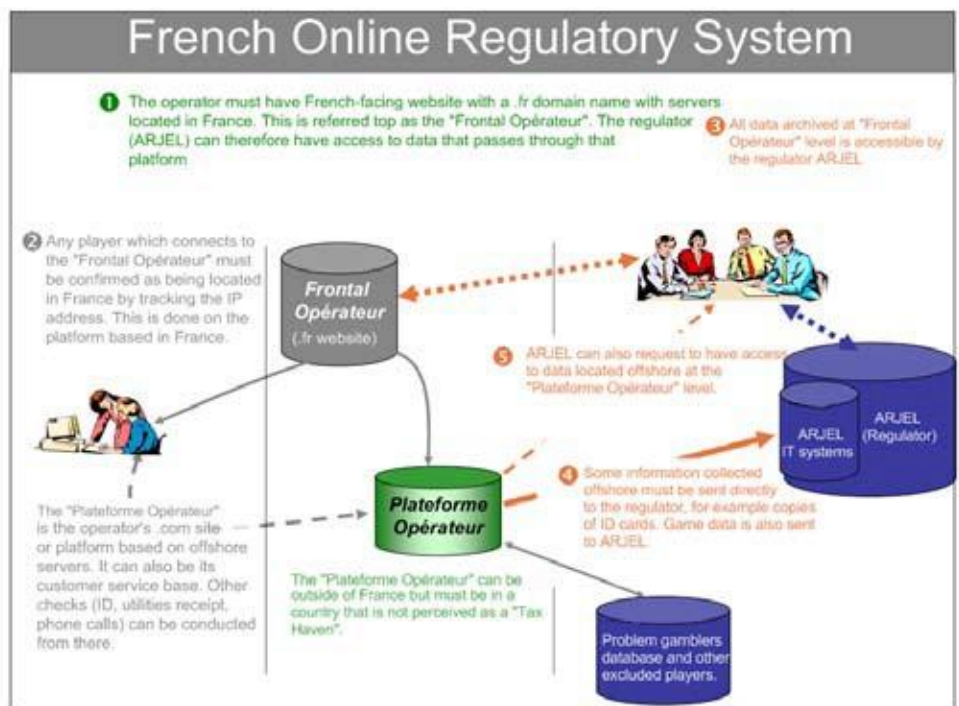
A number of European jurisdictions are currently in the process of drafting technical standards that will accompany emerging online gaming regulations. France is the most notable of these jurisdictions. Following the example of Italy, France will require future licensees to adopt mechanisms for geolocation.

Current French draft online gaming technical standards require that all operators in France will need a “.fr” top-level domain name as the point of access for their activities in the country. If an operator is already present in France or elsewhere with a generic top-level domain name (such as “.com” or “.net”), such operators will need to re-direct French players to a “.fr” platform. These draft technical standards impose the use of geolocation in order to ensure that this requirement is enforced, further specifying that an operator will need to use the RIPE NCC database to determine the origin of a player’s IP address.

The draft standards also require that if a player has a foreign IP address but a French billing address, (for example, a French resident going abroad or someone in France behind a proxy), the player must be re-directed to the “.fr” platform. A French licensee must have a holding page or a refusal system in place for players from France attempting to access a licensee’s “.com” website. In addition, players registered abroad who change their billing address to a French address will no longer be able to play on a licensee’s “.com” platform.

An additional requirement is that once a player has been determined to be located in France, it is specifically forbidden to forward that player to a website whose servers are located in what can be referred to as a “tax haven”. Once a French player has been forwarded to a “.fr” website, a record must be kept of that player’s activity.

This diagram, from the current French draft technical standards illustrates the use of geolocation at step 2 of the operating process. At step 2 in the diagram to the right, a player with a French IP address must be sent to the “Frontal Opérateur” (illustrated by the grey cylinder in the diagram), the operator’s “.fr” platform in France. The green cylinder in the diagram is the operator’s international gaming platform which can be located abroad.



5. Geolocation Ordered By Courts

Main Findings:

- Courts around Europe have ordered gaming operators to implement geolocation technology.
- These court orders have occurred in monopolistic/prohibitionist countries.

Geolocation technology, while used in regulated market such as Italy, has also been used by authorities and courts in other countries to enforce prohibitive or restrictive gaming regimes. Germany and The Netherlands are examples of this type of use for geolocation technologies.

In Germany, all states or Länder, signed what is known as the Interstate Gaming Treaty (Glücksspielstaatsvertrag). This treaty came into force on January 1, 2008 and introduced a blanket ban on internet gaming. Since the German treaty has come into force, various German authorities have sought to have operators shut down websites through prohibition orders or have online gaming operators implement geolocation technologies.

Similarly, in The Netherlands, an international operator has also been ordered to implement geolocation technologies to block it from accepting play from players located in the country. The Netherlands has a restrictive gaming framework, with De Lotto, holder of monopoly licenses for gaming such as sports betting. Under the country's Gaming Act 1964 there is a prohibition on offering unlicensed gaming games. It has been held in The Netherlands that simply having a website which is accessible by players located in the country is the equivalent to offering services in the country.

While there is a trend for state-based local licensing as discussed in this report, other European countries are considering keeping prohibitionist or monopolistic gaming regimes in place for online gaming. As such, the likelihood of further court-ordered geolocation cannot be ruled out.

One of the most recent cases involved a company owned by international operator 888. In late 2009 a court from North Rhine Westphalia upheld a ban against 888 owned Pacific Poker. As a consequence of this ruling Pacific Poker must implement geolocation technologies to check for local IP addresses in order to ensure that it does not accept players from the German state.

The legal framework and interpretation of the prohibitions contained in the Gaming Act 1964 prompted a Dutch supreme court to order Ladbrokes to use geolocation technology to make sure that it does not accept bets from within The Netherlands. Using IP Intelligence data from Neustar, Ladbrokes was able to comply with the ruling by blocking online users from locations inside the Netherlands – a task that was achieved with virtually 100% accuracy.

6. Geolocation and Taxation

Main Findings:

- The move towards local licensing for online gaming is also being driven by taxation concerns.
- In some jurisdictions, geolocation could solve the difficulties in distributing taxation revenues.

The need to avoid a haemorrhaging of revenues to unlicensed operators, who do not pay taxes or contribute to the costs of gaming regulation in a jurisdiction, including the treatment of problem gaming, is one of the drivers behind the trend towards local licensing across Europe.

One of the difficulties a jurisdiction with a federal system of governance, such as Spain, Germany or the United States may face with respect to federal online gaming regulations is the manner in which taxation revenues will be divided.

For example, Spain does have two regions with online gaming regulations in place: Madrid and the Basque Country. However, since the regulations in these regions limit operators to only being allowed to take play from players located in the region, no company has become licensed in either region. In Spain, federal regulations have been drafted to solve this problem, which will allow for a federal license for operators to take play from anywhere in Spain.

Currently the Spanish draft federal regulations purport to have federal taxation revenues distributed back to the autonomous regions and cities based on the origin of the revenues. This would necessarily entail the need for technology which can differentiate from what region players' wagers came from. Geolocation technologies are likely to be needed to achieve these aims, should the draft keep this model for the distribution of taxation.

Other federally structured countries, from Germany, Belgium, Austria, to Australia and the United States for example, may all face similar decisions on taxation as Spain has, should they implement any federal legislation with respect to online gaming. As such having geolocation technological solutions which can accommodate the need to split revenues based on the geographical location of players, may prove to be advantageous in obtaining licenses in such jurisdictions.

7. Geolocation and Criminal Liability

Main Findings:

- A number of high profile criminal prosecutions of gaming executives have been conducted in the last decade.
- The use of geolocation to prevent the violation of gaming regulation can effectively prevent the risk of prosecution in jurisdictions which have taken a very proactive stance against online gaming.

Online gaming operators have used geolocation, especially to block access to players from the United States following the adoption of the Unlawful Internet Gaming Enforcement Act (UIGEA) and the arrest of Betonsports.com CEO David Carruthers, for violating the Wire Act, in 2006.

Although the United States remains the best example for the need to identify players from markets which are active in the prosecution of online gaming operators, other countries have also stepped up their criminal enforcement. Turkey, which enacted several laws in 2007 to protect its gaming monopoly and prohibit online gaming, is another example of a jurisdiction where geolocation can be used to avoid regulatory conflict. Two of Sportingbet's UK-based employees were arrested on holiday in Turkey in 2008 for violations of the online gaming ban.

Sportingbet's share price plunged nearly eight percent on the day of the announcement of the arrests. One employee was detained for three months and the other was forced to remain in Turkey for seven months. Employees of a marketing firm which had conducted business with Sportingbet in Turkey were also detained.

The arrests also had wider implications for Sportingbet's business dealings. The Turkish situation proved to be the major stumbling block in acquisition talks between Bwin (which had exited the Turkish market) and Sportingbet. Moreover, Sportingbet's technology provider became unwilling to supply the company with a network that would accept Turkish players, necessitating the need for the Sportingbet to find a second technology provider.

Other countries which have arrested online gaming executives include France (Partouche, Mr Bookmaker), the Netherlands (Unibet), Israel (Betbet), China (Betex) and Malaysia (Gaming VC). The risk of arrest also extends to payment service providers as was demonstrated by the arrest of Neteller executives in the United States in January 2007.

The real risk of arrest in many jurisdictions and the consequent negative impact on an operator's share price and business activities, highlight the role for geolocation in a gaming company's compliance and regulatory risk due diligence. For example, had Sportingbet or Betonsports in place technology to evidence that the companies were not accepting play from Turkey and the United States respectively, then the likelihood of arrest and the consequences of arrests for ongoing business could have been avoided.

Conclusion

Many jurisdictions across Europe and beyond, such as South Africa, are moving towards online gaming regulations which are based on a system of local licensing.

From jurisdictions such as Italy, France, The Netherlands and Turkey, operators are finding that they need to comply with regulations which are in force at the point of consumption, that is, the law in force in which a player takes part in the online gaming on offer. These laws can be liberal, restrictive, prohibitionist or somewhere in between.

As such the need for operators to establish geographical intelligence and boundaries is moving from the exception to the rule. This report has shown that geolocation has been, is currently and will be utilised further to shore up a jurisdiction's competence in online gaming regulations.

Geolocation has been shown to be an element necessary in a licensing application, as part of an operator's technological architecture, a solution to divide gaming taxation revenues across a country, and as a means of evidence that a jurisdiction is not being targeted, in order to avoid criminal liability or business risk.

What this report finally reveals is that geolocation is emerging as a tool in both online gaming companies' compliance arsenals as well as a mechanism in some jurisdiction's legal, regulatory and technical frameworks.



About Neustar IP Intelligence

Neustar, Inc. enables online businesses to instantly identify where a visitor to their Web site is geographically located. Online companies, including broadcasters, e-retailers, ad networks, banks, and government agencies, integrate Neustar's IP geolocation data into their Web applications to geotarget their advertising and content, detect card-not-present fraud, manage distribution of digital content, comply with local laws, and more. Neustar delivers detailed demographic and network characteristic data about an IP address and the data is 99.9% accurate at the country level and up to 98.2% accurate at the US state level (attested to by Pricewaterhouse Coopers). <http://www.neustar.biz/ipintel>