



BITCOIN4iGAMING

CONFERENCE

When ▼

24 November

Where ▼

Dexter House, No.2 Royal
Mint Court, London

This conference brings the cryptocurrency world and the iGaming world together in hope of eliminating friction in iGaming payment processing and propagating the adoption of cryptocurrencies for digital transactions.

This event will bring you:

- Expert speakers and visionaries from the Bitcoin and iGaming industries
- A chance to learn the ins and outs of the most disruptive technology of the 21st century
- Over 200 delegates from the Bitcoin and iGaming space
- Plenty of opportunities to network throughout the day and into the evening

More details including sponsorship packages, conference schedule, speakers, and networking opportunities can be found on

www.Bitcoin4iGaming.com



VIRTUAL CURRENCY AND THE DISRUPTIVE BITCOIN

In recent months, Bitcoin has exploded onto the radars of companies operating within the digital sphere – a controversial new virtual currency with the potential to be the catalyst for disruptive change. This issue, online gaming consultant, **Aideen Shortt**, provides an overview of the Bitcoin phenomenon, and explores its potential affiliation with the gambling industry.

THROUGHOUT HISTORY, COUNTLESS musicians and bands have claimed that it takes ‘ten years to be an overnight success’. Having originally launched on January 3, 2009, Bitcoin is neither rock and roll, nor yet an unmitigated success, however, in the past few months, it has rocketed into mass consciousness, seemingly from nowhere, to the point where it has recently been the subject of media hype and frenzy, user explosion, financial analyst review and even the key case study of a paper by the European Central Bank (ECB) dedicated entirely to addressing the virtual currency extravaganza.

To say Bitcoin is controversial would be an understatement, and the very fact that it’s founder (or founders – it’s still unknown whether it was an individual or collaborative effort) was now disappeared hacker hiding behind the false name of Satoshi Nakamoto does nothing to lend credibility in the eyes of the doubters.

What are virtual currencies?

Money is an institution that has changed over time, from early barter to the current day trusted fiat system, which is any currency that is recognised, authorised and regulated by a country’s government. Given the evolving nature, it’s hardly surprising that global technological developments,

leading to almost 35 percent of the world’s population having Internet access today, have led to the concept of virtual currency.

The ECB highlights that regardless of the form money takes, it is associated with three functions:

1. A medium of exchange.
2. A unit of account where a standard numerical value can be applied to the value of goods, services, assets and liabilities.
3. Store of value that can be saved and retrieved in the future.

A virtual currency is a type of unregulated digital money, the issue and control of which lies with developers rather than a central government or financial institution. In general, there are considered to be three types of virtual currency:

1. Closed schemes which have little or no link to the real economy, and are typically used for online gaming. These currencies can be purchased with real money or earned through game play or loyalty, but only used for purchasing virtual goods, and cannot be traded outside of the game community. For example, World of Warcraft has WoW Gold that players use to equip themselves for ongoing and higher levels of play.
2. Schemes with unidirectional flow where currency can be purchased or earned but cannot be exchanged back to original or real money. The now defunct

Facebook Credits was a perfect example of this format.

3. Schemes with bidirectional flow where users can buy and sell virtual money according to established exchange rates. Linden Dollars, the monetary scheme in Second Life, the world where users recreate an entire virtual life online, have value both inside and outside the community as they can easily be converted back to US dollars.

There are several reasons behind the existence of virtual currencies. First and foremost is the generation of revenue through virtual goods, but there are also additional benefits for companies such as locking-in users, increased loyalty, KYC through players earning additional currency by identifying preferences, or simply the creation of a float (in unidirectional and bidirectional schemes).

Bitcoin takes virtual currencies to a new level in that it can be used to buy both virtual and real goods, and its very creation was based on bypassing or overcoming the limitations of traditional monopolistic and centrally controlled currencies.

What exactly is Bitcoin?

Bitcoin is a decentralised encrypted currency that exists only online, stored in a user’s digital wallet that is available to download for free through open-source software. Bitcoin is not pegged to any real

world currency; instead, the value and exchange rate are determined by supply and demand in the market at any given time. Each Bitcoin is divisible to eight decimal places, enabling its use in all transactions.

Bitcoin transactions are anonymous and money is simply sent from one computer to another without the involvement of a central clearing house or financial institution. That being said, every transaction and change of ownership of a Bitcoin is registered and recorded, with each Bitcoin permanently carrying its entire history as part of its code, so that in some circumstances (e.g. law enforcement) they may/will be possible to trace.

The legal status of Bitcoin is unclear. In March, the US Financial Crimes Enforcement Network proposed to regulate Bitcoin exchanges; this suggests that the agency is unlikely to shut them down, however, there are no set guidelines as of yet. In Europe, there are arguments being made that Bitcoin should be treated as 'other currencies' under the Electronic Money Directive. However, this directive defines electronic money under three independent criteria:

1. Stored electronically.
2. Issued on receipt of funds not less than the value of the monetary value recorded electronically.
3. Accepted as a means of payment.

Bitcoin fulfils the first and third criteria, but not the second.

How does Bitcoin work?

Reminiscent of the Gold Rush, Bitcoins are created and introduced into the system through 'mining'. Mining is the process of validating and time-stamping each Bitcoin transaction through complex algorithms and mathematical solutions. Miners use their computing power to find valid 'blocks' and are rewarded in Bitcoins for their crucial effort and contribution. The

reward started out as 50 Bitcoins per block uncovered, however, this is (intentionally) halved periodically and is currently at 25 Bitcoins per successful endeavour. At the same time, once again intentionally, the algorithms become more and more complex and difficult as further Bitcoins are released, therefore requiring increasing amounts of power and resource.

The number of Bitcoins that will be released has a finite cap of 21 million (there are currently 11 million in circulation) and the rate of block creation is roughly constant over time – six per hour. With the regular reductions (approximately every four years) in Bitcoins per block, the currency is expected to reach capacity in around 2040, at which time it falls entirely into the realm of the economic theory of supply and demand, and miners on an ongoing basis are expected to generate revenue at that time through transaction processing fees.

Anybody can become a miner and, indeed, there was a rush of participants recently both causing and following the media hype. However, there are countless reports that for the most part, given the continuously increasing costs of both hardware and electricity to meet the continuously increasing complexities of the algorithm, individual small-time miners are spending more than they are earning in the process.

Once the Bitcoins are released and owned, their value comes from use as a purchase medium or trading them on newly-formed exchanges. Currently, the problem with Bitcoin as a viable currency for buying goods and services is that there are only 100 or so retailers or outlets that accept it, and unless a tipping point is reached where Bitcoin has a widespread use comparable to real-life currencies, this will limit and inhibit its acceptance in the mass market.

The emergence of Bitcoin has led to the establishment of numerous exchanges where Bitcoin can be traded, the largest of which, Mt.Gox, operated from Tokyo, caters to 80 percent of all transactions. In 2012, Mt.Gox saw an average of 9,000 to 10,000 new accounts created every month. This number doubled in January, tripled in February, and sextupled in March (when over 57,000 new accounts were created).

Trading Bitcoin is both volatile and risky; in fact, there have already been several boom and crash cycles in the value of Bitcoin, mainly caused by cyber attacks. The first significant crash, involving approximately 400,000 Bitcoins worth almost USD\$9 million at the time, took place in June 2011 when the value was knocked from USD\$17.50 to USD\$0.01 within minutes when the Mt.Gox exchange was hacked.

In early April 2013, a DDoS attack crippled the system, followed a few weeks later by a technical hiccup that slowed transactions and caused widespread panic selling, which in-turn caused the price to plummet from a high of \$260 to approximately \$60 in a matter of days. The value temporarily recovered and reached \$120 to \$140, and has now stabilised, for the moment, at around \$80 per Bitcoin.

The technical slowdown in April was caused by a dramatic rise in traffic and trades, with the number tripling in the 24 hours before the panic sales frenzy and accounts created in the first few days of April significantly surpassed the entire total for March. Keeping up with demand is problematic, and the fact that the load is borne primarily by one exchange is a red flag to many, as any issues (internal or external) at Mt.Gox can be seen to cripple the currency.

Aside from a desire to destabilise the Bitcoin currency in general, the DDoS hackers' motivation is to abuse the system

for profit. Creating a situation where everybody panic-sells; they wait for the price to drop to a certain amount, then stop the attack and start buying as much as they can.

This volatility, along with general scepticism about the currency, have led to comparisons being drawn between Bitcoin and Tulip Mania; the period of time in the Dutch Golden Age during which contract prices on the newly introduced tulips reached extraordinarily high levels and then suddenly collapsed – which is widely considered to have been the first speculative ‘bubble’.

The problems with Bitcoin

Aside from the wildly fluctuating value described earlier, there are many problems with, and concerns about, Bitcoin.

Security

The Bitcoin algorithms have never been compromised, and due to the authenticated history attached to each and every Bitcoin, counterfeiting is virtually impossible, but security in general is a huge issue, even beyond the exchanges. Each coin is a series of digital signatures with a public and a private key. Any loss or deletion of the key causes those Bitcoins to be lost entirely – and there have been losses, some due to lack of back-up and wallet management by the owner, but mostly due to hackers and thieves using Trojans to access computers. The Winklevoss twins, arch-nemeses to Mark Zuckerberg after the legal battle in the early days of Facebook, are significant owners and investors in Bitcoin and they have been public about their advice to other owners, and admittedly store their wallets offline on hard drives and USBs located in three different safes in three different locations – such is their perception and evaluation of the security risks.

Liquidity

While there is no hard data available, it is estimated that the number of owners of the 11 million Bitcoin in circulation is only in the tens of thousands, and of those, the majority (reportedly just under 80 percent) are simply holding on to their money. It would appear that right now, mining is the end-game and owners are unwilling to part with their Bitcoin in anticipation of significant value hikes. This may change given the recent crashes, however, Bitcoin was designed to be continually appreciative, and so much of the currency will always remain illiquid and kept as investment.

Usability

The ‘last mile problem’ is a major one for Bitcoin at the moment. Its use as a tool of purchase is extremely limited. Mass acceptance will only occur when Bitcoin has the value and approachability of real tender in the marketplace – and this ranges from retail outlets to ATMs.

Independence

The very nature of Bitcoin, its independence and decentralisation, is also working against it, in the short-term at least. Trust is a major issue with money, without which a currency is ultimately worthless, and this is where a government-recognised, centrally managed currency will always have the advantage over Bitcoin; although the level of this advantage may change under circumstances such as those in Cyprus recently, when the government froze bank accounts. Bitcoin advocates will be hoping for more instances of instability like this to see their pet project gain traction.

Reputation

Currently, the highest use of Bitcoin in a single marketplace is on Silk Road. Silk Road is hidden in an anonymous part of the

IS IT LEGAL?

Bluntly put, neither consumer usage nor operator denomination of gaming in Bitcoin (BTC) change the legality, or not, of the underlying customer or operator activity. Contrary to breathless media earlier this year, Bitcoins do not make online gambling legal, in the US, or anywhere else. This point was extensively explored at the Social Casino Summit in April in San Francisco by both attorneys and operators present and chaired by James Gatto, of Pillsburylaw.com. Generally, ‘virtual currencies’ including play money poker chips traded on a secondary market, virtual currency given away, earned, won or lost, and BTC specifically may trigger unexpected legal issues.

Gambling is still gambling and social gaming is still just gaming. (Elements of consideration, chance/skill, prize, in different combinations determine whether an activity is gambling, a lottery, a contest, or some other activity. In what form a player earns a right or pays to play affects whether or not consideration is present, but little basis exists to conclude paying or playing in BTC presents any special, exceptional fact.)

Operating any sort of a virtual currency-related business triggers a host of federal and state laws in the US, as well as those of other countries. Many of these unexpected non-gaming legal and regulatory minefields may be avoided by structuring any gaming business to steer clear of a need for money transmitting licensing, prospective markets/jurisdictions which carry overly burdensome anti-money laundering requirements for merchants, examination of Bank Secrecy Act requirements, etc. As more and more Bitcoin exchanges or ‘miners’, as opposed to gaming operators or merchants as such, have to comply with registration, reporting and monitoring of Bitcoin issuance and sales/redemptions, the perceived value of Bitcoin transactions and anonymity utilities will drop.

*By David Gzesh,
Legal Counsel at Gzesh Law Offices*

web called Tor, where the main products for purchase are illegal drugs. This is tarnishing the reputation of the virtual currency to both potential retailers and users.

In addition, the anonymous nature of Bitcoin has led to allegations of all manner of other unsavoury purposes, such as tax evasion, money laundering and terrorism financing.

Ponzi scheme

Many analysts and commentators suggest that Bitcoin has the characteristics of a Ponzi scheme in that users buy into the system using real money, but can only leave and reclaim their cash if there are sufficient numbers of other people that want to buy their Bitcoins; i.e. if new participants enter the system. This point is arguable on both sides, however, with the losses from Ponzi schemes in the past few years, there is much scepticism around anything that might appear to be dubious.

Bitcoin and gambling

Bitcoin is interesting with respect to its role in the gambling industry. While larger, licensed operators do not accept the virtual currency, and none have publicly come forward with any sort of opinion in either direction, there are some new and smaller gambling companies that are accepting Bitcoin, such as the Bitcoin-only online poker site, sealswithclubs.eu. Advantages for operators are low transaction costs, access to new markets and demographics that new payment partners always bring, and the fact that there is a likely correlation between early Bitcoin adopters and gamblers – mining or owning Bitcoin is a significant gamble. Users could probably get better odds in Vegas and at least in Sin City rather than a server warehouse, their drinks would be free, so it is likely that this small base of Bitcoin punters would be sports bettors, casino players and poker nuts as well.

The downside and risks of Bitcoin, however, cannot be underestimated – especially for companies with reputations, P&Ls and licenses to protect.

- The anonymous nature of Bitcoin and trouble, for now at least, of identifying where the money has come from goes against every KYC and fraud management requirement and effort made by operators, and until this feature can satisfy reputable regulators and legislators throughout the world, it is hard to imagine this currency being available as a standard.
- In-line with licensing requirements, operators need to have funds available to cover potential outlays. With liquidity an issue, it is unlikely that any single entity would have sufficient Bitcoin to cover its risk, and going to the marketplace, with all its volatility, bears unpalatable risk.
- For unscrupulous operators, Bitcoin deftly gets around the implementation of UIGEA quite simply by not involving financial institutions, and if this becomes a real problem it will not only tarnish the currency, but may have wider implications in the rollout of US legislation which is currently in its nascent stage.

Future

Bitcoin has been compared to Napster, the music file sharing system, in that it operates on the same peer-to-peer principle. Napster forced the music industry to change, but it doesn't play a major role in comparison with current leaders such as Spotify or iTunes. Like Napster, Bitcoin could crash out, shut down or disappear, but in that case, it is likely to leave a lasting legacy. Indeed, there are already Bitcoin copycats such as Litecoin, Zerocoin or Ripple/OpenCoin that are eager successors, and/or there may be a role for the larger payment behemoths such as VISA – which recently acquired PlaySpan, a company whose platform handles transactions for digital games and

goods on several worldwide social networks – or Amex, which bought Sometrics that works with video game makers to establish virtual currencies within their games.

Who knows what the next few months or years will see. Essentially, Bitcoin is, at present, an Internet experiment that some anticipate will become a full blown alternative currency while others expect it to disappear like pixie dust in a fairytale. The reality is that many of the advancements we enjoy today started out innocuously and without consideration or knowledge of where they would end up. Let's not forget that connecting computers and the very Internet itself started out as a technical experiment – and look where we are today.



Aideen Shortt is a veteran of the gambling industry having been involved in a range of senior roles since the outset of online betting and gaming. Her experience straddles both operator and supplier sectors, she is an active participant and speaker at industry events and has an extensive network of contacts.

She was originally employed as part of the marketing team that launched flutter.com (now Betfair) and from there moved to Coral Eurobet (part of the Gala Group) as a senior member of the marketing team, progressing during her time there to the position of Marketing Director for the online business.

In addition, Aideen has held director level roles at Skybet (part of BSKyB) and Chartwell Technology, and has now set up as a private consultant working for a range of different sectors within the industry including Paddy Power, fantasy gaming company Clever TV, Jersey's leading IT and data centre, Foreshore Limited, and also media companies Bluff Europe and Sport Business.

Aideen is a graduate of University College Cork (Ireland), and has a Master's Degree from Kingston University in the UK.

BITCOIN AND THE ONLINE GAMING WORLD

By **R Paul Davis**, LL.D, Barrister and Solicitor, and Managing Director of Counting House (IOM) Ltd.

I love this quotation from Bloomberg Businessweek's Technology section published in January of last year: "Calgary-based Infiniti Poker, like several other new online gambling sites, plans to accept Bitcoin¹ when it launches later this month. The online currency may allow American gamblers to avoid running afoul of complex US laws that prevent businesses from knowingly accepting money transfers for Internet gambling purposes. 'Because we're using Bitcoin, we're not using US banks – it's all peer-to-peer,' Hajduk says. 'I don't believe we'll be doing anything wrong.'"

In fact it was another eleven months before Infiniti conducted its soft launch, joining Seals with Clubs and Satoshi Poker as real money, US-facing online poker sites. At launch, it was clarified that deposits could be made in US dollars or Bitcoin, but payouts would be made only in Bitcoin.

Bitcoin detractors, and there are plenty with multiple complaints and objections, would doubtless make much of the overt attempt here to avoid the impact of the

Unlawful Internet Gaming Enforcement Act, commonly referred to as UIGEA. Hajduk may be correct that reliance on Bitcoin may only reduce the site's vulnerability to federal attack via UIGEA, but if one accepts the Bitcoin world's own insistence that it is a form of currency, or if one relies on the classic definitions of gambling that refer to "money or money's worth" then there can be little doubt that at state level, the site has severe exposure to legal risk. What is clear is that any offences committed will be more difficult to prosecute, offenders hard to find and trials susceptible to longer and more complex arguments. American prosecutors (as well demonstrated in recent years) do, however, tend to shoot first and argue the details later, and if I were Hajduk's attorney (which I'm not), I certainly would not be counselling him to cross the southern border of Alberta.

The legitimate potential uses of Bitcoin in the gaming world, leaving aside notions of avoiding US interdiction, are valid and somewhat compelling. Transactions in

Bitcoin are inexpensive when compared to most legacy forms of payment such as credit cards and bank transfers, and share the instancy and security associated with payment wallets. Further, there is the attraction of a single currency which transcends national boundaries; a Bitcoin-only site or game involves a universal currency held and staked by all players.

The challenges

Bitcoin is not supported or sponsored by any government or governmental authority; therefore, governments are nervous of it because it replaces their fiat² currencies. Payments of Bitcoin are made directly from consumer to merchant, and costs of doing so are extremely low; therefore, banks are nervous of it because it removes their participation and fee income. It is widely believed to be an anonymous form of payment, though this is a myth; in fact, Bitcoin transactions are far more traceable than cash. The price has been unstable; this presents commercial and consumer risks; there is clamour for regulation or restriction on this basis, though funnily enough no-one is demanding that consumers be prevented from investing in bank shares, which have been one of the most disappointing investments in history. Worst of all, there are many who believe that Bitcoin is highly attractive to criminals, drug dealers and

¹ To the uninitiated, and especially to those not immersed in the world of computers and the Internet, cryptocurrency is not easy to understand. Bitcoin was first described and created in 2009 by an anonymous programmer or group, and its use has grown exponentially since then. It is essentially a unique string of computer code, which is replicated and logged across a wide network of thousands of computers, making its replication or forging virtually impossible. New Bitcoins are created and released to the universe by "miners" at a decreasing rate, and there is a finite limit on the number which will eventually be created. Bitcoins were once worth less than a pound; recently they topped out at over \$1,000 US dollars per unit before sagging back to around half that value. There is a global community of Bitcoin enthusiasts and users. Its acceptance and value depends utterly on the trust and confidence of the user community.

² "Fiat" currency refers to currency issued by national governments, such as the US dollar or GB pound. There are several key differences from "alternative" or "crypto" currencies like Bitcoin, not least of which is legal tender status.

money launderers; it is true that it has been abused, yet no-one is advocating the abolishment of cash on the same grounds. Misunderstandings abound.

How much opportunity is there to gamble online using Bitcoin today?

A search of the web reveals there are plenty of sites offering the opportunity, across all sectors; poker, casino, sportsbetting and lottery are all represented. If one is not already a Bitcoin holder, getting started involves a few steps; a Bitcoin wallet must be secured to hold Bitcoins, then the coins themselves must be acquired from an Exchange (there are about 300 around the world) which involves paying in traditional currency (or potentially selling something for Bitcoin). There is also, inevitably, the opportunity to gamble *on* Bitcoin; at Plus500, for example, Contracts for Difference, a financial betting product, can be purchased on the direction of movement of the Bitcoin price against fiat currency. Additionally, there exists the predictable range of information and affiliate sites listing Bitcoin gambling opportunities and attempting to rate the operators.

An additional factor, perhaps adding to the excitement, is that, of course, Bitcoin owners take a risk on the value of the Bitcoin itself in their fiat currency. Buying Bitcoin is a gamble both on value and on the Exchange and wallet; if one then gambles 'in' Bitcoin, there is a triple-whammy.

A thorough examination of a range of Bitcoin sites leaves several strong impressions. First, there is a noticeable absence of regulation; the vast majority do not boast any onshore or offshore gambling

licence. It is extremely difficult with most sites to establish where the operator is based or operates; this is in marked contrast to the situation with most leading gambling sites which are more than happy to reveal their national affiliations.

Another telling feature is that many Bitcoin gaming sites are quite rudimentary and unprofessional in appearance and functionality compared to licensed real money sites; no doubt low player counts and transactional volumes are stifling investment. There are, of course, exceptions to all these comments and I would not seek to paint all with the same brush.

Where do the leading gambling regulators sit?

It would not be possible to survey the whole world, but it is clear that around the planet, the Bitcoin issue is taxing the best minds in government licensing offices. Progress is at different stages. First Cagayan, the principal regulator in the Philippines and home to many Asian-facing operators, is first over the line with a handful of reputable sites offering the opportunity to deposit Bitcoin. Alderney, the principal regulator in the Channel Islands, is rumoured to be 'very close' to authorising play for Bitcoin, which will raise interesting questions for the UK Gambling Commission as interim UK licences are set to be issued for its licensees imminently. On the Isle of Man, the Bitcoin issue is receiving serious attention from the Regulator's office, and second-in-command Mark Rutherford, who is renowned for his high level of technical knowledge, has become an incisive and respected authority on the challenges for cyber-currency.

A significant impediment on the island is that the Financial Supervision Commission, which regulates financial activities in the nation, has not declared its position on the supervisory aspects of Bitcoin trading. However, the matter is under review and we can expect news shortly.

The sanest statement on the future of Bitcoin has been made by Ben Lawskey, New York State's Superintendent of Financial Services, who said "... these developments underscore that smart, tailored regulation could play an important role in protecting consumers and the security of the money that they entrust to virtual currency firms." Well said, Ben. Virtual currency is here to stay; there is a community of users and supporters, massive investment by venture capitalists and others, and the opportunity to be a first-mover in regulation and attract part of this community to a country or territory is manifest and obvious. The State of New York wants to become a hub for cryptocurrency development and service; the States of Alderney has plans to become involved with the issue of physical Bitcoins, and several G9 jurisdictions are closely studying how to recognise and regulate.

The United States Post Office is releasing proposals to allow Bitcoin owners to lodge them with Post Office branches throughout the country. The UK Post Office is considering similar ideas. Standard Bank of South Africa, which has a prominent branch on the Isle of Man, is the first bank to go public with its plans to have Bitcoin-linked current account banking for its depositors. Several other banks worldwide have declared themselves to be Bitcoin-friendly and offer banking services to exchanges and

Bitcoin miners and developers. The wave is growing and it will not be stopped. Every new technology has glitches, we only have to look at aviation, the motor car, the credit card or the Internet itself to see how use and abuse has evolved into a stable ecosystem.

What is the commercial proposition?

From the operator's point of view, there are several variants of the Bitcoin opportunity. The most obvious is a pure model, where Bitcoin is deposited, the currency of play, and the currency of cashout. In this model, the operator is exposed to value risk only on profits, and would need to convert earned Bitcoin to fiat currency to realise traditional financial gain. There are big wins for the operator here; ease of deposit for Bitcoin owners opens up a new, inexpensive deposit method, and it transcends national boundaries and avoids the use of payment processors or banks.

A synthesis with fiat currency is the allocation within play of a nominal value for Bitcoins in a fiat currency. An example of this may be seen on the Asian site IBC³ where one Bitcoin deposited is converted to 100 Singapore Dollars (SGD), play is made in SGD, then on withdrawal, conversion goes back to Bitcoin at the same rate.

More aggressive and more risky are the models in which Bitcoin can be deposited or withdrawn, but a non-binding conversion is made. That is to say, the operator gives a current market value to the Bitcoin deposited, effectively buying the Bitcoin from the player and allowing the player full access to the converted currency.

The gambling site becomes a virtual currency exchange by extension, particularly if it allows Bitcoin withdrawals by players who originally deposited fiat currency.

jurisdiction with the endorsement of a competent licensing authority. The opportunity for the fleet of foot is obvious.

“... smart, tailored regulation could play an important role in protecting consumers and the security of the money that they entrust to virtual currency firms.”

Ben Lawsky, New York State Superintendent of Financial Services.

If the operator wants to take the risk on the fiat value of Bitcoin, no more is required; however, there is a major commercial opportunity here for an Exchange operator who is able to give gaming sites a guaranteed fiat value for Bitcoin simultaneously with the deposit. This is a complex software proposition, but the building of appropriate interfaces has strong earnings potential and I believe we are likely to see such facilities built in the near future by the major technology suppliers to the gambling industry.

What lies in the future?

This is fundamental. While detractors believe that leaders in the Bitcoin world want to operate in an unregulated and free environment, nothing could be further from the truth. What 'good' Bitcoin proponents and exchanges want, fervently, is to be brought within the scope of proper regulation and do their work secure in the knowledge that they are in a welcoming

Around exchange activity, there is also a hotbed of developmental work. Compliance software, fraud prevention, analytics, storage – these are all areas employing developers, marketers and others. As one exchange owner recently expressed speaking to the government of a small but prominent ecommerce nation, the only limitation on the employment possibilities is its ability to supply the talent.

In the iGaming world, the opportunity is just as cogent, but while the status of cryptocurrency remains unclear, it is difficult for the gambling regulators and their colleagues to form a clear policy for their specialised environment. All eyes, therefore, turn to the financial regulators in the various jurisdictions best placed to capitalise on the opportunity.



R Paul Davis, LL.D., Barrister and Solicitor, and Managing Director of Counting House (IOM) Ltd

³ <http://ibcBitcoin.com/deposit>

ROUND TABLE

BITCOIN AND IGAMING

With bitcoin gaining traction as a payment mechanism and a new market, we caught up with **Paul Davis** of payments provider Counting House, **Michael Ellen** of the Alderney Gambling Control Commission, and **Eric Benz** from digital payments platform GoCoin, to discuss the ramifications for iGaming.

What are the benefits and significance of bitcoin's emergence as a payment mechanism for the iGaming industry?

Paul Davis: Alternative currencies generally, as opposed specifically to bitcoin, address several parallel needs of gaming operators: speed, certainty, security and traceability. Not all deliver all of these in equal measure, but bitcoin as an example is generally much quicker than bank transfers, and does not have the problem of chargeback risk.

Michael Ellen: I am not the one to advocate bitcoin, although I think it has merits. As a regulator, currently it has no significance. In prospect, it's a means of reducing the stickiness of the merchant acquirer process, and avoiding the expenses and chargebacks. So it has some commercial merits, which the regulator has to recognise.

Eric Benz: With bitcoin being so new, the true potential of what it can provide the iGaming industry has not been fully exposed yet. The first aspect bitcoin will dramatically change in the iGaming industry will be their taking it as a method of payment. Operators can take bitcoin payments to load their players wallet from anywhere in the world instantaneously. For the first time in history, operators have a means in which they can target any person worldwide with little to no friction and 0% chargebacks and positively no fraud. bitcoin gives operators payment capabilities globally, which is something they have never been able to fully achieve.

There have been signs of mainstream recognition of bitcoin, from more regulators/tax authorities looking at how to handle it, to Apple and California recently lifting bans. How do you see this impacting iGaming?

Paul Davis: This is one move in the right direction, but not the only one. The principal challenge in regulated markets is that gaming regulators are unlikely to recognise digital currencies as a medium of play or of payment if they travel directly to the site.

Michael Ellen: The major issue with bitcoin is really political, so any momentum away from political prohibition is useful.

“Recognition by Apple, by California, are steps in the right direction, but when large national governments prohibit bitcoin, Russia, China potentially, there's considerable problems for an international regulator to recognise it.”

Michael Ellen

Recognition by Apple, by California, are steps in the right direction, but when large national governments prohibit bitcoin, Russia, China potentially, there's considerable problems for an international regulator to recognise it, because licensees will take on illegality in prospect, which is intolerable. In another respect, it is the

position of own government, and that of the UK, where a significant number of my licensees operate. If there is not political adoption, but ambivalence and the risk of prohibition, then the regulator is actually right out of his depth. It's difficult for us to accept it or adopt it if the political masters above it - and all regulators are all subject to political masters - are likely to prohibit. That's the major problem to progressing the conversation.

Eric Benz: The recent wave of regulation or moves by specific jurisdictions and countries to license bitcoin activities is very big news. For many years, it was impossible for anywhere in the world to acknowledge bitcoin and to in turn give it any sense of legitimacy. We are now looking at specific KYC + AML protocols being set to deal with digital currencies. As a result of iGaming being so risky, it's very important that each payment method used by the operators

carry the least amount of risk. This push for regulation is natural and expected. As a result, industries like iGaming and others will soon adopt bitcoin as the preferred method of payment. Moving forward with regulation in place, industries like iGaming will be able to leverage the technology and focus on innovation.

What are the major challenges and issues bitcoin's increased traction raises for the industry, and its regulators?

Paul Davis: The principal challenges are recognition, just mentioned, and player protection; if an operator holds a digital currency during play, there are no financial institutions, at least today, able to hold the "funds" in protected accounts as required by legislation in most reputable jurisdictions.

Michael Ellen: We require our licensees to use regulated payments providers, and although a number of bitcoin operators have said they intend to become regulated payments providers, there currently isn't anyone eligible to provide bitcoin exchange to our licensees. I do however believe that will change. The second issue is that the European payment service directive coming into force next year appears to prohibit bitcoin as a medium of exchange. There has also just been a European banking association paper on bitcoin, which lists 76 additional risks associated with bitcoin they would ask their members to focus on before considering it further. It's about as hostile as it could possibly be without saying: "You may not". There are also a series of issues around bitcoin as a medium of exchange. The banking system provides instant and easy accreditation for source of funds, because it's regulated from front to back, so lawyers' client accounts provide me with easy accreditation of the source of funds. It's a "black box". I don't need to know how it gets in there. I however don't think it's very difficult to black box the fundamental opposition that everyone has to bitcoin, which is that you can't see where it comes

from. The answer is, you can, someone can, if someone gets themselves in that lawyers' client account position, of saying: "I know where it comes from, you trust me." Then I don't think it's a major step for a gambling regulator to say, "I accept that." So I can see a black box solution to source of funds. But there's also a technical point regarding the security of the code. If you come to me with

from market swings, it provides a backstop to value of the currency. There's no such backstop in bitcoin. It's only worth what the next person will pay for it. It's a commodity not a currency. So if one of my licensees is sitting on a pile of bitcoins, what happens if their value is decimated? There's a capital risk, which actually I can deal with, but until the status of bitcoin is clearer, there's

"Currency is merely the first application to bitcoin, just like email was the first application to the Internet. The services, technologies, and companies that will build themselves on top of the bitcoin protocol will change the face of industries worldwide."

Eric Benz

a game, and say: "I believe this game is fair, will you let me put it our system", we as a regulator would test it several million times to prove it does what it says it does. Is bitcoin coding unique and effective? Well, a lot of people think it is. But it is demonstrably so? What happened to

Mt. Gox at the beginning of the year might have been a corruption of bitcoin coding. I suspect it was just a housekeeping failure, but it may have been unauthorised access to bitcoin block chain coding. Is the mining process secure, and is the block chain secure? One can't take it on trust. If you are a bitcoin trader, you are comfortable with this, but it doesn't mean the regulator should be. So there's an additional regulatory step there. A national adopted currency also has an inherent lender of last resort value. While this doesn't prevent it

a political risk to the operator, which I can't deal with, particularly because my own government doesn't have a position on it.

Eric Benz: The bitcoin protocol is very disruptive and in turn has the ability to do what a lot of what legacy institutions do, but faster and cheaper. Industries will have to learn how to adopt bitcoin into their current services and consumer offerings. Bitcoin takes the middleman out and allows people to transact peer-to-peer. Operators, service providers, and others will all have to change their pricing structures to accommodate what bitcoin offers. Legacy providers like financial institutions and regulators will have to innovate to meet the growing needs of KYC + AML solutions. Currently, the system of approach is outdated, and costly and prime for disruption.

How can these challenges be overcome and what are the possible solutions?

Paul Davis: In the short term, the most promising development is the emergence of technology allowing players to deposit and withdraw in digital currencies, while the operator receives fiat currency. Longer term, with recognition and the emergence of housing facilities for digital currencies (an example would be the interests of USPS and the UK Post Office in acting as storage wallet facilities) it is likely that regulators will begin to consider digital currency as a medium of play, and eventually some will no doubt accept it.

Michael Ellen: If you go down the dark side of the street, I can see that bitcoin has got major traction in the illegal, unlicensed casino operation. So if you don't care about the risks it has been through, because you are operating illegally anyway, then bitcoin is brilliant. It's an ideal solution. It's [therefore] a threat to the legal, licensed gambling industry. Failure to recognise and adopt bitcoin will provide greater strength to the unlicensed, shadowy illegal market, because it has great advantages, it is cheaper to use than merchant acquiring card services. So, it's a challenge the industry has to take steps towards [dealing with]. I think there are one or two leading bitcoin exchanges which intend to become regulated payment providers. I don't think it's possible in Europe, at least not yet, but I think it is possible in the States, in California, and I think that might be a very important jumping off point. From an iGaming regulator perspective, I would encourage that and I look forward to it, and I'm happy to work towards that end, personally.

Eric Benz: These challenges will be overcome as we begin to adopt and

understand more about what bitcoin and other digital currencies have to offer, in terms of both utility and technology. In order for the obvious challenges to be met, we will have to have further adoption and have a substantial amount of support by financial institutions and regulators alike. We should be looking at leveraging technology and applying it to traditional AML + KYC systems. Once we can learn to accept digital currencies as a nation, the regulation and innovation will grow exponentially.

Any final comments or predictions regarding bitcoin and iGaming?

Paul Davis: Because regulators move carefully (as they should) and legislatures move slowly, it is likely that adoption of digital currencies will proceed most quickly in unregulated markets, next in loosely regulated markets (we are already seeing this in Cagayan, for example), next in offshore regulated markets and only finally in onshore markets. Countries which attempt prohibition will create a black market, because people will do what they want to do, creating larger profit opportunities for unscrupulous operators, probably a few complex prosecutions and no doubt an opportunity for a "behind bars" experience for the overly aggressive or unwary.

Eric Benz: Will the value of bitcoin remain? Will the interest die if the price crashes? In my honest opinion, I have to say I do not know if the price of bitcoin will sustain itself long term or if it will go to zero. What I can say in confidence, though, is that the protocol and the concepts bitcoin has given birth to something that will be around for years to come. Currency is merely the first application to bitcoin, just like email was the first application to

the Internet. The services, technologies, and companies that will build themselves on top of the bitcoin protocol will change the face of industries worldwide. Having the opportunity to work full time in bitcoin, and be a part of these companies that will do precisely this, is exactly what continues to drive me each and every day.



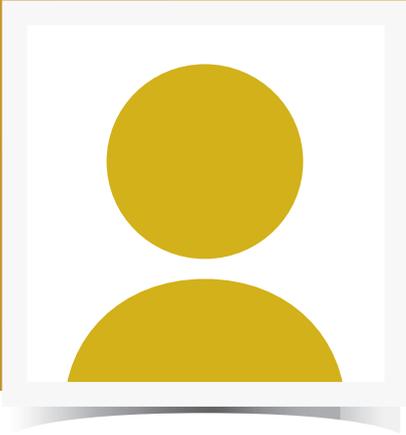
Paul Davis is a Canadian barrister, and Group General Counsel for an international payments company with significant presence in the iGaming space. He founded the world's first online currency exchange in the 1990s, and in a 30-year career in banking and payments law has negotiated contracts in 60 countries on six continents. He is Managing Director of Counting House (IOM) Ltd., and presently advises over 20 digital currency companies.



Michael Ellen is Director of Licensing and Strategy within the executive management of The Alderney Gambling Control Commission. He is a qualified chartered accountant with extensive experience in the financial services industry, both in the UK and internationally.



Eric Benz is Digital Currency Evangelist for GoCoin. He has been involved in the payments technology sector for nearly a decade and has delivered retail payment solutions for the world's largest merchant brands, transforming how they sell and ship to their worldwide customers. He continues to lead innovative Pay-Tech solutions for the rapidly emerging digital currency and mobile wallet markets. Currently, Eric serves as a director for the UKDCA (UK Digital Currency Association) and advises companies like GoCoin, Expresscoin and others.



BITCOIN CASINO

THE LOWDOWN

With the gambling sector having led the adoption of bitcoin, we caught up with **Nikolica Vadaski**, Head of Casino Operations for Bitstars.net, to find out more about the advantages and challenges of running an online casino based on the crypto currency.

Gambling has been reported to account for as much as 60% of historic bitcoin transactions. What are the reasons for this?

There are many reasons why gambling with Bitcoin and other crypto-currencies has become so popular. Playing with bitcoins resembles the feeling of playing with casino chips in a land-based casino. There's also a high level of privacy, due to bitcoin being pseudonymous, and payments are instant and irreversible. There are no transaction fees. Lost bets also carry no reimbursements or chargebacks, a big issue which was increasing transaction costs for the iGaming industry from the start. The games are more transparent with the use of cryptographic methods, which ensure and make it possible for players to verify the fairness of every bet. Gambling with bitcoins can also be much safer when it comes to the security of funds, since bitcoin gambling sites hold funds for a very short period of time, and when players decide to leave an online casino, they transfer their bitcoins directly to their online wallet by means of instant cash outs, with no fees involved.

What are the benefits and drawbacks of the Block Chain ledger for gambling?

The biggest invention of crypto-currencies is most definitely the open source, semi-anonymous decentralized public ledger system, where all currency transactions are recorded and there is no possibility of double spend. This is a good fundament, not only for digital money but also for storing any unit of value. It is extremely important, because for the first time you can store something digitally and be sure that it will not be duplicated or counterfeited. Public ledger is also a great source of transparency as every transaction/bet that a player makes is public and proven to be fair. The only downside of using public ledger from a player perspective is that for every single game/bet/round players need to make a bitcoin transfer from their bitcoin wallet to a certain bitcoin address of the gambling website. We try to make this a bit easier for players by giving every one a unique bitcoin depositing address, so whatever bitcoins land at this address will instantly be added to the player's account wallet. The advantage of doing it this way is that players do not need to send bitcoins to certain bitcoin addresses every time they place a bet on roulette or slots, only when they are recharging their wallet.

How do you get players? What type of marketing strategies do you use?

We quickly realized how effective

marketing campaigns would be among online news publishers and communities that are well into crypto currencies and whose readers are already well educated about bitcoin. For instance, bitcointalk.org is most popular bitcoin blog, where in the near future we are planning to implement a campaign. Besides the typical social media marketing on Facebook and Twitter, we have also concluded a few deals with real-money casino affiliates, who are slowly starting to grasp the advantages of the crypto currency and are extremely interested to test and add at least one bitcoin casino to the portfolio that they offer their most valued players.

Are players easier - and less costly - to acquire than at a real-money online casino?

Yes, currently the player acquisition price of the bitcoin player tends to be lower compared to the real-money online casino player. This is connected to cheaper advertising among the bitcoin community when it comes to bitcoin-related services and entertainment. It is also true that the amount of bitcoin casino players in general will be very tightly connected to the amount of bitcoin adopters and success of the bitcoin crypto currency in the coming months and years ahead. We strongly believe that with such rapid

growth and so much innovation, together with the money pouring into the bitcoin space of late, it is not a question of “if” but “when” we are going to see a mainstream adoption of the bitcoin.

How do bitcoin players compare in terms of spend and lifetime values? Are they more or less valuable?

As there are zero transaction costs, a player can make a deposit of less than a dollar and there is no minimum withdrawal, which is something that real money online casinos simply cannot match or afford. So, combined with instant transactions we see a big amount of smaller value players that deposit very small amounts. In the period we have been in operation, we have noticed that an average bitcoin player tends to have a lower lifetime value compared to the real money online casino player.

There are a growing numbers of new entrants to the space. Is it becoming more competitive and crowded?

There are new bitcoin gambling sites opening every day so the space of online bitcoin gambling is definitely maturing and the entrance is becoming more challenging than it was a year or two ago. When we first came to this space casino games were very simple. In saying this I believe that with bitcoin and its adoption, all the big game providers will slowly realise there is money to be made and will start to offer bitcoin wagering on their games as well.

“All the big game providers will slowly realise there is money to be made and start to offer bitcoin wagering on their games as well.”

How many games are you currently able to offer your players, and from which suppliers? Can you give us an idea of how fast this is growing and developing?

Right now, we offer around 50 games from SoftSwiss. We are also adding Live Casino from Ezugi in the coming days, and are in talks with one of the larger land-based slots manufacturers over featuring their games, with a view to becoming the first bitcoin casino to offer games which are currently only possible to play in land-based casinos. We are also working towards adding more original products in the future. While the regulatory bodies in the bitcoin space are still a bit behind on this cryptocurrency phenomenon there seems to be quite a few irregular players in this space as well. They seem to be providing a lot of non-genuine, false products and games from big suppliers like Novomatic, NetEnt, Aristocrat and Playtech.

Why aren't the main iGaming casino suppliers adapting their games for Bitcoin? Do you foresee this changing in the near future, as bitcoin gains in legitimacy?

Traditional suppliers are mostly still afraid of bitcoins. One of the reasons is that bitcoin's price tends to be very volatile. This

can be a bit of a gamble from a supplier point of view, if it is to get paid the royalties made in bitcoins converted to real currency at the end of the month, as bitcoin can be worth more or less than the previous month. Nevertheless, it is worth noting that the volatility of bitcoin has greatly decreased compared to the year 2013, and this trend is set to continue. The other reason suppliers are still a bit skeptical is because bitcoin is still not officially recognised as a currency in any gambling jurisdiction. I predict that in the next year we are about to see at least one of the more reputable gambling jurisdictions like Malta, Gibraltar Alderney or Isle of Man figure out how to deal with bitcoin gambling businesses and start issuing them with licences. But despite all, there is already big interest in bitcoin gambling from the supplier side, and I think it is just a matter of time before other gaming suppliers follow the likes of SoftSwiss and Ezugi.

Trust is obviously paramount to getting more players to your online casino. How do you go about building this in the absence of normal regulation?

We start off by allowing any interested players to test our instant depositing and

cash out services. Once a player feels comfortable and realises we only keep their money for a short period of time, with no extra payment or processing fees, they feel much more secure. Secondly, we have implemented a provably-fair concept for most of our games, where we use cryptographic methods which ensure that we or the player can't possibly know the outcome of the game until that moment when it is actually happening. Last but not least, we have a 24/7 support team and an online live chat most of the time during the day to help out anyone who might have any issues or queries. We also have an official thread on the bitcointalk.net forum, where we offer support and inform players about all the cool things we are up to.

What are your main country markets? Is there a correlation between this and the level of dot.country regulation in these territories?

Bitstars started off with a focus on English speaking countries but we have noticed a lot of interest from other countries as well. Since bitcoin is still poorly regulated worldwide, the majority of traffic is coming from countries with people familiar with and in possession of bitcoins. Since bitcoin is decentralised and can be used in any country, it is not a coincidence that the higher demand for bitcoin gambling comes from the jurisdictions that do not currently have dot.country regulations.

You recently launched your new affiliate programme. How does the model work compared to traditional casino affiliate programmes?

The affiliate model that we are using is quite similar. The only difference is in the NET revenue calculation. While the

“We have noticed that an average bitcoin player tends to have a lower lifetime value compared to the real money online casino player.”

traditional classic casino really gives out higher revenue share % than bitstars.net, it is worth noting that we are not deducting any chargebacks, payment processing fees or monthly casino fees from the gross revenue. We offer commission plans of up to 30%, which might look a bit on the low end at first glance. But considering the different NET calculation in our experience of operating real money casino, this is at least comparable to at least 40% on any popular online casino.

Are affiliates only paid in bitcoins, or can they get paid in other ways?

Right now, affiliates are receiving their payments in bitcoins once a month, which can be withdrawn instantly to their bitcoin wallet. On the other hand, we also have agreements in place on a case-by-case basis with certain affiliates that their payments are issued in euro.

I heard you also started accepting credit cards. How does this work alongside bitcoin, and what are the advantages?

The biggest issue right now in the bitcoin space is that buying bitcoins is still a very long process that can only be accomplished through bank wire transfer. Many people are still not holding bitcoins, but in many cases we found there was a large number who were curious about the bitcoin but were just not ready to wait a week. This was a normal process for anyone wanting to buy bitcoins for the first time on the biggest bitcoin exchange,

bitstamp.net. We wanted to change that so that our customers would be able to acquire bitcoins instantly, so we teamed up with a bitcoin cloud mining company to offer this service. It is worth noting that the stated company manages the whole process while we just receive the coins at the end of purchase. This way we do not handle any real currency at any given point in time. As things progressed, our bitcoin mining partner was receiving a lot of chargebacks since they were accepting credit cards through PayPal. This seemed like a very good idea for the end user, but for the merchant it was a different story. There were just too many people holding stolen PayPal accounts and using them in the gambling world. Combined with PayPal's high buyer protection and a one-click chargeback option, PayPal proved to be a very bad payment method to use in such cases. In saying this, we are determined to stay committed to our goal of providing an instant way of acquiring bitcoins. Therefore we are now working with our partner on some alternatives to provide an easy and fast experience of acquiring bitcoins with a possibility for players to deposit directly to their Bitstars account.

Prior to starting Bitstars.net, NIKOLICA VADASKI worked in Malta on a few online gaming related startups in different iGaming verticals, mostly focused on marketing and product development.



Q&A: CHRIS EVANS, BITCOIN GAMBLING GUIDE

With gambling dominating bitcoin transactions, new opportunities are opening up for affiliates. We spoke to bitcoin casino affiliate **Chris Evans** about this emerging market.

What was your background prior to becoming a bitcoin gambling affiliate, and how did you get started?

I've been involved in the online marketing business for more than 11 years now. I used to consult to several startups and media buying agencies and worked with online casino operators, as well as building and selling traffic websites to mainstream and gambling clients on a part-time basis. Ever since the first bitcoin arrived on my desk in early 2012, I decided to invest in it, learn about it and try to monetise it via my businesses. During this time, I combined this with a full-time job for DHL Australia. At the moment, I'm working with some other affiliates on building a new platform source with one of the biggest software providers in the bitcoin casino space. In addition, I have my own project called the Bitcoin Gambling Guide, bitcoingg.com, the largest bitcoin casino review site.

How does the revenue model work compared to traditional online gambling affiliation?

Bitcoin affiliates are not gambling affiliates, so they don't know much about the potential in this area. It's only recently that long-term casino affiliates started to market bitcoin casinos, and discovered that the numbers are completely different. The basic model is actually the same, with most operators offering rev share. However, the problem is that they generally offer only 5-10%, maximum 15% rev share, compared with to 40-45% in the online casino space. Only a few operators offer CPA.

Do you have to get paid in bitcoins?

Since it's the bitcoin market, operators and affiliates prefer and have no problem with

paying and getting paid in bitcoins. Some can still offer USD and EUR payments. At the end of the day, no-one will say "no" to old-fashioned currencies

What are your main strategies for getting players, and in which ways do these differ from the traditional space?

Strategies are similar to the online casino space - we all work on SEO, PPC, media buy, forums marketing, etc - but you need to remember that bitcoin is more than just a payment method: it's an ecosystem. Within this, you can find startups, technologies, experts, mega wallets and exchanges and much more. Each of the non-gambling niches inside of bitcoin have something important in common, which is that all of their fans have bitcoin accounts.

Bitcoin casinos are not yet regulated in the same way as traditional casinos. How do you work with this environment and decide which sites to drive traffic to?

That's not entirely true, since several operators hold Curacao licences, just like online casinos. Similarly, players usually look for reviews and comments regarding each brand and will always seek the best bonus to play with. It's more common for players to make small deposits 0.02 BTC in a brand and immediately try to withdraw. This way, both affiliates and players can build trust in the brand, since the BTC is an immediate transaction. Scammers and bad brands who do not pay out are getting closed on a daily basis due to the market movement.

Similarly, the prevailing view is that the lack of conventional regulation means bitcoin casinos and their owners can be less reliable

and less accountable than in the online casino space. What's your experience here?

This is also not true. In order to succeed in the space you need to build a brand by establishing high levels of trust and reliability among players, affiliates, media sources and the bitcoin community. We are now seeing some main brands in the industry which have spent enough time in the market to achieve this, such as Playcoincasino, Anonibet, Betchain and others.

How competitive is the space compared to traditional online casino affiliation? Do opportunities still exist for new entrants with the right skill sets?

The market is young and the potential is still there. There are lots of small niches to go into like poker, dice, lottery, etc. There are also lots of other markets to work on, many brands to work with and many other crypto currencies to use.

What advice would you give to affiliates looking at diversifying into this space?

Be unique. Each new affiliate can bring something new to the market, whether via a different approach or website design, or innovative way of presenting information. We are focused on differentiating bitcoingg.com by presenting info about bitcoin gambling brands in as transparent, clear and easy-to-access manner as possible. The comments we get from our players are very positive, and show we are on the right path with this project.

CHRIS EVANS is Business Development Manager for Bitcoin Gambling Guide. Chris used to work in the casino and gaming industry until he stumbled upon bitcoins.

BITCOIN AND IGAMING: WHAT LEGAL ISSUES?

With bitcoin's emergence challenging traditional operating models, **Giulio Coraggio** of DLA Piper explores the potential legal issues it raises for iGaming operators and regulators.

Issues affecting bitcoin and gaming have become a frequent topic of discussion since a number of gaming websites decided to allow bitcoin transactions and several gambling regulators decided to take steps towards protecting both operators and players in cases of bitcoin transactions. However, the increased usage of bitcoin does raise several potential gaming law issues, as well as non-gaming related issues.

Bitcoin is defined to be a cryptocurrency, since it uses cryptography in order to control its creation and transfer, and was created in 2009 by Satoshi Nakamoto, a person or group of people whose real identity is still unknown. Its peculiarity is led by the fact that it is not controlled by any public entity, but is instead based on a peer-to-peer network that allows you to hold and transfer it in an almost wholly anonymous manner, storing the details necessary to use bitcoin on your own PC or with third parties.

Legal qualification of bitcoin

The growth of bitcoin's popularity led the European Central Bank to issue a report in 2012 on virtual currency schemes, which raised concerns over whether they fulfilled the conditions to be qualified as e-money in accordance with the EU Directive 2009/110. Indeed, it concluded that bitcoin's main difficulties were that:

- It depends on a specific exchange rate which is not linked to a traditional

currency, but is merely based on the market conditions,

- It lacks any link with a traditional currency, potentially causing issues when holders want to convert them into real currency
- There is no control or surveillance by a public authority, only by private entities.

“The first Maltese-licensed operator which started accepting bitcoins in January of this year, Vera&John, was subsequently forced by the Malta Lotteries & Gaming Authority (LGA) to stop doing so.”

According to a French court decision of December 2011, however, a company operating in the exchange of bitcoin can fall under the definition of a payment service provider (PSP) for the purposes of the European Payment Services Directive 2007/64. Also, a French platform, Bitcoin Centralm, was authorised on the basis of an agreement between a software house and a payment service provider, to set up the first bitcoin exchange platform regulated within a payment systems framework.

In Russia, the situation with regard to bitcoin remains uncertain. The Russian government and Central Bank noted that Bitcoin and other digital currencies would be prohibited, but then a few months later, one Bank of Russia official said it should simply be monitored, as opposed to banned.

Legal risks

The main issue usually raised by opponents to the usage of Bitcoin pertains to the potential breach of anti-money laundering regulations that many European countries, including Italy, apply to land-based casinos and gaming halls, as well as to gambling websites. In this respect, one of the main indicators of a suspicious transaction for purposes of anti-money laundering is when players deposit to or withdraw from their gaming account

using a means of payment which is not registered under the name of the gaming account holder.

In order to prevent such conduct, online gaming operators have specific alert systems in place, but a key legal question is how this issue can be overcome in relation to bitcoin.

Another pertinent question is whether bitcoin transactions can be easily traceable by public authorities in case of investigations. The perceived legal risk relates to bitcoin's status as a virtual currency which is not regulated and is usually treated as a commodity, rather than as a currency, so therefore transactions are not processed by publicly regulated entities such as banks or financial institutions, making it more difficult for public authorities to monitor these transactions.

Some commentators would however argue that bitcoin transfers are even more traceable than ordinary cash transactions. So will gaming operators only accept payments only in bitcoins held under the name of the gaming account holder? And will gaming operators accept being subject to more stringent investigations by public authorities in the case of bitcoin transactions? These are all important questions that remain to be answered.

An additional interesting issue affecting bitcoin in the field of gaming is how to calculate the applicable taxation in case of transactions. In countries such as Italy, gaming duties for most of the games are paid at the end of each month. However, given that the value of bitcoins can considerably fluctuate over the course of a month, if only its value at the time of the payment would be taken into account, this could represent an additional “gamble” for operators in countries where gaming winnings are not taxed at source.

Finally, potential hacker attacks represent a further threat for this virtual currency, as occurred in 2011, when their value fell from \$17.50 to \$0.01, in a market not subject to transparency and regulatory obligations.

Regulators and bitcoin

Both the Bank of France and the Bank of Italy recently issued reports warning on the potential risks associated with this type of currency. Likewise, the Monetary Authority of Macau (AMCM) issued a warning to bitcoin users that trading in the virtual currency in Macau could break the law, although it did not expressly declare that the usage of Bitcoin would be forbidden outright.

An opposite approach has been adopted by the Isle of Man government, which recently announced it will proactively monitor and control innovations within

the digital currency arena. The goal of the Isle of Man regulator seems to be to create a friendly environment in order to encourage companies operating within the space to flourish.

“There is no doubt that both financial and gambling regulators will soon attempt to identify a regulatory framework for bitcoin, with the goal of protecting those trading with such virtual currencies.”

The race for leadership in the bitcoin sector has also been joined by Alderney, with its stated objective to become a global hub for bitcoin, even if initial plans for a gold-backed version of bitcoin have been shelved.

Mainstream acceptance: Apple and Dell

After initial strong opposition to the acceptance of payments in bitcoin, Apple in July of this year allowed apps using bitcoin's BlockChain to send and receive bitcoins as payment to be reinstated in the App Store. Likewise, after other e-commerce websites, Dell announced that bitcoins would be accepted for purchases on Dell.com, becoming the largest e-commerce business to accept the cryptocurrency. Wikipedia also started accepted donations in bitcoin in August, another sign of its increased traction and adoption by the e-commerce mainstream.

Dot.com vs. dot.country websites

The scenario with regard to the acceptance of bitcoin by gaming operators is quite uncertain at present. The first Maltese-licensed operator which started accepting bitcoins in January of this year, Vera&John, converting them immediately to euros, was then forced by the Malta Lotteries & Gaming Authority (LGA) to stop doing so. Likewise, none of the European dot.country

gaming regulators have so far allowed their operators to accept payments in bitcoins.

On the contrary, a much more liberal approach is followed by Curacao gambling authorities, and Curacao-licensed gaming

websites accepting bitcoin are flourishing.

The uncertainty among authorities in dot.com markets such as Russia, outlined earlier, has consequently made it difficult for operators on the ground there to know what approach to take.

The main risk with respect to the current scenario is that players willing to gamble in bitcoin will be encouraged to play on unlicensed websites, which in some instances would be in breach of local gambling regulations. There is no doubt that both financial and gambling regulators will soon attempt to identify a regulatory framework for bitcoin, with the goal of protecting those trading with such virtual currencies. However, the issue is whether a type of currency that was created for an unregulated environment will ever be willing to be regulated.



Giulio Coraggio is a partner at the international law firm DLA Piper, where he heads the Italian gambling and gaming practice, one of the most renowned in the country in relation to online and land-based gaming, advising major gaming operators on any matter of their business. Giulio is a frequent speaker at conference on gaming law matters, is the blogmaster at GamingTechLAW.com and contributes to DLA Piper's specialist gambling blog, All-In.

Q&A: IOM'S PETER GREENHILL ON NEW DIGITAL CURRENCY REGIME

In June, the Isle of Man announced its intention to recognise digital currencies and introduce protections for their users. We spoke to **Peter Greenhill** of the Island's Department of Economic Development to find out more about the potential implications of this pioneering initiative for the iGaming sector.

What spurred IOM to recognise digital currencies, such as bitcoin? Was it related to the large number of locally licensed iGaming companies, given that sector's dominance of bitcoin transactions?

The Isle of Man prides itself on recognising and welcoming innovation and then introducing the appropriate levels of regulation and control around these ideas. The parallels are clear between how we are now responding to the new digital currency age and how we reacted first to the emergence of iGaming several years ago. It should be clear to any observer that the digital currency "train" has not only left the station, but is gathering speed rapidly. The ability that digital currencies give to transfer value almost instantaneously and almost free, without the issues of chargebacks and card refusal, has meant that this payment method is already growing at a much faster rate than PayPal when that was introduced. To ignore or delay taking action to protect the consumer, keep crime out and ensure that the operators in this market have the correct background and expertise to manage their businesses effectively would be a derogation of our responsibilities. Digital currency companies, miners, exchanges, wallet solution providers and other support services moving to the Isle of Man will be able to immediately fit into a world class telecoms and power infrastructure that

has grown up around the world leaders in iGaming and other e-Businesses that have made their home with us.

How will you manage to apply existing anti-money laundering and KYC standards to bitcoin and other virtual currencies, given their anonymity?

The existing AML and KYC codes on the Isle of Man are robust and are operating effectively, and we work closely with our gaming operators to ensure that these codes are followed correctly. With regards to the anonymity question, one example of the ways that this can be addressed comes from GoCoin, who have just announced their incorporation on the Isle of Man and have designed a system which will connect public bitcoin keys with the individual that controls the corresponding private key. This design is flexible enough to cover both existing AML/KYC standards but also future trends as they emerge.

Why doesn't the Isle of Man just forge ahead with introducing a full regulatory regime for digital currencies?

Industry innovation is moving at a tremendous pace, and introducing a full regulatory regime at this time would be both costly and may be well out of date before the rules are enacted. Further, international standards or restrictions may be introduced as the market

develops. Given the relatively small size of the industry, in comparison with the mainstream finance sector, we have decided to introduce a proportionate AML regime which can be implemented in a timely manner, protects the Isle of Man's reputation and fights crime.

Will you now be looking to attract bitcoin casinos to the island, with a view to them becoming regulated as iGaming businesses?

We are already receiving interest from a number of gaming companies who recognise and applaud our approach to digital currencies and these will, of course, be dealt with under the control of our Gambling Supervision Commission.

What standards would iGaming-related bitcoin businesses need to adhere to, in order to establish there?

Those businesses would obviously have to adhere fully to our Online Gaming Regulation Act 2001 and to ensure that they have the appropriate AML/KYC and Combating the Financing of Terrorism measures in place, and that they fully protect all player funds. This means that any deposits or winnings are secure and can be enforced by law. Typically this is achieved through a segregated client account, not merely a separate account.

When will the new rules start to apply?

There will be two stages. First there will be the inclusion of digital currency activity in Schedule 4 of the Proceeds of Crime Act 2008, which will occur later in 2014. The effect of this will be that businesses will need to comply with the AML code.

Second will be the inclusion of digital currency activity in the Designated Business (Registration and Oversight) Bill 2014 which is still subject to Tynwald (our Parliament) approval and subsequent Royal Assent. It is expected that that Bill will be enacted during the first half of 2015. When enacted, digital currency businesses will be required to register with the Financial Supervision Commission, which will become responsible for oversight of their anti-money laundering compliance.

Will banks on the Isle of Man take business from new iGaming start-up businesses which handle digital currencies?

A number of the banks on the Isle of Man are already in discussions with gaming and other companies who are or want to be involved in some way with digital currencies. The Isle of Man is outside the EU, but the recent announcement by the European Banking Authority (EBA Opinion on “virtual currencies” 4th July 2014) makes very interesting reading. Whilst they are recommending that national supervisory authorities discourage banks from buying, holding or selling digital currencies, they state that they would still allow banks to maintain, standard banking arrangements such as a current account relationship with businesses active in digital currencies.

How will digital currency mining be treated for tax purposes?

We would always suggest that companies apply for their own independent tax advice. The Isle of Man is currently considering a practice note in support

of its recent announcements to clarify the stance of trading in bitcoins. In the UK, the buying of digital currencies and then selling for a profit would normally attract Capital Gains Tax, in the case of

“The parallels are clear between how we are now responding to the new digital currency age and how we reacted first to the emergence of iGaming several years ago.”

an individual, or a profit if undertaken as a business. Whilst in other jurisdictions there may be taxation implications, on the Island there is no charge to Capital Gains Tax and zero percent taxation for businesses. In the case of miners, their activity may be considered in the same way as any other business on the Isle of Man (except banking business and land) and the general rate of corporate income tax therefore would be 0%. However, we must stress that this will be clarified once the taxation guidance note is published.

What kind of response have you had from companies since announcing the initiative?

Since making our announcement regarding our approach to digital currencies, we have received a large number of enquiries from interested companies. Several of these have already visited the Island and have set up companies. Others are in the process of setting up site visits, and are discussing moving their operations to us. At the recent Bitfin conference in Dublin, we had a steady stream of companies from all aspects of the digital currency industry

seeking more information and arranging their fact-finding trips. We have made it very clear that we are only interested in those companies who embrace robust regulatory regimes and

who share our values in protecting the consumer and keeping crime out. This approach has worked extremely well for the Isle of Man in iGaming, attracting world leading companies, and we expect that the same will be the case for the digital currency sector.



Peter Greenhill moved to the Isle of Man in July 2013 to take up the position of Director of e-Business and CEO of e-Gaming Development at the Isle of Man Government's Department of Economic Development. Following a long and successful career in technology, especially in Banking and Banking Systems with Credit Lyonnais, GE Information Services and Unisys, Peter moved into the gaming industry. He has now had 18 years of gaming experience, having held executive management positions at Cyberview Technology, Betex, TCS John Huxley and Essnet.