

Testimony of

**Jonas Söderlund**

Head of Business Intelligence  
Gaming Board for Sweden

Before the

State Senate Committee on Governmental Organization

Hearing regarding

iPoker

**Examining the Public Policy and Fiscal Implications Related to  
the Authorization of Intrastate Internet Poker in California**

February 9, 2010

Sacramento, CA

Dear Sirs,

I would like to start by saying that I am very glad to be invited to the Government Organization Committee of the California State Senate hearing regarding on line poker, so on the behalf of the Kingdom of Sweden I want to thank for this opportunity to describe the regulation of online poker in Sweden.

My name is Jonas Söderlund and I am the Head of Business Intelligence at the Swedish Gaming Board. My main responsibility the last three years has been to control that the concession holders are following current regulations, in other words compliance.

The Gaming Board is an authority sorting under the Swedish Ministry of Finance.

The authority consists of approx 40 employees and 80 external supervisors. The external supervisors control the lottery draw and spins, included in this some of the external staff special supervisors control the illegal market, such as illegal slots, illegal poker clubs and other activities that are not permitted.

If we find any illegal gambling activity we file a report to the local police and the prosecutor decides if they want to press charges.

Sweden's lottery market is regulated and the operators are only permitted to be owned and run by the government, equestrian sports operators and non-governmental organizations. The business community is, in principle, excluded from lottery operations and the proceeds from lotteries are reserved for public purposes and institutions serving the common good.

The Swedish regulated gaming market consists of two major operators that control approx 86 % of the regulated Swedish market, the state owned Svenska Spel, that offers lotteries, scratch cards, sports betting and casinos, the other major player is ATG, the horseracing and trotting company, ATG is not owned by the state, but controlled by the state since the government appoints six of its eleven board members including the chairman.

The remaining part of the market consists of non-governmental organizations lotteries and small mini- casinos offering Black Jack and roulette.

No bank transfer or IP blocking is used in Sweden regarding online gaming. It's not illegal to play on foreign websites, though it's illegal to publish adverts for the foreign sites. Marketing of unlicensed gambling companies not illegal in Sweden, however it is forbidden to publish advertisements for unlicensed games in Swedish media on the Internet, and on billboards, thus making it virtually impossible for the unlicensed gambling companies to market themselves.

# Gambling in Sweden

## Facts & figures

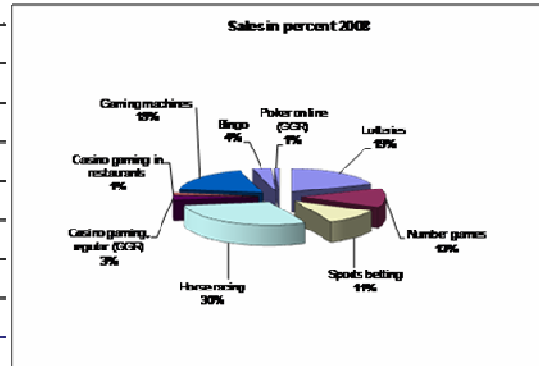
- Gambling spending per capita over age 18 = 570 € per year
- Gambling spending in relation to disposable income = 2,64<sup>0</sup>%

Category	Sales (million €) (1)
Lotteries	706
Number games	550
Sports betting	454
Horse racing	1216
Casino gaming, regular (GGR <sup>(2)</sup> )	127
Casino gaming, in restaurants	56
Gaming machines	767
Bingo	146
Poker On-Line (GGR <sup>(2)</sup> )	29
<b>Total</b>	<b>4 181</b>

(1) All numbers originate from 2008

(2) After winnings

(3) Gross gaming revenue

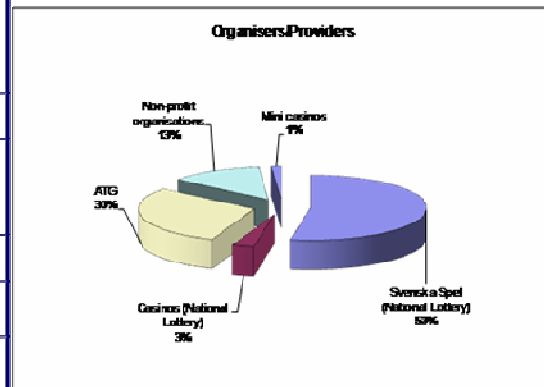


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# Gambling in Sweden

## Facts & figures cont.

Svenska spel	The National Lottery, wholly owned by the state. Lotteries, sports betting, number games and on-line poker	53
	Casinos	3
ATG	State controlled company owned by the horse racing association. Horse betting	30
Non profit organisations	Bingo	1
	Lotteries	0
Mini casinos	Casinos with limited number of tables, limited stakes and prizes located in restaurants	1



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Two major factors have affected Swedish lottery regulations since the 1990's, namely the Sweden's membership of the EU in 1995 and the substantial growth of the Internet during the 90's and beginning of the millennium. Technical developments of the Internet have enabled about 2,000 foreign websites to be accessible for monetary gambling.

This increased the number of Swedes playing on foreign websites, with the consequence that it was not possible to uphold the protective intentions of the Swedish lottery regulations. Sweden's accession to the EU entailed EC law becoming applicable in Sweden. Lotteries are not harmonized under EC law, but are, instead, subject to national regulations in all 27 EU member countries.

In a number of cases, the European Court of Justice has tested issues of conformity between national regulations and EC law. The conformity of the Swedish Lotteries Act (1994:1000) with EC law has been questioned by, among others, the European Commission in two ongoing encroachment cases against Sweden.

## **On-line Poker**

### **Background**

In February 05 the state owned company Svenska Spel applied to the Swedish government for a license to organize and offer poker over the Internet. The government decided on 24 November 2005 to give the company a license for the period from 1 December 2005 to the 31 December 2007. Svenska Spel began to offer poker games over the Internet in March 2006.

In the first permission the government decided that an evaluation of Svenska Spels poker would be done by a commission. The evaluation concluded that Svenska Spel had reached the intention of the permission and followed the conditions as well. Some suggestions were given by the commission. All suggestions except that Svenska Spel would be allowed to have pool play with other state owned poker sites were implemented in the subsequent permit for Svenska Spel.

The permit was extended by the Government on November 8 in 2007; with the same conditions, until the 30 June 2008. In December last year the permit was once again extended until 31 December 2010.

Svenska Spel was, and still is the only operator that holds a license to offer online poker in Sweden to Swedish inhabitants over the age of 18.

The main reason for allowing online poker in Sweden, even though it is thought to be one of the most hazardous games was that Swedes already were able to play on poker sites with or without licenses issued by other countries outside Sweden.

Since all other gaming in Sweden is regulated and controlled thru the Gaming Board this area was uncontrolled.

The government realized that online poker was here to stay, and to be able to control and protect the players, and to make sure a measurement of responsible gaming was taking place, the government granted the application from Svenska Spel AB.

The reasons why the government granted a state owned company were several, the major reason was that most hazardous types of games need to be strictly controlled and therefore the company received the license.

The legal ground for the poker game is that it's a game of chance, not a game of skill.

In the government permit (non official translation in appendix) the government conditioned the permit with requirements limiting the activity, in order to pursue a more responsible gaming. It also mandated the Gaming Board to decide about further regulations.

Svenska Spel took a significant share of the Swedish poker market quickly. The total number of Swedes who - regardless of site - play online poker, appears to have increased steadily until 2006, and then levelled off or even decline slightly.

The number of Swedes that has played at least once on any poker site between 2005 and 2007 was estimated to be 100-120 000 in year 2005, approximately 200 000 in 2006 and approximately 175 000 for 2007.

Svenska Spel estimates that it accounts for just over one third of the Swedish market - defined as persons based in Sweden playing poker online. In addition, a handful of companies account for approximately 5-10 percent each of the Swedish market and the rest is divided among a large number of companies, generally with less than one percent of market share.

The on-line Poker conditions of the Gaming Board are a mix of technical, security and responsibility rules (non official translation in appendix).

Svenska Spel's on-line Poker has about 300 000 registered accounts, 25 % of these play on a regular basis.

#### **Gross turnover and rake for Cashgames, table tournament & Sit & Go**

Total	Turn over <sup>1</sup>	Rake <sup>2</sup>	
Average 2008 per month	239 340 048	4 495 371	
Average 2009 per month	189 820 157	3 469 468	

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<sup>1</sup> In US dollar

<sup>2</sup> In US dollar

### **Example of Governmental conditions**

- The company must not allow anyone under the age of 18 to participate in the poker game over Internet.
- The Company shall not allow anyone to participate in poker games if the player hasn't set a limit on how much he or she may lose during a certain period of time.
- The Company shall not allow anyone to participate in poker games, if the player has not set a limit on how long he or she will play.
- Marketing of the on-line Poker is only allowed in newspaper and on the Internet. (No direct links)
- The Company must consider and actively work for the prevention of problems with excessive gambling.
- The company will offer players an instrument that gives the player information about the individual and accumulated losses in Swedish kronor.
- The company will offer players an instrument that gives the player information about the individual accumulated playing time in minutes.
- When a player first logs on to the company's game clients, Svenska Spel must ensure that the player - before he can participate in poker games – receives information about poker's special character.
- The maximum bet is (two price base amount) approx 11 500 US dollar.

### **Example of Gaming Board conditions**

- Those who wish to participate in the lottery must be over 18 years of age and reside in Sweden and be confirmed by a reliable third party. By the same date, a confirmation is sent to the participant.
- The license holder shall on demand by the Gaming Board leave information about the number of sold tickets / game, number of participants and their age structure, turnover per hour/month and turnover of individual participants.

- Operation and testing divisions shall be separated from each other.
  - The verification system shall register d the participant's name, address and social security number, or similar, the first time he participates in the lottery.
  - The verification system shall verify that the participant is eligible to participate in the lottery. This includes control of the access codes and the resources available for the game.
  - The license holder must have procedures and staff accessible at all times for the handling of complaints and other matters relating to the lottery.
  - The license holder must have procedures for detecting fraud, attempted fraud, unauthorized collaboration between players.
  - The license holder must have procedures for sanctions against players who may be suspected of fraud, attempted fraud, unauthorized collaboration between the players.
  - The license holder is not permitted to pay or lend anyone money to participate in the lottery. The license holder can not allow anyone to participate in the lottery without having paid the rake in full.
  - The prize money in the lottery may be formed only by the stakes paid by participants themselves.
  - Only individuals with a registered gaming account may participate in the lottery.
  - Any current game should be able to be viewed by anyone who has registered account in the lottery.
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- There is no automatic control of who the owner of the bank card is.
  - All controls are manually conducted when fraud is suspected or other irregularities are found.
  - All card purchases are checked with a specified CV2 code to make sure they are correct.
  - Svenska Spel has since October 2008 a routine which means that customers who have a 3d secure connected cards must enter a personal password or code to get their card purchase go thru.
  - 
  - 14 days must pass after a card purchase before the customer can change the debit card and make a new purchase.
  - When a new debit card is used the customer must wait 7 days before it's possible to make a withdrawal of money from his game account.
  - Svenska Spel is working intensely to detect fraudulent card purchases.
  - Suspicious transactions render a check of the card by the issuing bank.



- There no limitations to what kind of transactions that can be checked or monitored.

AB Svenska Spel  
106 10 Stockholm

Application regarding AB Swedish Game for permission to arrange poker over the Internet etc. according to § 45 Lotteries Act (1994:1000)

### **Government Decision**

The government leaves AB Svenska Spel or wholly owned subsidiaries (hereinafter called the Company) permission to organize and offer poker game over Internet from January 1, 2010 until 31 December 2010 with the conditions set out in the Annex to this Decision.

The Government instructs the Gaming Board (LI) to issue detailed conditions of poker over the Internet and in further accordance with § 10 Lotteries (1994:1000) to issue the special control and policy regulations needed for the game to be carried out in a appropriate way.

LI is responsible for the supervision and control of the company's operations under 48 § Lotteries Act. LI may conduct inspections and tests that the board seem to be deemed necessary. The company shall follow the rules and conditions that LI announces.

The Company shall pay the costs of the supervision.

The government rejects Svenska Spel's claims otherwise.

### **Case**

The government gave June 18, 2008 the Company permission to organize and offer poker over the Internet from July 1, 2008 Until the 31 December 2009.

On the 15<sup>th</sup> October 2009 the company has applied to the Government for an extension of permit until the 31 December 2012.

In addition, the company has applied for a permission to organize poker tournaments that combine the Internet poker with Poker in Swedish casinos and to be allowed to arrange maximum four poker tournaments each year with a guaranteed certain amount of prize money in poker tournaments.

LI and the Institute of Public Health (FHI) have expressed their opinions on the matter. LI refers in its response to the report "Swedish Play online poker" (SOU 2008:36).

According to LI an analysis from the report shows that channeling might achieve greater success with a better tournament selection, thereby increasing the players' loyalty to the company.

LI also claims that the possibility to offer satellite tournaments culminating in live tournaments at Casino Cosmopol could contribute to such conduits.

In case Svenska Spel is allowed to ensure some amount of win at a maximum of four poker tournaments each calendar year LI informs the government that the procedure is not in accordance with paragraph 7.2 of the specific conditions of the online poker that states that online poker winnings may only be formed by stakes paid by participants themselves.

The condition is intended to prevent free games. Finally LI is referring to the ongoing preparation of the report, "Future gambling regulation" which proposed changes to the licensing to organize and offer poker over the Internet with a proposed effect from 1 January 2011, express the view that the requested permit time for three years is questionable.

FHI ruled against the company's application to organize tournaments that combine poker games on line with the Swedish Casinos. FHI states that studies show that problem gamblers are more frequent among people who play on Internet, gaming machines and casino games.

FHI believes that precautionary measures should apply on all games through the Internet. Furthermore, the FHI expresses the view that the license should be limited to 31 December 2010.

#### **The reasons for the decision of the Government**

Like FHI the government believes that caution should prevail regarding Internet poker. Due to the above, regarding this background, the government is rejecting the company's claims, regarding tournaments that combines poker Internet poker games with Casinos, and a maximum of four poker tournaments during each calendar year to guarantee certain winnings in poker tournaments.

In the meantime, the company's permission is given until 31 December 2010

## **Terms of Annex to Government Decision 2009-12-17**

1.

The company must not allow anyone under 18 years of age to participate in the poker game over Internet.

2.

The Company shall not allow anyone to participate in poker games, if the player hasn't set a limit on how much he or she may lose

- Per day, which may be increased upwards at the earliest, the next day, but decreased at any time,
- Per calendar week, which may be increased at the earliest next calendar week, but decreased at any time,
- Per calendar month, which may be increased the next calendar month, but decreased at any time.

The limit per day should not exceed the limit per week, and the limit per week may not exceed the limit per month.

3.

The Company shall not allow anyone to participate in poker games if the player hasn't set a limit on how much time he or she can spend on the pokersite.

- Per day, which can be extended at the earliest, the next day, but shortened when whenever,
- Per calendar week, which may be extended at the earliest next calendar week, but shortened at any time,
- Per calendar month may be extended at the earliest next calendar month, but shortened at any time.

The limit per day should not exceed the limit per week, and the limit per weeks shall not exceed the limit per month.

4.

Marketing can only occur in newspaper and on the Internet. Marketing on the Internet may not be done with link to the company's website or the website of the poker game held.

The Company must be socially responsible in its marketing and have an orientation so that it is not perceived as too intrusive. The Company shall, in connection with the marketing and on the gaming site show a phone number to a supportline for excessive gambling.

5.

The Company will consider and actively work to prevent problems with excessive gambling. Among other things, the following must be included in this work:

- The company must offer players possibilities to exclude themselves from the pokersite
- The Company shall report to the Government at least once every three months the measures it has taken to secure the social security interests
- The Company shall report to the Government at least once every six months the measures it has taken in order to secure that the social security interests have been used by the players as well, and if possible, make an assessment of the impact of these measures,

6.

The company must offer players an instrument that gives the player information about the individual and accumulated loss in kronor.

7.

The company will offer players an instrument that gives the player information about the individual accumulated playing time in minutes.

8.

When a player first logs on to the company game clients for online poker the company will ensure that the player - before he can participate in poker games – has received information about poker's special character.

Among other things, to which indicate that poker is a game with substantial elements of chance.

In addition, the company must inform about it's forbidden to provide/supply minors with login information and that games that involve play about money, especially online gaming, may pose special risks for young people and young adults.

9.

The Company shall at least once per month, offer players an overview of the company's responsible gaming tools for poker over the Internet. The offer will be made when a registered player is logged into the company's Web site for poker games.

If the player does not wish to take note of the information, the player need to actively decline from this in order to participate in poker games.

10.

The company is authorized to make any adjustments to the rules of the game when needed.

The changes of the rules must not such so that the customer/player does not perceive the game as a new or different form of gambling. The adjustments that the company suggests may not be launched before the Gaming Board has approved it by issuing new conditions if necessary.

11.

The maximum bet is two price base amount under the law (1962:381) insurance on any specific possibility of winning.

12.

Government may decide about new rules or conditions for gaming operations and immediately withdraw or change the permit. Situations that is not covered by this permit the Lotteries Act (1994:1000) is valid in according parts.

# Special conditions for playing poker on the Internet<sup>3</sup>

(Issued by the Swedish Gaming Board)

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## 1 General

- 1.1 The licensee is responsible for ensuring that the National Gaming Board has access to the premises, the equipment and the information which the Board requires in order to be able to exercise control and supervision of the game. This applies even if the licensee employs a service company for technology or the administration of the game.
- 1.2 A reliable third party shall check that any person who wishes to participate in the game has reached the age of 18 and is staying, residing or living in Sweden. Not later than on the same day, a confirmation shall be sent to the address which the control has indicated.

## 2 Compulsory registration and information to the National Gaming Board

- 2.1 The National Gaming Board shall be informed in good time of any planned changes in the game system. These shall be examined by the Board, which shall give its approval before the changes can be inaugurated.

The National Gaming Board shall be informed in good time of any other planned important changes in the game. These shall be examined by the Board, which shall give its approval before the changes can be inaugurated.

- 2.2 When so requested, the licensee shall submit to the National Gaming Board de-personalised information about the number of sold games, the number of participants and their age structure, the turnover per unit time and the turnover for individual participants.

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<sup>3</sup> Notice has been given under the European Parliament's and Council's Directive 98/34/EC of 22 June 1998 relating to technical standards and regulations and relating to regulations concerning information society services (OJ L 204, 21 June 1998, p. 37. *Celex* 398L0034), as amended by the European Parliament's and Council's Directive 98/48/EC of 5 August 1998 (OJ L 217; 5 August 1998; p. 18, *Celex* 398L0048).

### 3 Control and supervision

3.1 The sale of lottery tickets, wagers or the like may not commence until the National Gaming Board has functioning control routines for the game and any random number generator in use has been type-approved.

#### 3.2 Version handling

All versions of the drawing system shall be saved for a period of at least 12 months.

### 4 Technical equipment

4.1 The playing system shall be placed in a room dedicated to this activity. The allotment of physical access privileges for the licensee's staff shall be limited and controlled.

4.2 The function of the playing system for the discovery of a harmful program code as indicated in Section 7 of LIFS 2002:1 shall be continually revised.

4.3 Safety copying in accordance with Section 7 of LIFS 2002:1 shall take place at least on a daily basis. A safety copy shall be kept in a different place from that where the playing system is placed. A safety copy shall be saved for as long as it is up-to-date.

4.4 The licensee shall have control over all movable data media, e.g. magnetic tapes, diskettes, cassettes and printed reports.

4.5 Systems for operation and testing shall be kept logically separated from each other.

4.6 Information which, according to Sections 6, 8 and 12 of LIFS 2002:1, shall be registered by the playing system, shall be kept for at least 3 months with regard to Section 6 and for at least 12 months with regard to Sections 8 and 12 of LIFS.

4.7 The arranger's access right codes in accordance with Section 13 of LIFS 2002:1 shall consist of at least eight alphanumerical characters.

4.8 The playing system shall require that the access right code for the arranger is changed after a maximum of 60 days.

4.9 The participant's access right code in accordance with Section 14 of LIFS 2002:1 shall consist of at least six characters.



## Verification system

- 4.10 The verification system shall register the participant's name, address and personal registration number or the like on the first occasion when he/she participates in the game.
- 4.11 The verification system shall check that the participant is qualified to participate in the game. This comprises a control of the access right code and that funds for playing are available.

## 5 Documentation requirements etc

- 5.1 The reported system documentation shall be updated in the case of any change.
- 5.2 Version handling shall be available for previous and current software in the game system.
- 5.3 A description of the routines for error handling and incident reporting with respect to the playing system shall be available. These shall be accompanied by an action plan.
- 5.4 An interruption plan shall exist.
- 5.5 Records shall be kept regarding security-relevant events, such as administrative routines, which take place outside the technical equipment and which influence the game system, The records shall be kept for at least 12 months.

## 6 Information to participants etc.

- 6.1 The following information shall be given to the participants in the game in a manner which is adapted to the medium,
  - a) licensee,
  - b) the cost of participation and information about mediation costs,
  - c) distribution of winnings in tournament games,
  - d) the time and manner of distribution of winnings,
  - e) the last date for the distribution of winnings,
  - f) rules of the game etc,
  - g) accounting history,
  - h) the participant's own limitations with respect to losses and playing time, plus the current status with regard to the person's own set limits.

When participating in the game, the participant shall receive information about his/her stakes, winnings and balance.

- 6.2 Lots or similar items, information material, advertising and the like for the game shall in a clear and salient way indicate the name of the licensee.
- 6.3 Information material, advertising and the like for the game must not be sent to participants who have withdrawn from the lottery.
- 6.4 The licensee shall have routines for the handling of complaints and other questions regarding the lottery.
- 6.5 The licensee shall have routines for discovering the occurrence of fraud, attempted fraud, forbidden cooperation between players and attempted forbidden cooperation between players.
- 6.6 The licensee shall have routines for applying sanctions against any player who is suspected of fraud, attempted fraud, forbidden cooperation between players or attempted forbidden cooperation between players.
- 6.7 Any participant in the game shall immediately be able to report to the licensee any suspected fraud, attempted fraud, forbidden cooperation between players or attempted forbidden cooperation between players.

## 7. Miscellaneous

- 7.1 The licensee may not offer money or the like for participation in the game. Nor may the licensee allow anybody to participate in the game without a stake or with a reduced stake .
- 7.2 Winnings in the game may consist only of the stakes and registration fees which the participants themselves pay.
- 7.3 Employees or officials of the licensee who have access to detailed information about the game and its participants may not participate in the lottery.
- 7.4 Only physical persons who hold a playing account may participate in the lottery.
- 7.5 These conditions may be changed during period for which the permission is valid