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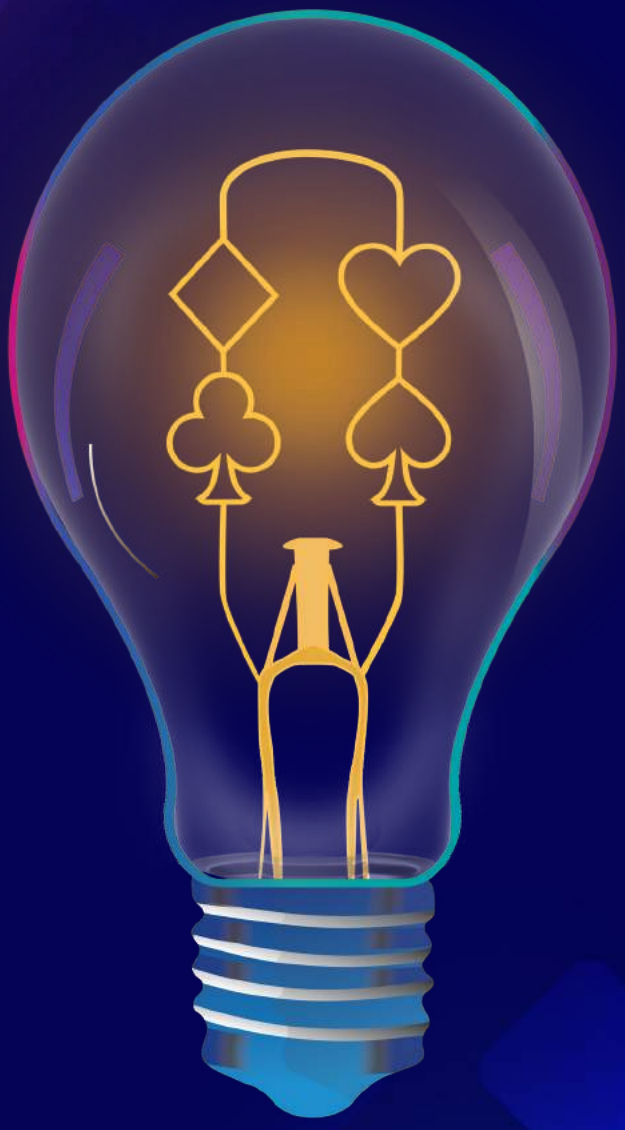

MALTA GAMING eSUMMIT

REPORT 2022

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Introduction

I am immensely proud to be presenting you with the KPMG Malta Gaming eSummit 2022 report.

As many of you know, the eSummits are hosted in Gibraltar, the Isle of Man and Malta each year. They are invitation-only gaming conferences, and are here to provide the industry with thought-provoking strategic insight, across a spectrum of themes.

The KPMG eSummits serve the purpose of saying thank you to our clientele for trusting in KPMG as your advisors. We believe that we bring together some of the greatest minds within the gambling industry together under one roof, with an objective of providing valuable insight. This insight could be for the benefit of safeguarding an operator's brand, strengthening one's commercial efforts, or indeed, to capitalise on new horizons.

The other aspect is that the eSummit provides a platform for KPMG to grow closer to a truly dynamic industry. It provides us, as KPMG, with a deep understanding of the sphere from a 360-degree viewpoint, with the objective of providing you, the industry, with a more insightful and conscious offering, that is truly in-tune with your operational requirements.

This KPMG eSummit report will provide the reader with a synopsis of the main room sessions that were shared by market-leading thought leaders on the 24th May 2022 in Malta. I hope you find it to be as fruitful as we intend it to be.

Best Wishes

Russell Mifsud
Director - Gaming Lead
KPMG in Malta
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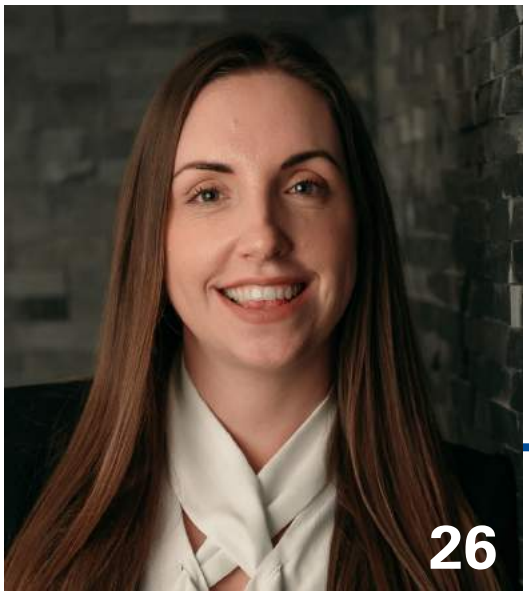


A WORD FROM THE SPONSOR

I am delighted to present the KPMG eSummit report once again; Continent 8 is a long-term partner and supporter of the KPMG eSummit, which has become a must-attend event on the conference calendar.

I'd like to thank Russell Mifsud, Director and Gaming Lead at KPMG Malta, for his warm welcome and insightful opening remarks.

I would also like to extend that gratitude to the other speakers and panel members for sharing their thoughts and experiences across what was an incredible agenda of presentations and talks. Like the day itself, I believe this report will be engaging and highly beneficial.

The eSummit covered a broad spectrum of topics, issues and trends, from the ongoing impact of the Covid-19 pandemic and what makes a business an attractive investment opportunity to the convergence of gambling with the sport, media and video gaming industries.

The thought-provoking agenda certainly captured the upbeat mood of the industry given the number of visitors to Malta and indeed the eSummit, with the main room and the breakout rooms at full capacity.

This includes the breakout session held by Continent 8 – 'Malta & Cybersecurity: Are you prepared for the ever-increasing threat of cybercrime?'.

Hosted by our Cybersecurity Director, Leon Allen, other participants were Curt Gauci, Director of Digital Solutions at KPMG Malta, Robert Gauci, IT Advisory Lead at KPMG Malta and Peter Allwright, Head of Suntera Forensics at Suntera Global.

The informative session covered the continued rise of cyber attacks as well as insights on preparedness and the techniques that companies can use to mitigate risks before, during and post-attack.

Amid this rising threat level, Continent 8 remains the leading managed hosting, connectivity, cloud and security provider of choice for iGaming businesses in Malta and beyond.

Indeed, Malta remains a key hub for Continent 8; we have a long-standing presence providing technical services, and we continue to enhance our network and services, further emphasising our commitment to local and international solutions for our customers and the island's economic development.

It has been a busy period for Continent 8. We have been deploying an aggressive international expansion plan, increasing our network to 85+ connected locations globally, including 24 US states with our first to market strategy, allowing our customers to leverage the all-important first-mover advantage.

It was wonderful to see so many familiar faces at the eSummit and I hope this report provides valuable insight and learnings to help take your business to the next level over the coming months and years.

With best wishes

David Black

David Black,
Managing Director - EMEA
Continent 8 Technologies

CONTINENT8 technologies

Welcome to the KPMG eSummit

Russell Mifsud began the KPMG Malta Gaming eSummit by saying how pleased he was that the event was finally back, after an enforced two-and-a-half years on hold, before thanking guests, sponsors and law firms for their participation.

He also gave a "heartfelt thank you" to his colleagues for their support and the dedication they had shown in organising the event, before he set the scene for the 80 expert speakers who would follow throughout the day.

"It's fair to say that the past two-and-a-half years have been a journey for us all," said Mifsud. "Beyond COVID's challenges impacting us on a personal, operational and leadership level, we have continued to see compliance and regulation play a domineering role in the sphere.

"M&A continues to shake up the sector, be it to capitalise on the value chain, benefit from economies of scale, strategic market entry, diversification of risk, or to swiftly acquire know-how and capabilities."

Turning his attention to the industry's newer regulated markets, Mifsud continued: "We've seen the growth in the US market, alongside its regulatory and business intricacies, coupled with the surge of SPAC-related deals and IPOs, meaning PCAOB audits.

"We've witnessed the introduction of new markets becoming regulated within the likes of Canada, LatAm and Asia, each presenting new pastures of opportunities for growth. And also grey markets becoming white, which has had a tangible impact on the broader operational freedom and the margins that were once enjoyed."

He also referenced the impact of the convergence of the gambling, video gaming, media, sports and esports sectors, and the growing importance of ESG and sustainable strategies to the industry as factors to monitor.

Mifsud concluded: "The gambling industry continues to evolve at breakneck speed. And as the sphere becomes increasingly more complex, then the need to anticipate the emerging trends, whilst managing the obligations of the industry at large, will grow tremendously. Great rewards are in store for those who navigate correctly, whilst looming struggles may await those who don't."

WELCOME TO MALTA

THE WORLDS OF IGAMING, VIDEO GAMING AND ESPORTS ARE CONVERGING, AND GAMINGMALTA IS WORKING HARD TO ENSURE THE INDUSTRY ON THE ISLAND HAS THE SKILLS BASE AND THE INTERNATIONAL VISIBILITY TO BENEFIT FROM THIS CHANGE.

"The future is now," said GamingMalta COO Ivan Filletti at the end of a presentation in which he outlined the importance to the island's gaming industry of moving with the times and embracing esports, video gaming and the metaverse.

He began by talking about the importance of the "beautiful industry" to Malta's economy and the way in which the island is seen, and how his organisation would continue to push for the sector to gain more respect from outside the igaming community.

Filletti cited the responsible gambling initiatives now being undertaken, the stringency of operators' onboarding processes in comparison with those used by banks, the adaptability shown by operators during the pandemic, the sector's ability to produce consistent growth even when subjected to enhanced due diligence, and gaming companies' willingness to nurture talent as reasons the industry merits more respect.

However, he warned: "Success breeds success, but we must maintain this. One thing which we know is that we can't rest on our laurels. So we are reinventing ourselves. The industry is reinventing itself and we as GamingMalta are reinventing ourselves."

Outlining his vision for how Malta can remain a key player in the global market as technology evolves, Filletti added: "Within the whole metaverse thing, and you know the metaverse isn't science fiction anymore, our small size really means nothing. We are living in a digital world, we are all omnichannel and we are all connected."

To help maintain the island's status as an important base for igaming technology, GamingMalta has launched its own diploma programmes at universities and the island's vocational college, MCAST, with the aim of growing the skilled workforce available to employers.

> WE ARE MENTIONING IGAMING, VIDEO GAMING AND ESPORTS, BUT THE BEAUTY OF THIS IS THAT THEY ARE ALL CONVERGING. THIS CONVERGENCE OF TECHNOLOGY IS HAPPENING AS WE SPEAK

Ivan Filletti -
COO, GamingMalta

Filletti revealed that this effort at upskilling also included an agreement between GamingMalta and Unity Technology, one of the world's largest game engine developers, which can boast that some 3 billion devices use its technology. He explained: "Malta is now a centre of excellence for Unity, so we're training lecturers across MCAST and universities to be academically accredited certified instructors in Unity, which will take us to having 400 students over the next two academic years to be fully qualified in Unity.

"We've also built a 700 sq m incubator space for video game and esports talent. It's a top-notch facility and we're building an incubator programme attached to it. We have some fantastic start-ups actually taking up space there from next month.

"We are mentioning igaming, video gaming and esports, but the beauty of this is that they are all converging. This convergence of technology is happening as we speak, and we're seeing it on a day-to-day basis."

Filletti cited the example of Draw & Code, a Liverpool-based immersive content studio, that last November opened an R&D facility in Malta, which it intends to use for the development of original IP in the AR and VR space.

He explained that three years ago when GamingMalta had pitched the island as a possible base for Draw & Code, the company had viewed the island as just a gambling hub. However, with the increasing convergence of the different gaming sectors, the company had now recognised Malta's potential.

Draw & Code can count Entain among its investors, something that Filletti described as "super interesting" and a sign of the way the future is developing as the worlds of igaming, entertainment and esports come together.

Turning his attention back to education, Filletti said GamingMalta was keen to create a talent pipeline and wanted to see the island become "one big campus" where students all get to learn coding and about esports and video gaming, as well as studying traditional subjects such as maths and English.

"All that could be filtered into the igaming sector. That's going to be our mission to get the bridge from the igaming sector to the video game sector," he explained.

"Why? Because the video game sector is asking us to introduce it to the igaming sector, because we can offer added value to the way they actually design games. The igaming sector is asking us to introduce them to the video games sector as we need to learn how they do this."

He added that "esports is low-hanging fruit for the island" in terms of tempting companies to establish offices and bringing skills that all sectors of the gaming industry could benefit from.

Over the last three-and-a-half years, GamingMalta has worked hard to establish "a very strong and sustainable local esports ecosystem", starting with backing local players and moving on to attracting start-ups and international tournaments. It now has a partnership with the ESL esports tournament organiser, which Filletti said meant "Malta is being seen around the world" and that the world could see that the island is "open for business".

He concluded that it is time for the industry to take advantage of the island's interconnected vision for igaming, esports and video gaming, as "the future is now and we must remain restless in all the things".

LONG COVID: An Evolved Industry

Paul Leyland - Partner, Regulus Partners

THE ONLINE GAMBLING SECTOR MAY HAVE THRIVED DURING THE TURBULENT ECONOMIC CONDITIONS OF COVID, BUT THE GAMBLING INDUSTRY AS A WHOLE IS SET TO FIND GROWTH DIFFICULT TO ACHIEVE DURING THE IMPENDING ECONOMIC SLOWDOWN.

There has been much publicity about how well online gambling companies are perceived to have done during Covid, but Paul Leyland of Regulus Partners attempted to put the figures into a wider economic context.

He began by acknowledging that there had an "extraordinary" level of online growth in both emerging and mature markets during the pandemic. "The absolute amount of online gambling revenue that has been added to the sector has essentially compressed a decade of growth into two years of digital adoption," Leyland explained.

The initial signs show that the underlying customer adoption of online gambling during Covid and the resulting revenue levels seem to be sticking, but he warned that generating growth from this market position would be extremely hard.

"What we seem to have is a much bigger online gambling sector in 2022 than we could possibly have expected in 2019, but one that is likely to be a low-growth sector outside of some key emerging markets for the next two or three years as customers adapt to new conditions, which will be especially true of the economic conditions that we're now facing," said Leyland.

He pointed out that despite the recent surge of the online sector, the gambling industry as a whole has struggled to achieve strong growth since the global financial crisis. This sluggish performance is a relatively new phenomenon, as the industry even enjoyed steady growth during the turbulent economic conditions of the 1970s.

"Online gambling has clearly grown significantly in the last 20 or so years, but it hasn't been enough to grow the underlying gambling industry. The underlying gambling industry, across all channels, across all products and across the markets has been declining in real terms for the past decade - actually since the financial crash," said Leyland.

"Before 2008, the overall gambling industry did a pretty good job of tracking GDP growth, but the financial crisis decoupled that and, since then, it has been lagging quite significantly by about a percentage point a year. A percentage point a year is like boiling a frog, you don't really notice, but since the financial crisis, we've now got an 18-point gap between global GDP growth and global gambling growth.

"Online gambling is obviously a great way of meeting that. COVID has played catch-up in giving people the opportunities to digitally adopt more generally, and in particular in terms of gambling, but we haven't yet seen a significant catch-up caused by online gambling."

He suggested that, based on an analysis of historical data, the industry may be missing out on more than $20 billion of gambling spend, meaning that significant growth could theoretically be achieved in the coming years if the online sector understood how to develop a more effectively mass market, less VIP-driven model.

However, Leyland fears that the opportunity for growth in the foreseeable future may be limited as, contrary to the popularly-held belief, the gambling industry is not economically resilient and will be impacted by the wider economic slowdown. In particular, inflationary pressures will mean that "consumers themselves are going to be finding it really difficult to increase their discretionary spend".

> "IF IN THE NEXT TWO OR THREE YEARS, GAMBLING DEMONSTRATES THAT IT IS EXTREMELY ECONOMICALLY RESILIENT, WE'RE ALL THE TROUBLE BECAUSE IF PEOPLE ARE PRIORITISING GAMBLING OVER CLOTHING, FOOD AND CHILDREN, THEN POLICYMAKERS ARE GOING TO REACT TO THAT PRETTY AGGRESSIVELY"

"If in the next two or three years, gambling demonstrates that it is extremely economically resilient, we're all the trouble because if people are prioritising gambling over clothing, food and children, then policymakers are going to react to that pretty aggressively," said Leyland.

"We need gamblers to spend less money when times are tough to demonstrate that we are in the entertainment industry and we're not rinsing people. So, hopefully the next two to three years will be really tough, as that will demonstrate that we are a responsible and sustainable industry."

Leyland also pointed out that the growth of the online sector over the last two years had brought with it increased scrutiny, meaning that when operators are fined by regulators the news is likely to be widely reported. He argued that this is giving a somewhat false impression to the public, as despite the new focus on failings, "the sector is at a far better place in terms of sustainability, in terms of safer gambling and in terms of regulatory compliance than it was five years ago - there's no doubting that".

This gap between public perception and the reality of improved standards is, Leyland believes, a danger to the industry as it has put pressure on politicians to revisit regulatory and taxation regimes. This could mean that, despite having improved its performance, the industry will find it faces higher tobacco-style sin taxes, greater advertising restrictions and stake limits.

"Until we build a much more sustainable narrative and say, 'look we're in the entertainment industry, we pay our way, we are interested in the well-being of our customers in general and not simply focused on the harm of the few or of rinsing the few', then the additional revenue and the additional exposure that Covid has created for the sector will be an enormous problem, because it's forced governments to think about online gambling and they will do something," Leyland concluded.

C-LEVEL OUTLOOK

THE EVOLUTION OF THE INDUSTRY OVER THE PAST TWO YEARS HAS CREATED MANY NEW MARKET OPPORTUNITIES FOR MALTA-BASED GAMING COMPANIES, BUT AS A PANEL OF SENIOR EXECUTIVES DISCUSSED, IT HAS ALSO BROUGHT A NUMBER OF ADDITIONAL CHALLENGES.

The opportunities in newly-regulated and soon-to-be regulated markets in North and Latin America are now a major focus for gaming companies based in Malta, although the industry on the island has some issues to address if it is to take full advantage of them.

These themes emerged as Enrico Bradamante, the Founder and Chairman of iGEN, quizzed a group of senior executives about the current condition and future direction of Malta's famed igaming sector.

In terms of searching for growth, Cormac O'Brien, CFO-Malta for Flutter Entertainment, said that "obviously our biggest opportunity is the US". Jesper Svensson, CEO of Betsson Group, is also looking across the Atlantic for expansion, but with a strategy that targets "all of the Americas, in different formats".

"We're focusing on B2C a lot in Latin America - it's a great opportunity for us there and we're expanding rapidly in that region," Svensson explained. "North America is a very expensive thing and we are focusing on B2B there. We went live last month in Colorado to showcase our new US portal that we are now planning to sell to US operators.

"So, a slightly different approach in the two regions, but for now, I think that's the most exciting part of the world when it comes to growth for the next few years."

O'Brien added that the Americas is not the only focus for Flutter's operation on the island. "From a Malta perspective, I'm personally involved in a lot of M&A - downstream supply chain M&A and then, internationally, within Europe, new channels in terms of new markets for us," he said. He also revealed that his team undertakes some operational work for Flutter's operations in the US and Australia, and described Malta as an attractive base for gaming companies.

"We've nearly hit 1,000 employees in Malta, which is a big landmark for us," said O'Brien. "Malta is still a big strategic location for us, for regulatory purposes it's very important. The staff are very well trained here and we look at it as a very unique location to be based."

However, the availability of the skills needed to drive further growth was identified by other panellists as being among the biggest problems for the island's gaming companies.

Lara Falzon, COO of Bragg Gaming, said: "One of the greatest challenges now is the talent pool. We believe that if (the industry) builds an infrastructure to attract talent, coupled with a good work-life balance and schools for families, this will provide a good environment, a good base that will allow companies to create foundations in Malta, either for their whole organisation or part of their organisation.

"This has to be the plan, but the future is now, so we need to start working on it now with the aim to keep building on it in the coming years."

Svensson expressed some doubts about whether it would be possible to attract enough skilled workers into the industry in Malta. "The question is how much talent exists, both locally and

> THE QUESTION IS HOW MUCH TALENT EXISTS, BOTH LOCALLY AND INTERNATIONALLY. AFTER COVID IT HAS BEEN HARDER TO RECRUIT PEOPLE IN THE SAME WAY AS BEFORE

internationally. After Covid it has been harder to recruit people in the same way as before, so I struggle to see that there will be good growth here," he said. "In particular on the tech side it's a proper challenge and I'm not sure if there's enough people to cater for the demand of this industry."

David Flynn, CEO of Glitnor Group, agreed that it was a challenge to recruit experienced staff in Malta and urged the industry to support GamingMalta's education initiatives, which are designed to equip more people with the skills igaming companies need.

Flynn also identified another problem for the industry in Malta, which is the island's banking sector, which has a tendency to use slow, onerous processes and controls.

"One of the challenges we see from the outside looking into the banking industry in Malta, is that digitalisation of information is not quite here yet," he said. "So one is submitting exactly the same information month after month in a paper format, for exactly the same reasoning. "There doesn't seem to be any kind of recording of previous information and interactions. That obviously does slow down processes and causes some frustration.

"Unless there are changes made within the banking system, while still meeting the necessary requirements of course, I fear that a lot of the gaming industry will continue to look outside Malta for banking."

O'Brien also suggested that banking is a problem for the industry in Malta but, despite admitting that Flutter had moved much of its banking to New York and Dublin, offered a suggestion for how the situation could be improved.

"If the banks would sit down and engage with us, they would see that some of our controls are superior to what the banks have in place," he said. "Some mutual discussions and understanding of our business might open the doors to some more reasonable banking for the industry."

Jesper Svensson - CEO, Betsson Group
Cormac O'Brien - CFO, Flutter Malta
David Flynn - CEO, Glitnor Group
Lara Falzon - COO, Bragg Gaming
Enrico Bradamante - Founder & Chairman, iGEN

CONVERGENCE:

The impact of gambling attracting interest from sports, media and video gaming

OPPORTUNITY AND DISTRIBUTION WERE HOT TOPICS AS THE PANEL DISCUSSED THE CONVERGENCE OF GAMBLING WITH THE SPORTS, MEDIA AND VIDEO GAMING INDUSTRIES, INCLUDING A FOCUS ON HOW THE PRACTICE IS AFFECTING M&A.

Rick Arpin - Managing Partner, KPMG Las Vegas, Adi Dhandhania - COO, North America Bally's Interactive & Robert Stoddard - Strategic Corporate Tax Partner, KPMG

Convergence is viewed as a huge opportunity by industry figures, emerging as a key practice to maximise the offerings in different markets.

Introducing the topic, Rick Arpin, Managing Partner of KPMG Las Vegas, said: "There has been a move to converge sports, media, entertainment, gambling, video gaming, everything's coming together and there is so much focus on this part of the industry."

Opening the topic up to a much broader discussion, Robert Stoddard, Strategic Corporate Tax at KPMG, predicted an upwards trajectory in the market.

"We think there is a tremendous amount of opportunity, potentially in the future, a $130 billion-plus opportunity. We're seeing it grow, somewhere around 10-12 per cent a year at this point," he said.

"It's driven by a number of factors. Obviously convergence in the gaming vertical itself but also transactions in the industry, M&A activity bringing together content, streaming platforms, sports betting, icasino, esports… I think we're going to see this grow exponentially over the next few years."

Meanwhile, Adi Dhandhania, COO - North America for Bally's Interactive, outlined his belief on what is likely to underpin success and failure in the sector.

"Convergence has been a very important topic for us," said Dhandhania. "We've been very active in the M&A scene for a couple of years. It's not just about having a good product - like any business, you have to have good distribution.

"We think that the winners in this space will ultimately be the companies that have done that right, that have understood and solved the problems, but more importantly built the right products so they can translate the massive media audience that exists onto their online platforms."

Dhandhania further explained the motivation behind Bally's journey down the convergence path.

"It was important in the US market that was growing very quickly that we needed people, the right technology, and the right product," he said. "It was very clear early on to us that buying would be the best strategy rather than trying to do it organically through building, because it takes time. We also had the benefit of studying our colleagues and competitors in the space who have gone fast through the market.

"We were very thoughtful in saying that we have to have a cohesive strategy that starts at the top of the funnel, so we can start engaging with the customer in the right way, and then have enough data so that when you translate that to your online products, on the regulated side, you know who they are and their preferences."

In terms of revenue streams, Stoddard is optimistic that there is plenty of room for companies to capitalise.

"When we look at the revenue that is being generated in the convergence realm, it's not only the gaming revenue, it's the licensing

> WE THINK THERE IS A TREMENDOUS AMOUNT OF OPPORTUNITY, POTENTIALLY IN THE FUTURE, A $130 BILLION-PLUS OPPORTUNITY. WE'RE SEEING IT GROW, SOMEWHERE AROUND 10-12 PER CENT A YEAR AT THIS POINT

rights, it's the media rights, there's just a tremendous amount of opportunity," said Stoddard. However, Dhandhania flagged an element of caution for those entering US markets.

"It's not easy just to take a European sportsbook and have it launch. One of the other things we realised is that the experience is really disjointed. A lot of it is because the market is in its nascent state. In the US it's very, very new," he explained.

"There's a lot more innovation to come. There is a fundamental shift that needs to happen, and it will happen.

"But it's an important thing that we can control and build that two-way experience. Today, when you're watching TV and interacting on the phone, the latency on the two is not synced up, it's not the best experience you can offer.

"But we can influence that sort of change. What we've done is spend a fair bit of time investing in companies and technologies that can help us with not only cutting down the latency, but also helping us give that solution so that two-way communication will be a lot more possible."

Another barrier to progress can be found in the specificity of states, according to Dhandhania, with the various regulations and tax rates proving complex to navigate.

Nonetheless, Dhandhania gave an example of how Bally's has sought to diversify itself, with last year's acquisition of the AVP beach volleyball tour.

"That was important for us as we think of ourselves like a content business. The difference is our monetisation is not through subscription, it's through gambling. AVP gave us the opportunity to expand our content portfolio, and we have a significant amount of distribution through Bally Sports," he explained.

"Covid taught us a few different things. As long as you have good content and you can create engagement, it's all about getting the right content and we believe owning a league like AVP is a great way for us to engage, produce content and gamify that content."

WHAT DOES IT TAKE TO WIN IN ONLINE GAMING?

AS COMPETITION IN THE ONLINE CASINO SECTOR HEATS UP, HAVING THE RIGHT AI-DRIVEN TECHNOLOGY AND USING IT TO DELIVER EXCELLENT CUSTOMER SERVICE WILL BECOME INCREASINGLY IMPORTANT OVER THE NEXT FIVE YEARS.

Todd Haushalter - CPO, Evolution Gaming

"Do unto others as you have them do unto you."

This was the quote which Todd Haushalter, Chief Product Officer at Evolution, stated was an "essential tenet" of most of the major religions around the world. Yet, when relating it to how igaming would look in five years' time, he asked if it could actually be a business principle, given that it is ingrained into us as human beings.

Delving further he stated that, before there was ESG, there was the golden rule - "treat others how you would want to be treated". Using the power of paraphrasing, Haushalter asked, what if it was "treat customers how you would want to be treated?" He also pinpointed Apple, Amazon and Southwest Airlines, as three companies that he believed were following this "golden rule".

Looking at parallels in igaming, he focused on two sectors within the industry, the casinos and the suppliers.

Outlining the features he believes will be key to the most successful online casino operators in five years' time, he began with a high Return to Player (RTP), as information "travels fast" and players are going to be able to quickly find who has the most generous games.

> THE THING YOU WANT YOUR PLAYERS TO NOTICE ABOUT THE TECH IS EXACTLY NOTHING. THE SAME WAY THAT YOU NOTICE NONE OF THE TECH IN YOUR IPHONE OR NONE OF THE TECH BEHIND YOUTUBE. IT JUST WORKS

He continued: "This is effectively having the best prices. I've never heard a player say 'I wish you'd figure out how to take my money a little bit faster'. Their friendly loyalty programme has easy to understand, useable rewards to be frequent gifts. It's going to be tiered. You're just gonna understand exactly how it works.

"Wagering requirements will be largely eliminated. I know this is difficult to do because there's bonus abuse and all that sort of stuff, but it's not really a gift to give someone $100 if they have to wager through $2,000 before they can do anything with it.

"It is hard, that's why the casino of the future is AI driven. It's going to help you identify where the bad guys are so you could do more efficient bonusing. It's going to help you find games that you're looking for. It's going to help you run your CRM with offers that are relevant to you. If you don't bet on football, it won't offer you football pushes.

"It's gonna be fast, easy cash outs because no player wants to sit for three or four days to get their money, they want it now."

Moving forward, Haushalter said that, in the future, there will "only be quality games on the sites", as he again referenced Apple and what he perceives to be it offering only "quality apps".

He noted that, generally, everything will work, no matter what operating system the user's device has. The Chief Product Officer also stated that players will be able to bet on "everything under the sun".

Furthermore, he suggested that the top online casinos in five years' time will be lifestyle brands that players want to be associated with, in the same way they talk about the experience of going to Las Vegas or owning an iPhone.

"These are aspirational lifestyle brands and I think that the winner in five years from now, they're gonna have the same thing and you're just gonna see it everywhere," he continued.

"It's gonna be in pop culture, you're gonna see it on TV, you're gonna see it on YouTube, you're gonna see it, celebrities are going to be endorsing their brands and it's just gonna sort of be everywhere."

Looking into suppliers, Haushalter noted that they, respectively, are "different animals", due to the variety of products on offer.

Highlighting the difficulty of the live casino space and emphasising that he was shocked at the number of live casino providers out there (41, according to Haushalter's presentation), he stated that "everything is hard".

"There's so many live casino providers, it's a big list. We've got companies from land-based casinos that have gone into live casino, companies from offline casino… only to then later exit live casino," he said.

"It's just hard, everything is hard. If you work 90 per cent of the time, you're out of business because that means every ten, something is getting sideways and players are going to freak out on you."

After going through the process of how a live casino operates, Haushalter delved deeper into the topic of technology. Rephrasing a saying he repeated throughout the whole presentation, Haushalter stated that tech should "just work" and provide a "flawless playing experience".

"The thing you want your players to notice about the tech is exactly nothing. The same way that you notice none of the tech in your iPhone or none of the tech behind YouTube. It just works," he said.

Rounding off his presentation, Haushalter identified the "enemies of the golden rule", but emphasised that there are many companies within the sector that are living by this rule, despite it being "hard to do it".

He concluded: "People inside your company will fight. They will resist. There will be pain. But the players, they will embrace them."

M&A Perspective:

What makes a company strategically attractive for acquisition purposes?

THERE'S FAR MORE TO ACQUIRING A BUSINESS THAN JUST THE P&L NUMBERS, AS WE FOUND OUT FROM THREE KEY INDUSTRY FIGURES WHO CITED INNOVATION, TEAM STRENGTH AND EXPOSURE TO GROWTH AS SOME OF THE FUNDAMENTALS TO SUCCESSFUL ACQUISITION.

What makes a company strategically attractive for either acquisition or investment? That was the key question posed by moderator Tom DiEnno, FDD Managing Director for KPMG US.

First to respond was Gabrielle Demirci, Managing Partner of Growth Box Ventures, who said: "When we look at a company we primarily start with the team. It's more about the team behind it. What experience do they have? Do they have passion for the product they are developing? And on the other hand trying to see what kind of approach they have to certain problems."

He continued: "Now it's difficult to always be innovative for many aspects of the igaming space. There are only so many different ideas you can have. Companies have to be targeting user acquisition from a different angle and we actually see some very innovative concepts from companies on how to acquire customers - to engage customers. And not just referred traffic passively from one source to another but to actually engage customers, to know them, to register them and engage them."

> WHEN YOU START ACHIEVING A SEVEN-FIGURE, GROWING TO AN EIGHT-FIGURE, REVENUE SCALE BUSINESS YOU CAN START LOOKING TO ADD REALLY STRONG PRODUCT, REALLY STRONG TALENT

Offering a slight change of emphasis, Jake Kleiner, Investment Partner at Bettor Capital, noted: "For us it's about what is the exposure to the overall growth in the space? We're all incredibly bullish on the overall market opportunities - though are you capturing that? I think obviously with a revenue share model you are, but we're investing across the technology stack.

"So for payments or compliance businesses, for some of the CRM type software, do you have the right exposure? As you grow and your operator customers grow you'll be providing them with so much value that you'll be able to sell additional solutions."

Motti Gil, CFO of Aspire Global, offered the following view: "When we were approaching the M&As - the transactions that we did - what led us was the strategic direction to become a leading provider. So we looked at the gaps we were looking to fill. We started with the acquisition of Pariplay which is a content provider and an aggregator.

"This is the way we structured it. We were looking, first of all, at the technology and the product and how it can fit with Aspire Global and how we can grow it. For example, taking Pariplay as an example for a successful transaction. We took a company that was breaking even or even losing money and transformed it into a very profitable company growing very fast.

"Where we were also looking was where we could add value to the business in order to grow it and I'm happy to see that our journey was in the right direction."

DiEnno steered the conversation next towards the value chain and how companies approach product development within the acquisition lifecycle. Demerci answered: "What we find almost dangerous is if you try to interfere into the product aspect of the startups you're investing in. It's more on how to avoid some common mistakes, how to go about marketing strategies, how to optimise costs. Product competence has to come from the team you invest in and then you can build on top of that."

Kleiner was next up, saying: "When you start achieving a seven-figure, growing to an eight-figure, revenue scale business you can start looking to add really strong product, really strong talent to an existing business that's already running and operating really well if the business decision makes sense.

"As we look to build a diversified portfolio of 15 to 20 businesses and we're only focused on B2B supply chain in real money online gaming in North America, our businesses are selling to the same customers. You start to achieve some of that portfolio scale - which is really beneficial - regardless of whether you're formally combining businesses or looking for acquisitions."

Gil was asked by DiEnno to offer some perspective on Aspire's approach to investment versus acquisition. He told delegates that the firm was willing to take a minority investment in companies, identifying new technology and the people behind it - "putting a foot in the door to be in a position to take over in the future - but not obliged to do so".

He was also quick to point out that while Aspire is open to acquiring and investing in new projects, if the fit is not right, the company is prepared to walk away. He explained: "Definitely, we are looking at all types of companies, and just to add to a point that Jake mentioned about the culture. I think this is very important. I can tell you that along the processes that we've conducted, in more than one case a transaction was dropped at the final stages because we felt that the combination will not work eventually."

Tom DiEnno - FDD Managing Director, KPMG US
Jake Kleiner - Investment Partner, Bettor Capital
Gabriel Demirci - Managing Partner, Growth Box Ventures
Motti Gil - CFO, Aspire Global

IS THE US PLAYER ACQUISITION STRATEGY DESTINED FOR FAILURE?

HAVING WITNESSED THE HAZARDS OF HEAVY PLAYER ACQUISITION SPENDING IN EUROPE, GRECO CEO OZRIC VONDERVELDEN AND COO ED DICKERSON EXAMINED ITS CORRELATIONS TO THE CULTIVATION OF BONUS ABUSE AND PLAYER DISLOYALTY IN THE US TODAY.

Ozric Vondervelden - CEO, Greco & Ed Dickerson - COO, Greco

Greco CEO Ozric Vondervelden and COO Ed Dickerson, both noted experts on bonus abuse - the profitable strategies bettors can use to optimise promotional offer value - tackled the question of whether the player acquisition strategies adopted by US operators are destined to fail.

Vondervelden began by revealing that the amount of money an individual player in New Jersey can take from operator acquisition offers is $18,575. This sum can be achieved by taking advantage of offers across 36 casino and sports betting operators within their terms and conditions, does not require any sophisticated strategies, and can be achieved "in about a week".

He explained that in the UK market, bonus abuse is usually very sophisticated, utilising tactics such as cash splashing, undermining consumption orders or undermining the bonus engine logic itself.

While it has not yet reached the same level in the US, the CEO noted that the situation is changing as players become more knowledgeable about how to exploit offers.

Vondervelden said: "We're seeing that the level of sophistication in the US is growing as many of these issues are there. It's just that players need to develop their level of sophistication in order to exploit them. We're seeing that grow in the forums.

> "IF I WAS TO GO FORWARD MAYBE FIVE YEARS, IN THE US, I'M VERY CONFIDENT TO SAY THAT THE WAGERING REQUIREMENTS AND TERMS AND CONDITIONS OF BONUSES WILL BE CONSIDERABLY HIGHER"

> MANY OF THE PLATFORMS USED IN THE US AT THE MOMENT ARE OLD EUROPEAN PLATFORMS, WHICH MEANS THEY ARE VERY PRONE TO A LOT OF THESE ISSUES

"The reason for that is because many of the platforms used in the US at the moment are old European platforms, which means they are very prone to a lot of these issues."

Dickerson delved into how bonus offers in the UK differ drastically from those available in the US as, even with a total of 148 welcome offers being available, only £2,400 ($3,000) can be taken because of the low value of the offers.

He explained that the lower values were due to the UK being "the most advanced jurisdiction where bonus abuse is so problematic". The bonus abuse communities in the country have been learning their trade for over a decade and are "very sophisticated" with their strategies, including sharing information on forums.

The COO added that the reason bonus abuse has grown so much in the UK is due to publicity in the mainstream media "educating the public on how to make more cash", together with the practices of multi-accounting and syndicates.

"We've identified that, in the UK, there are over a million accounts that are used for the purpose of bonus abuse. To put that into context, that's over 1.5 per cent of the population," he noted.

Dickerson also revealed that betting exchanges and, in particular, the practice of matched betting, have contributed to the rise of bonus abuse in the UK. Such strategies actually help betting exchanges by providing liquidity, and some exchanges offer encouragement to bonus abuse communities in the form of zero per cent commission promotions.

From what Greco has observed, Vondervelden believes the US is following the same path as the UK, as bonus abuse processes are being learned far quicker and the information is being shared faster.

Dickerson noted that, in terms of the recruitment processes, people are using the same approaches as pyramid schemes to build networks for bonus abuse.

Referencing the previous New Jersey bonus figure of $18,575, the COO said: "If you recruit 100 people, you can, in a very short space of time just by going through the welcome offers, make $1.8 million.

"I think that really speaks volumes about how wide open the US is, how encouraging it is for not only individuals but for people to start recruiting and to start making syndicates."

Dickerson reflected on how bonuses in the UK come with a whole list of terms that must be met before bonus funds are turned into cash. As a result, the consumer doesn't really know the cash value of the bonus and effectively, due to the lengthy process, there is a perception that bonuses can't be won.

In contrast, bonuses in the US have very few terms that need to be met for that bonus to be turned into cash, he said, making it "significantly different" from the UK. Looking ahead, Dickerson believes that, as the US market settles and operators look more towards retention than acquisition, future bonuses will have more terms attached to them.

"Looking forward to where the US is going, they're acquiring very heavily at the moment. There will come a point in different jurisdictions where it becomes fully saturated, where the US has the required bulk [of customers], the speed at which they will acquire will reduce," he said.

"They will start to look inwards, they will start to focus more on retention, and start to focus more on the value of those players. If I was to go forward maybe five years, in the US, I'm very confident to say that the wagering requirements and terms and conditions of bonuses will be considerably higher."

PROFITABILITY AND SUSTAINABILITY: CAN DATA DRIVE BOTH?

KINDRED GROUP'S POLICY OF PUBLICLY TRACKING HOW MUCH REVENUE IS EARNED FROM HARMFUL GAMBLING WAS VIEWED WITH SOME SCEPTICISM INITIALLY. BUT, CONTROVERSY ASIDE, THE DECISION TO REVEAL ALL IS HELPING TO SHAPE A NEW, MORE ACCURATE INDUSTRY NARRATIVE.

Environmental, social and governance (ESG) policy has become a common theme for gambling industry stakeholders, especially when it comes to sustainability and profitability and expressing those values through hard data.

Steve Myers, Managing Director, Praxis Consulting and Advisory Ltd, introducing a fascinating presentation from Maris Catania, Kindred Group's Head of Responsible Gambling, believes that judicial use of data is the way forward.

He noted: "In terms of profitability, I think if we spent as much time looking at sustainability as profitability no-one would be in the room, no-one would be in business. But if we spent a proportion of the time looking at that then I think we could create some kind of sustainable business model.

"What happens at the moment, in ESG terms, we have basically an inconsistent approach to the way we utilise data and how we use it in ESG terms. So you've got some companies - Kindred, Entain, Flutter - some of the Tier 1s, beginning to use it very effectively. But then you've got some of the smaller companies who are trying to play catch-up and really need to. So there's a different quality in terms of the approach and how they deal with the delivery of that data."

As for the future, Myers continued: "Well I think as consumers, both in company terms and personal terms, we know there's going to be a seismic shift again in terms of the amount of data we consume. And this is going to create a number of difficult choices for both B2B and B2C companies.

"My view, the way they're going to have to deal with this somewhere down the line - and I know they don't like doing it - is they're going to have to have some form of cooperation, particularly in terms of data."

Opening her presentation, Catania told delegates: "Kindred decided to do this amazing thing which kept me sleepless for a few nights where we decided to report the revenue from harmful gambling. It wasn't the easiest endeavour and one of the main issues is identifying what makes harmful gambling.

"What I love about this approach is that actually we went public with how we identify harmful gambling. We're looking to customers with confirmed addiction and looking to customers who are self-excluding. But we needed an ambition. We want to educate on harmful gambling.

"This is a company goal - it's not just me pushing this agenda. We have a top-to-bottom approach which helps. We have to show what happens after we interact with these customers and how many of these change their behaviour."

> I THINK AS CONSUMERS, BOTH IN COMPANY TERMS AND PERSONAL TERMS, WE KNOW THERE'S GOING TO BE A SEISMIC SHIFT AGAIN IN TERMS OF THE AMOUNT OF DATA WE CONSUME

Steve Myers - Managing Director, Praxis Consulting & Advisory Limited
Maris Catania - Head of Responsible Gaming, Kindred Group

Explaining the rationale behind the move, Catania said: "Why did Kindred do this? Why did Kindred need to go public about how much revenue is coming from harmful gambling? Because when you look into the other players in the media, they can say anything without needing any proof. You hear certain groups saying '80 per cent of the industry is making money from problem gamblers'. You ask how did you measure that?

"They answer, 'we know, the industry is only making money from people who have a gambling disorder'. How, how could it be? And this was the usual myth. So, according to the narrative that is out there, the most money is coming from problem gambling.

"But why not challenge this with data? And that's what we did and we started reporting this. And we see the majority of money is coming from low-risk or social gamblers. There is a small percentage, yes, of money coming from harmful gambling."

Catania moved the conversation onto the increasing use of AI and machine learning, warning of the need to remember the importance of human intervention in the process of good practice around responsible gambling. "We constantly talk about AI," she said. "We talk about machine learning and we should never forget how important human interventions are. We've seen this as well. We've seen the direct impact to our harmful revenue."

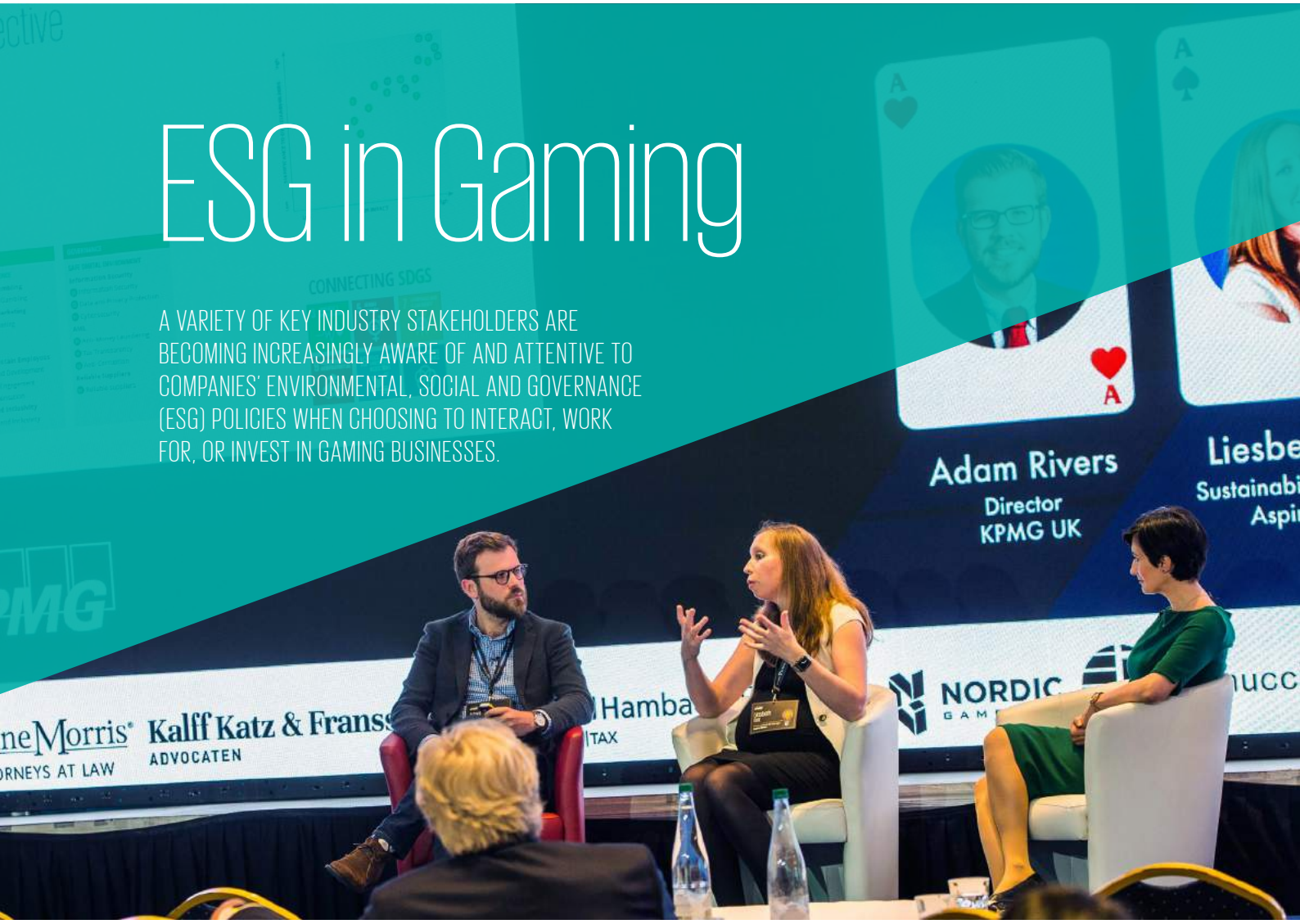
She went on to cite Kindred's three-tier system comprising an initial blocking of those showing as most at risk, allied to a 'humanistic approach' at level two, with an automated approach at level three. "The last step - in order to have more integrity and transparency as well - is to publish what you do," she added.

Concluding the session, Myers told delegates: "The thing that really attracted me to Kindred's approach to this was their 'warts and all' on the website, how they were going to do it and also, now, the reporting. And the thing that really pleased me was that in Q4 at the end of last year there was an increase, which made it sound great. But what we're going to see is these peaks and troughs as we go along and a gradual decline hopefully to zero.

As an industry we need to be more transparent - we need to be talking about all those things."

ESG in Gaming

A VARIETY OF KEY INDUSTRY STAKEHOLDERS ARE BECOMING INCREASINGLY AWARE OF AND ATTENTIVE TO COMPANIES' ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) POLICIES WHEN CHOOSING TO INTERACT, WORK FOR, OR INVEST IN GAMING BUSINESSES.



Adam Rivers - Director, KPMG UK
Rachel Decelis - ESG Senior Manager, KPMG Malta
Liesbeth Oost - Sustainability Manager, Aspire Global

The ESG in Gaming panel comprised Adam Rivers, UK Director of KPMG, Rachel Decelis, ESG Manager of KPMG Malta and Liesbeth Oost, Sustainability Manager of Aspire Global, and explored how gaming companies can interact with ESG policies, which topics are more relevant than others and how firms can begin to implement ESG policies within their corporate structures.

Decelis opened the panel by outlining some key environmental factors in play, referring to the United Nations Sustainable Development goals that aim to implement change before 2030. She noted that, not only is it important from a reputational perspective, but that 'climate change has become an economic force'.

Decelis remarked: "At the moment there is already global warming of about 1.1 degrees Celsius, and we know that we are heading towards three or four degrees and we know that we are already seeing the effects of a 1.1-degree increase in global temperatures. This is one of the key economic drivers, as well as moral drivers, for people who are becoming much more conscious about this.

"We also see pressure from capital markets. We know we have seen the data that shows there is a correlation between ESG performance and financial performance. Banks are starting to look at the ESG credentials of companies when they decide who they give loans to and investors are also

> FROM A GAMING POINT OF VIEW, ESG, WHEN YOU APPLY BROADLY, CAN MEAN SOMETHING DIFFERENT FOR THE COMPANY, SO IT'S DEFINITELY NOT A ONE-SIZE-FITS-ALL

looking at the ESG credentials of companies when they decide where to invest."

Rivers backed up Decelis' broad point with statistics - noting that in a recent survey, 80 per cent of consumers are consciously considering sustainability and 50 per cent of graduates are only willing to accept job opportunities where the ESG principles of that particular company form something that they feel is powerful.

Rivers also conducted a live poll with the audience to establish which aspect of ESG was most important to the gambling sector, to which responsible gambling measures and anti-money laundering featured heavily. However, Decelis retorted that climate is also a key aspect, despite gaming companies not being great polluters.

She added: "If you look at the value chain and the demand for electricity, and the demand for CO2 emissions that your value chain is creating, for instance, your data centres and your business travel, and you can really see where your operations are having an impact on carbon history. So it's not something that's completely irrelevant."

Oost's role in the panel was to bring real-life operator experience to the session, putting some colour onto the sketch provided by KPMG. She chimed in on the debate around gaming industry stakeholders becoming more aware of operators' ESG standpoint, pointing to its importance for employee satisfaction and retention.

She explained: "From a gaming point of view, maybe we're different kinds of companies within the gaming sector because ESG, when you apply broadly, can mean something different for the company, so it's definitely not a one-size-fits-all.

"Shareholders more and more have seen a change from short-term gratifications as an aim to the overall wellbeing of all stakeholders. It is recognised that this is a long-term purpose for the company to focus on and we're being held accountable for that because it has focused the company on NASDAQ Sweden and now we are under acquisition by an American company."

Aspire's sustainability lead asserted that senior management buy-in is essential to kickstarting any ESG policy campaign, noting that without the support of business leaders, implementing ESG policies is impossible.

"It's so important to have your top management buy-in to sustainability from board members, to the CEO and the CFO," Oost added. "I report to them every quarter, we have meetings and I send them the roadmap and they approve it and they're really involved as well.

"This is really helpful, because if it's just me pushing this, I would think it would not work. It's really carried from the top and that's where you can see that difference. A lot of leaders have already realised this is something that we want to focus on."

In concluding the panel session, Rivers asked what gaming companies should be doing to get ahead of the game on ESG.

Decelis stressed the importance of reporting statistics before stock markets and regulators make it a requirement.

She asserted: "The corporate sustainability reporting directive which is going to come in is going to affect larger and listed companies. If you're either a large company or a listed company, you're going to have to start reporting and being interviewed on those reports."

ESG: TWO PRACTICAL EXAMPLES

THE INDUSTRY APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES WAS BROACHED BY INDUSTRY FIGURES KIMBERLY BROAD, CHIEF COMPLIANCE OFFICER, GAMES GLOBAL AND SISSEL WEITZHANDLER, CHIEF RISK AND COMPLIANCE OFFICER, PLAY'N GO WHO ESCHEWED THE DEFINITIVE APPROACH IN FAVOUR OF A MORE PRACTICAL PERSPECTIVE.

The task of putting into plain language some of the challenges and opportunities around ESG was left to Sissel Weitzhandler, Chief Risk and Compliance Officer of Play 'n Go and Kimberly Broad, Chief Compliance Officer at Games Global.

Opening up the presentation, Broad told delegates: "Games Global is a new business. We've recently acquired a number of studios and games portfolios and what we've brought together is a number of industry veterans. So while we are a new business, we are not totally at a standing start.

"But what we are at a standing start at is our ESG journey. We are literally three weeks into our operation and that's where our strategy is at. We've heard today that what is key is getting leadership and board value to drive any business strategy, not just ESG. We're at the beginning of that journey."

Outlining how that's likely to take shape, Broad continued: "What we'll be doing at Games Global over the coming weeks and months is focusing on our key values which are authenticity, boldness and togetherness, and engaging our people to focus on our ESG agenda. So, for me, the ESG strategy will harness what our people want to do.

"We've heard many examples already today about the next generation coming into the workplace and that Generation Z will make up 30 per cent of the

> "WE NEED TO CRACK DOWN ON OPERATORS AND PROVIDERS THAT HAVE PERHAPS LESS OF A FOCUS ON SUSTAINABLE GROWTH"

> WE ARE SEVEN YEARS IN AND IT'S STILL A DAILY JOURNEY TO MAKE SURE THAT COMPLIANCE IS EMBEDDED INTO THE ORGANISATION

workplace by 2025. We all know that that generation coming through hold their personal values closer than any generation before. They want to work for businesses that really align with their personal perspectives, so that's something we're going to be looking to engage.

"I think from an ESG point of view there are many strands that make up these approaches and it's going to be key to get everybody bought into that from day one. I sit here as a compliance professional, but I won't be driving our ESG agenda. We get to decide whether we have a sustainability officer, whether it's led by the leadership team. It is very early days, but what's key is that it will channel all of the people throughout our business."

According to Weitzhandler, ESG is something that has to come from within. "It has to be something that is part of your DNA to do it properly," she advised. "A culture of compliance just doesn't happen overnight. We are seven years in and it's still a daily journey to make sure that compliance is embedded into the organisation.

"I would say one of the things that has been helpful to us is that we are growing into three to five jurisdictions a year - regulated markets. The transition, particularly into highly-regulated markets such as the US, it's been very helpful for us."

She added: "One of the things we are also looking at on our side is both where it goes well and where it doesn't go so well. That becomes extremely important as we adopt the ESG frameworks - acknowledging when we are strong and when we are less so.

Sissel Weitzhandler - CRCO, Play'n Go
Kimberly Broad - CCO, Games Global

Sometimes in my department I can see we are trying to do a little too much. We are going over and beyond what's required, so we are sometimes not helping the business as much as we could and should do."

Weitzhandler also believes that policy makers have a part to play in sound ESG practice. "Where I also think at times we need help is from the regulators," she said. "We are making huge investments going into regulated markets and one of the things we would like to see more of is support in that transition into having sustainable growth. We need to crack down on operators and providers that have perhaps less of a focus on sustainable growth."

Mirroring that view, Broad stated: "Working with regulators is key for me in this area. If you think back 10, 15 years ago, regulated markets were not the focus. Everyone was focusing on dot com and whether they'd make revenue. Now we're talking about sustainable revenue.

"Both of our companies and everybody that operates in this room - we have licences in heavily-regulated jurisdictions and we're certified where we need to be and you've got to work with regulators to create long-term sustainable environments."

CAPITALISING ON LATAM

Karen Marcela Sierra-Hughes - Vice President of Latin America & Caribbean, Gaming Laboratories International LLC

THE SPREAD OF REGULATION HAS SPARKED INTEREST IN JURISDICTIONS ACROSS LATIN AMERICA FROM INTERNATIONAL OPERATORS, BUT A LACK OF CLEAR INFORMATION ABOUT LEGAL FRAMEWORKS, AND DIFFERING LEVELS OF INTERNET PENETRATION AND ACCESS TO BANKING MAKES MARKET ENTRY A DIFFICULT PROPOSITION.

Companies interested in expanding their operations internationally have a wide range of opportunities in Latin America, but sometimes the lack of information about official figures slows them down, preventing them from being one of the first to participate in the regulatory processes.

As Karen Marcela Sierra-Hughes noted, when companies think about entering a jurisdiction in Latin America, they will have to consider a lot of different elements to have a better return on their investment.

The Vice President of Latin American & Caribbean at Gaming Laboratories International (GLI) focused on three special topics: legal framework, financial development issues and internet penetration, whose numbers differ significantly from one jurisdiction to another.

LEGAL FRAMEWORK

"Talking about the legal framework, there are several things that I need to mention here. First of all, access to accurate information. For those that had been in our region, especially in emerging jurisdictions where there's newer verticals coming, or jurisdictions where there's not a regulatory gaming

dedicated entity, it's very hard to access information," she said.

In many of those countries - even major jurisdictions - the regulators may not have a proper website where information can be accessed, making this the first challenge that companies will face.

In terms of licensing, Sierra-Hughes explained that the processes differ a lot between countries. "There are jurisdictions where they only require licences to operators, who are responsible for every part of the business, including the responsibility that gaming providers may have on their product," she explained.

"The long distance won't work and, in Latin America, business relationships are based on trust. That's not only for private companies but also for government entities.

"So, many companies are trying to understand a country, understand the potential or do business, and if they try to do it remotely, they will have a very hard time. Either somebody locally helps you or you take your time to get to know these jurisdictions, especially when there's new markets opening and new relations coming. The best way to participate and be part of that conversation would be by actually having a personal relationship on the ground."

Because of the lack of information, it's also hard to access revenue data, and even harder to project how much revenue companies can expect from their investment.

In some countries like Argentina, companies will also have to take into account the cost of moving funds out of the country, as it's not an easy legal or administrative process and sometimes they will have to rely on third parties. Navigating the financial issues in the region, Sierra-Hughes said that operators need to think how they're going to address this in different countries: "Operators have to get really creative to reach out to clients that don't have access to bank accounts or credit cards," she said. For this reason, she highlighted retail operations and said that operators are more successful if they have a bigger retail network.

> "IN LATIN AMERICA, BUSINESS RELATIONSHIPS ARE BASED ON TRUST, NOT ONLY FOR PRIVATE COMPANIES BUT ALSO FOR GOVERNMENT ENTITIES"

With regard to diversification, sports betting comprises 70 to 80 per cent of the industry in Latin America, but since the pandemic started, companies are focusing on adding more content, such as casino games, poker and live studios.

However, Sierra-Hughes said: "The challenge is not only to add content, but also to teach players how to play these games and get them attracted when they obviously have an interest in sports betting."

RESPONSIBLE GAMING

In relation to responsible gaming, she cited that this will have a major role, as regulators will have conversations with the industry about them being proactive on how they will address this issue and how they will prove that they're in compliance.

She highlighted the City of Buenos Aires, where there is a certification process not only for operators but also for suppliers, and Brazil, where the regulation says that sports betting operators need to have an agreement with sports monitoring associations.

INTERNET PENETRATION

In Latin America, internet penetration is one of the biggest challenges: overall, it ranges from 50 to 90 per cent, and operators also have to think about what kind of internet access people have.

There are jurisdictions like the City of Buenos Aires, with a 90 per cent internet services penetration and an 80 per cent financial services penetration, while others like Peru have a 70 per cent internet penetration, but mainly in the capital Lima and the surrounding areas, with just 50 per cent financial inclusion.

Chile's internet and financial services penetration are 88 per cent and 90 per cent respectively so, naturally, Sierra-Hughes said that it will be a "really attractive jurisdiction once it opens".

To conclude, she added that there are other jurisdictions where operators will need to focus on their offering, such as the Argentinian province of Mendoza, where the internet penetration is 78 per cent, but 69 per cent is mobile only.

"The offering has to be in mobile version before they even launch the game, so that's something that is very important there," she said.

MINING THE US GAMING MARKET:

Challenges and opportunities for online gaming companies interested in entering or expanding business in the US

US REGULATORY EXPERTS SHARED THEIR KNOWLEDGE OF US MARKET ENTRY REQUIREMENTS, FOCUSING ON HOW NEW INCUMBENTS SHOULD ADOPT A STATE-BASED APPROACH TO ACCESSING THE LAND OF GAMING OPPORTUNITY.

With so many superlatives being hurled at the burgeoning potential of US gaming in recent years, a realignment of expectations was most likely overdue. Delivering some much-needed realism on that front was Susan Hensel, Co-founder & Partner, Hensel Grad.

She stated: "Despite the name of this session, 'Mining the US gaming market', there is no such thing as a US gaming market. In the United states, legalised gambling is a matter of states' rights and each state passes its own law and adopts its own regulations to implement those laws. And they all grow out of the policy reasons that the politicians in the particular states determine is a reason to say yes to gambling.

"So that is why a state like Pennsylvania, which had a very large budget hole, has a very high tax rate, because one of the primary motivations was to fill that budget hole. New Jersey, on the other hand, when they authorised online gaming, was trying to shore up a land-based industry that had been really hurt by increasing competition in the north east. So it has a lower tax rate to incentivise companies to come in and launch.

"You also have states that have land-based casino companies that have made great investment in the jurisdiction and if they were going to launch additional online products they wanted to make sure that those land-based casinos weren't hurt. So they require a partnering for online companies to work with the land-based casinos. Whereas a state like Tennessee has no land-based casinos, so it has a very open market and just about anyone can come in and apply for a licence there.

"It is complicated to do business in the US. The good news is there are commonalities between the states. Basically the states follow the same type of licensing process and many states even use some common forms. But the problem for companies are the nuances between the states - that is what becomes a challenge."

Moving the focus on to the sleeping giant that is California,

> "DESPITE THE NAME OF THIS SESSION, 'MINING THE US GAMING MARKET', THERE IS NO SUCH THING AS A US GAMING MARKET"

Richard Schuetz, CEO Schuetz LLC, addressed the conference with a brief analysis of the tribal influence that will come into play as the market evolves.

Susan Hensel - Co-founder & Partner, Hensel Grad
Richard Schuetz - CEO, Schuetz, LLC
Avi Howard - CEO & Founder, USAbility

Looking closely at the political dynamics in play, he described how the introduction of casino operations across the tribes had greatly improved living conditions and employment prospects for their people.

He noted: "What you have in California is a dominance of tribal nations, there's 109 - approximately - tribes in California with about 70 casinos and about $10 billion worth of revenue. California has about 40 million people, a little bit shy of that, and it has 200 million tourists a year - it has a GDP that's fifth in the world. It's really a huge state."

Schuetz told delegates that the Californian scenario is far too complicated to make an outright prediction on how the market will shape up. "It's not going to be easy," he said. "Tribal governments are extraordinarily complicated. I will predict that there will probably be $300 million spent on the advertising campaign across the two initiatives there - the commercial initiative and the tribal initiative."

Striking a clear difference between commercial and tribal gaming, he stated: "What I'm telling you is the tribal world is different from commercial gaming. It is imperative that people understand that. In Vegas it (gaming) was about having fun and making money. In the tribal world it was also about making money, but it was also about something fundamentally different because the tribal model is a nation-building model where the benefit goes to the population."

Avi Howard, CEO & Founder of USAbility, turned the focus onto some of the hurdles facing potential entrants to the US. "I want to talk about the market challenges, because while there are a lot of opportunities in the market, the process is somewhat challenging," he said.

Echoing Hensel's opening remarks, he added: "There is no such thing as a US market. The market is divided into states and each state has their own legislation. I can say after working in about 16 states in the US, the biggest challenge is for operators - B2B and B2C - the fragmented, multi-state regulatory compliance. That is one hurdle that they'll find very difficult to overcome."

Howard also referenced a lack of available licences for new incumbents, saying: "It's very difficult for operators now to acquire licences. There's not many licences left and there's a lot of competition."

There was a note of caution, regarding expectations around timing and progress arising from the experience gap between land-based US operators and newcomers with more experience of digital. "Obviously these retail establishments are very profitable and they know how to run casinos, but they're not necessarily experienced in building digital propositions.

"This often creates some clashes between companies, leading to unrealistic timelines being dictated. When an operator requires one or more access to states they are often being given a timeline which is being driven by the retail group that does not necessarily take into account the journey that they need to go through."

EVALUATING NEW MARKETS AND GROWTH: WHERE TO GO NEXT?

Joe Ewens - Global Managing Editor, VIXIO GamblingCompliance

AS EUROPEAN MARKETS ENTER AN ERA OF INCREASED COMPLIANCE STANDARDS AND GROWTH BECOMES HARDER TO ACHIEVE, GAMBLING OPERATORS ARE INCREASINGLY LOOKING FURTHER AFIELD TO OPPORTUNITIES BEING CREATED BY THE SPREAD OF REGULATION.

As operators find it increasingly difficult to achieve growth in established European markets, the spread of regulation - or at least the hoped for spread of regulation - in the Americas and Asia could provide new opportunities.

Joe Ewens, Global Managing Editor at VIXIO GamblingCompliance, shared the results of research into the evolving markets in Latin America, Canada, Japan and India, and provided some insights into the progress of key legislation.

LATIN AMERICA

Ewens revealed that VIXIO estimates that Latin America's regulated markets will be worth around US$ 4.4 billion by 2026, depending on how the regulatory picture unfolds in the coming months and years. Brazil would contribute US $1.6 billion of that total and Mexico US $1.2 billion.

Focusing his attention on Brazil, he said that despite a law being passed in 2018 giving the government four years to launch a regulated online sports betting market, it was still not clear when it would be finally approved and go live, although it is "unlikely" to happen before November's football World Cup.

Ewens added that Brazil, which already has a thriving grey market for sports betting, is likely to "go with a fairly open licensing model rather than a kind of strict concession based system", but warned that the US $4.4 billion licence fee detailed in a recent draft decree is likely "to shut out all but the most deep-pocketed operators".

Turning to other markets, he noted that a draft bill to regulate online gambling is currently progressing through Peru's parliament, while a bill introduced in Chile shortly before the change in government was acting "more as a conversation starter for the future of gambling regulation there, rather than something that's likely to progress that far itself".

CANADA

Ewens said that VIXIO estimates that the recently-opened regulated Ontario market will hit around CAD 3.2 billion by 2026, which would put it slightly ahead of Illinois and just behind New Jersey.

Operators have also identified Ontario's regulation as a major plus. Ewens described the regulatory regime as resembling a European model, rather than a US one, and suggested that would tempt more international operators and established grey market operators to apply for licences.

He also addressed the question of whether the rest of Canada would follow Ontario's model.

"Currently the other provinces in Canada have predominantly a monopoly model where state lotteries

> THE LEGAL EXPERTS AND POLITICAL EXPERTS THAT WE'VE SPOKEN TO IN JAPAN THINK THAT THE GOVERNMENT WILL GO ENFORCEMENT BEFORE THEY GO LEGALISATION

control the market. Our view is that they will (follow Ontario) but it's not going to be something that happens in the short term," said Ewens. "We think they will wait to see how Ontario's market plays out. And as legislation to allow single sports betting was only passed in 2021, we think those lotteries will wait to see how much money they do or don't make before governments decide whether to move to an open model."

INDIA

While the potential offered by India's vast population is obvious, Ewens warned that "it's a very peculiar market in lots of ways". He explained that while courts have consistently upheld a constitutional protection that makes skill games such as poker, rummy and fantasy sports legal, the picture is less clear for other forms of online gambling.

The position is further confused by the differing approaches of Indian states. Karnataka and Tamil Nadu have attempted to ban all forms of online gambling, while Rajasthan has tried to prohibit online fantasy sports.

In all three cases, courts have overturned the legislation. This, said Ewens, had prompted a change of approach in Rajasthan and a minister from the state has suggested that it now plans to regulate online gambling.

He added that there is also increased central government interest in issues relating to gambling and that, while no legislation has been proposed, there have been "several requests for information and positive noises out of Delhi, that there may be something in the works".

JAPAN

The popularity of online gambling in Japan appears to be growing quickly, with one tracking service estimating that there are 83 million visits a month to online casinos originating from Japan. Ewens described Japan as a "fully grey market" powered by locally-based affiliates, which "channel players to offshore gambling companies many of you will be familiar with".

Despite the clear popularity of gambling on the internet with a section of the Japanese population, Ewens said that regulation of the online sector is not currently on the political agenda and that it is unlikely to be addressed until the "long difficult, angsty process" to build two large casino resorts in the country had been completed.

He added: "The legal experts and political experts that we've spoken to in Japan think that the government will go enforcement before they go legalisation, which is to say they will look to clamp down on the industry in Japan, to try to choke it off, before they get around to the idea of regulating it. But those same experts believe that in the long run, that's where we'll end up."

THE IMPORTANCE OF CARRYING OUT REGULAR INDEPENDENT AML AUDITS

REGULAR INDEPENDENT AML AUDITS ARE MUCH MORE THAN A SIMPLE BOX-TICKING EXERCISE. THEY CAN ALSO PLAY AN IMPORTANT ROLE IN IDENTIFYING AREAS FOR IMPROVEMENT IN AN OPERATOR'S PROCEDURES AND CONTROLS, AND DEMONSTRATE TO REGULATORS THAT THE COMPANY TAKES COMPLIANCE SERIOUSLY.

Article written by Deborah Cassar & Louise Agius

The state of constant flux of the AML/CFT legal and regulatory landscape necessitates a dedicated function to assess the level of compliance and effectiveness of remote gaming operators' policies, procedures, measures and controls from time to time.

External independent AML audits are key to uncovering the major pain-points surrounding these procedures and controls, by providing an objective, impartial perspective on the operator's AML/CFT strategy.

Such audits can assist operators to ensure the swift identification and appropriate mitigation of risk, as well as elicit an authentic understanding of their standing in terms of AML/CFT compliance. They can also help remote gaming operators keep up with the pace of regulatory and legislative change, and devise remedial action plans to implement and maintain the evolving requirements in practice.

The local regulatory framework itself places an important emphasis on the need to employ such an independent AML audit function, to evaluate the effectiveness of the operator's systems on a continuous basis. Whilst no timeframe is specified for such audits, best practice is to conduct them annually, when there are significant regulatory changes, following substantial revisions to the operator's policies, procedures, measures and controls, or following any other major changes in the operator's business model or activities.

This does not entail that a fully-fledged independent AML audit should be conducted every year, unless the size and nature of the business necessitates it. Operators can choose to undertake thematic targeted audits from year to year, focused on areas identified by the company's business risk assessment as posing a higher level of risk.

Such areas could include the operator's risk assessment and management strategies, alignment of its policies and procedures with the applicable regulatory framework, customer onboarding and due diligence procedures, or transaction monitoring systems and procedures.

Hence, a risk-based approach should be adopted to determine the areas that should be incorporated into the scope and design of independent AML audits.

The benefits of independent AML audits are manifold. Engaging external consultants to assist with evaluating, enhancing, and/or aligning policies, procedures, measures and controls with the respective regulatory framework provides operators with a holistic and unbiased view of their level of technical compliance and effectiveness of their AML/CFT strategy.

The reporting from an independent AML audit is objective, systematic and provides recommendations which are informed and practical. Moreover, having regular audits will enhance the operator's reputation with players, potential investors and regulators. Adopting such a practice demonstrates to regulators that the

> HAVING REGULAR INDEPENDENT AML AUDITS INDICATES TO REGULATORS THAT OPERATORS ARE COMMITTED TO TAKING THE NECESSARY STEPS TO ENSURE A HIGH LEVEL OF COMPLIANCE WITH REGULATORY REQUIREMENTS

operator is committed to taking the necessary steps to achieve a high level of compliance with regulatory requirements.

The insights of independent AML auditors can be integrated into an operator's processes and procedures, and shared with staff and significant stakeholders to increase awareness of major pain-points and the practical recommendations that will optimise their functions.

By maintaining ongoing independent AML audits, operators can also make certain that any shortcomings or oversights in their AML/CFT strategy are identified and rectified in a timely manner. This ensures that operators are always compliant and prepared for potential regulatory examinations, thus avoiding incurring unnecessary fines or reputational damage.

An independent AML audit will include a review of the operator's policies and procedures, along with interviews with the MLRO and other relevant stakeholders. It will also feature a review of a sample of player profiles to check that the procedures, measures and controls outlined in the policies are being implemented in practice, and to ensure overall compliance.

The observations that emerge from such a review and testing against the applicable regulatory framework will be outlined and recommendations for remedial action will also be provided. Subsequent audits could then incorporate an assessment of the implementation of the recommended actions and commentary on the operator's progress in this regard.

One essential component of effective independent AML audits is the quality and quantity of human, technological and logistical resources.

In terms of the human element, this means auditors need a high level of expertise in AML/CFT and the respective legal and regulatory framework. However, a successful auditor will also possess industry-specific experience and a high level of commitment to the process.

Technological tools and systems can support the independent AML audit function to categorise, organise, record and access information and data, and to distribute it to the relevant stakeholders. With respect to the logistical elements, these should be decided against the scope of the assignment, which should be clear from the outset of each audit.

A further critical component is communication. All parties should appreciate that the independent AML audit is not a regulatory examination, but a methodological and collaborative exercise focused on identifying the main areas for improvement in the operator's AML/CFT strategy. The auditor's aim is to gain the best and most representative understanding possible, which can only be achieved through keeping open communication channels and feedback loops to facilitate continuous improvement in the operator's AML/CFT strategy.

A VISION FOR SUSTAINABILITY IN THE GAMING SECTOR

ESG CAN BE LEVERAGED TO CREATE VALUE, AS A COMPANY CAN ATTRACT CUSTOMERS, INVESTORS AND EMPLOYEES BASED ON ITS SUSTAINABILITY CREDENTIALS.

Article written by Rachel Decelis & Russell Mifsud

Sustainability has garnered a lot of attention in recent years. ESG (environmental, social, and governance) issues have always affected us, but with the growing importance of climate change, the impacts of Covid-19, and the recent Russia-Ukraine conflict, the effects are now more evident than ever.

The gaming sector is not always viewed as ESG-compatible. Gambling stocks have often been regarded as 'sin' stocks, and some people refuse to work in a sector they feel does not match their values. These perceptions have implications on companies' operations and profitability.

However, sustainability, as seen through an ESG lens, holds the opportunity to transform the gaming sector into one that contributes in significant ways towards making the world a better place.

WHAT DOES SUSTAINABILITY IN GAMING LOOK LIKE?

Sustainability is multifaceted, but there are common priority areas for gaming companies worldwide.

ENVIRONMENT

While the gaming sector might not seem like it has many environmental impacts, things like business travel and energy used by data centres create carbon emissions. It is critical for gaming companies to look at how they can reduce their wider carbon footprint, for example by requiring that data centres use renewable energy.

SOCIAL

Arguably the ESG issue at the top of every gaming stakeholder's agenda is responsible gaming and providing support for at-risk customers. In fact, this topic emerges as one of the top material issues within sustainability reports issued by the sector. Digital tools that detect problematic play and empower customers to play safely will be an important part of the solution.

Employee inclusion, diversity, and equity should also be near the top of CEOs' agendas. While the industry performs well in some areas, such as the ethnic and cultural diversity of its workforce, there are also aspects in which it has room to improve.

Despite some notable exceptions at leadership level, the industry remains male dominated and women are not progressing to senior positions in equal proportion to men. Research from McKinsey shows that companies in the top quartile for gender diversity are 25 per cent more likely than those in the fourth quartile to outperform on financial profitability, which suggests the gaming industry would benefit from doing more to attract women to the sector and create work environments that enable them to flourish.

GOVERNANCE

A company's tax payments form part of its contribution to society. When the tax strategy is aligned with the company's ESG values, transparency about how much and where tax is paid can be used to demonstrate that the firm is making an important contribution to the wider community.

Other important governance aspects to address include such ethical issues as the company's efforts to prevent corruption, and stop betting and gaming being used to support crime. This requires consideration of where the company chooses to do business, as well as the mechanisms in place to prevent money laundering.

HOW CAN GAMING COMPANIES LEVERAGE ESG TO IMPROVE THEIR PERFORMANCE?

While ESG is an essential tool in risk identification, management and reduction that can be used to reduce

> COMPANIES IN THE TOP QUARTILE FOR GENDER DIVERSITY ARE 25 PER CENT MORE LIKELY THAN THOSE IN THE FOURTH QUARTILE TO OUTPERFORM ON FINANCIAL PROFITABILITY

costs, such as those arising through fines, litigation, energy consumption and carbon offsetting, it can also be leveraged to create value.

A company can attract customers, investors and employees based on its sustainability credentials, which can also improve relationships across an entity's value chain and with regulators. Measures taken to improve diversity can lead to innovation, resulting in sustainable growth. And companies that are leaders on ESG can potentially benefit from increased access to and reduced cost of capital.

A gaming company must ensure that its ESG credentials do not amount to greenwashing. As stakeholder expectations rise and regulatory requirements - such as the upcoming EU Corporate Sustainability Reporting Directive (CSRD) - tighten, companies need to be prepared to identify, measure, report and improve their ESG credentials, benchmark themselves against their peers and reflect on what they can do better.

Companies that take the lead on sustainability may well find themselves at an advantage, being better prepared to meet stakeholder and regulatory expectations, and better able to survive and thrive in these changing times.

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What does ESG mean for different stakeholders?

GAMING KNOWLEDGE CENTERS

RICHARD SCHUETZ AND STEVEN MYERS WERE TWO OF THE GUESTS AND SPEAKERS AT THE KPMG MALTA GAMING ESUMMIT. THESE TWO GENTLEMEN, COMBINED WITH DR. KATHERINE SPILDE OF SAN DIEGO STATE UNIVERSITY, ARE WORKING TO DEVELOP THE GAMING KNOWLEDGE CENTER MODEL TO ASSIST THE GAMING INDUSTRY TO ACHIEVE GREATER EFFICIENCIES AND ENHANCED SUSTAINABILITY.

> A LACK OF KNOWLEDGE RESULTS IN INEFFICIENCIES WITHIN THE GAMING WORLD AND THESE INEFFICIENCIES ADVERSELY IMPACT ALL ASPECTS OF THE GAMING ECOSYSTEM. THIS IS BAD BUSINESS AND BAD PUBLIC POLICY

Article written by Richard Schuetz & Steven Myers

The global gaming industry has a paucity of organised institutional actors that are capable of providing a scientific approach to the acquisition of knowledge through evidence-driven methodologies. Moreover, these assets are often siloed within defined geographic areas. This results in a global industry that is a hodge-podge of theories, attitudes and beliefs, with little learning, knowledge, and experience being exchanged between jurisdictions.

The end result of this reality is a crisis in gaming, and this crisis is defined by a lack of knowledge and understanding relating to the many dimensions of the industry. This, in turn, results in inefficiencies within the gaming world and these inefficiencies adversely impact all aspects of the gaming ecosystem. This is bad business and bad public policy.

The Gaming Knowledge Centers will have a presence in key gaming markets around the world and serve the sovereign location, as well as interact with other Gaming Knowledge Centers to create an interactive web of global gaming knowledge and expertise. These centers will be designed to:

- Provide a learning, training and certification environment for the industry and its regulators
- Become a repository for educational materials addressing gaming and its regulation
- Encourage and fund research relevant to issues of importance to the industry and its regulators
- Provide research products to the various components of the gaming ecosystem
- Act as a conference centre for the exchange of information and experiences.

Most importantly, this menu of products and services will be driven with an unquestionable commitment to operate with the highest standards of integrity and ethics.

Two critically-important attributes of the Gaming Knowledge Centers are that they will be affiliated with a college or university at each geographic location, and the human resources operating and staffing these facilities will be selected on criteria based on both academic and industry accomplishment. There is no desire to operate a centre full of industry folks, nor is there a desire to offer a centre full of academics. The desired goal is a mix.

In an ideal world, this programme would be launched with three targeted initial locations. These are Malta, the United Kingdom, and the United States. Once these locations were launched, efforts would be directed to move into other EU countries, South America, Asia, Africa and beyond. This product is scalable, and one would expect positive synergies to scale. It is also to be understood that Malta would be the home base for the entire network of Gaming Knowledge Centers.

The three founders of this initiative have assembled a Board of Advisors of known experts in gaming, education and research from throughout the world and have initiated conversations with many of the key players throughout the global gaming network. During the KPMG Malta Gaming eSummit, Richard and Steven were able to engage in numerous discussions to help advance this vision towards becoming a reality.

THE TRANSFER PRICING LANDSCAPE IN MALTA

WORK TO MODERNISE INTERNATIONAL TAX RULES WILL BRING CLARITY ON ISSUES SUCH AS PREVENTING BASE EROSION AND PROFIT SHIFTING, BUT IT IS ALSO LIKELY TO HAVE A MAJOR IMPACT ON MALTESE CORPORATIONS AND HOW THEY DEAL WITH TRANSFER PRICING.

Article written by Juanita Brockdorff, Adam Polacsik & Beate Orlova

As the global project to modernise international tax rules nears the finish line, over 130 countries have agreed on a final set of proposals for preventing base erosion and profit shifting (BEPS), and tax leaders of international companies have a clearer view of the prospective future framework. Now, as the world's focus shifts to domestic implementation, tax leaders in Malta and worldwide will likely have their hands full managing the potential impacts.

Following the developments within this framework, the Maltese government is also committed to implement specific transfer pricing rules in accordance with the current global standards related to the arm's length principle.

In December 2021, the Office of the Commissioner for Revenue (CfR) released the Transfer Pricing (TP) rules for public consultation, which concluded on 28 February 2022. The prospective rules would apply to select cross-border arrangements between related parties in a multinational group. The scope of said rules will likely exclude SMEs, meaning that only large entities would fall within scope. Draft rules also foresee a de minimis threshold for related party cross-border transactions (financial and non-), which is yet to be determined by the CfR.

Essentially, the introduction of transfer pricing rules means that entities and transactions falling within the scope of TP rules will have to substantiate the adherence of their related party transactions to an arm's length principle by showing that said transactions yield profit that unrelated parties would yield in comparable circumstances. In other words, related party transactions should fall within the range of a 'market price', since transactions below or above this range could result in tax losses for contracting party jurisdictions and market distortions.

> THESE PROSPECTIVE REFORMS ARE EXPECTED TO HAVE WIDE-RANGING EFFECTS ON MANY MALTESE CORPORATIONS ENGAGED IN INTERNATIONAL BUSINESS, AND THE TIMELINE FOR IMPLEMENTATION IS AMBITIOUS

While it does refer to documentation requirements being issued at a later stage, the Maltese TP consultation is silent on whether OECD TP Guidelines-style Master file and Local file requirements will be introduced in Malta. In a nutshell, a Master file is a blueprint of the international group's global operations, prescribing the transfer pricing policies within the organisation, whereas the Local file is a local country TP document, focusing on the analysis of the local entity's intragroup transactions. The Local file typically contains a description of the functions, risks and assets undertaken by the Maltese entity (i.e., functional analysis), the delineation of the cross-border transactions entered in a given year, as well as a benchmarking analysis in order to determine the appropriate remuneration for the activities undertaken.

In addition, recent transfer pricing cases emphasised that the TP policies are unlikely to be robust unless they are implemented legally. Deficiencies in the legal implementation may also lead to unnecessary fines, penalties and tax base adjustments in a double taxation scenario initiated by foreign tax jurisdictions. In order to avoid such unwanted consequences, intercompany agreements must be aligned with TP policies and documentation as regards the delineation of the transaction, the allocation of risks, the intragroup pricing as well as the ownership of intangibles.

Close cooperation with finance teams will likely be particularly critical. Tax and finance teams should work together closely to satisfy these new requirements and help ensure consistency among tax and accounting data with the introduction of the transfer pricing rules.

In short, these prospective reforms are expected to have wide-ranging effects on many Maltese corporations engaged in international business, and the timeline for implementation is ambitious. Tax leaders locally may need to move quickly to assess the potential impacts, advise senior executives and other stakeholders on the coming changes, and determine what needs to be done to comply with the new rules and manage their implications.

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Applicability of the information to specific situations should be determined through consultation with your tax adviser. This article represents the views of the authors only, and does not necessarily represent the views or professional advice of KPMG.

VAT AND GAMBLING
An evolving landscape

THE EUROPEAN COUNCIL DIRECTIVE 2022/542 - THE REDUCED VAT RATES DIRECTIVE - LOOKS SET TO BRING ABOUT A CHANGE TO WHERE GAMBLING OPERATORS PAY VAT ON B2C PRODUCTS THAT ARE STREAMED OR MADE AVAILABLE VIRTUALLY ACROSS BORDERS.

> IT IS ADVISABLE FOR GAMBLING OPERATORS TO ANALYSE THEIR OFFERINGS TO DETERMINE WHICH OF THEM MAY BE CAPTURED BY THESE RULES

Article written by Louise Grima & Anthony Pace

Malta-based gambling operators have witnessed several VAT changes over the years, starting with the 2015 EU-wide introduction of the special rules relating to supplies of electronically supplied services (ESS). That was followed in 2018 by changes to the domestic application and interpretation of the gambling VAT exemption, as well as the introduction of VAT Grouping rules in the same year.

Further VAT changes likely to impact gambling operators loom on the horizon. On 5th April 2022, the European Council agreed to the introduction of Council Directive 2022/542 - the Reduced VAT Rates Directive. One of the changes that will be brought about by this Directive relates to VAT treatment of services falling under Article 54 of the EU VAT Directive.

Article 54 of the EU VAT Directive deals with supplies of services relating to cultural, artistic, sporting, scientific, educational, entertainment or similar activities when provided to non-business customers (B2C). VAT on such services is chargeable where the activity takes place. Therefore, if for example an event physically takes place in Malta, Maltese VAT rules should be applied to income derived from such an event.

The new Directive deals with a grey area in those cases where activities are streamed or made virtually available. In such cases, as from 1st January 2025, the place of supply of activities that are streamed or made virtually available will be where the non-business customer receiving the service is based.

HOW WILL THIS CHANGE IMPACT GAMBLING OPERATORS?

Currently, to determine the place where VAT ought to be charged, gambling operators distinguish between electronically supplied services (ESS) and otherwise. ESS attract VAT in the Member State where the player is based. Other offerings that do not qualify as ESS generally attract VAT of the place where the supplier is based.

With the introduction of the new Directive, certain offerings which qualify as entertainment activities streamed or made virtually available to non-business customers provided by gambling operators will attract VAT of the Member State where the player is based.

In anticipation of these changes, it is advisable for gambling operators to analyse their offerings to determine which of them may be captured by these rules, and to establish how these rules could impact their VAT compliance obligations across the EU and what changes they may need to implement to their systems to be able to collect the relevant information to fulfil their VAT obligations.

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THE BRAVE NEW WORLD OF GLOBAL MINIMUM TAXATION

THE IMPENDING ARRIVAL OF A GLOBAL MINIMUM TAXATION REGIME FOR MULTINATIONAL ENTERPRISES IS SET TO MEAN BIG CHANGES FOR INTERNATIONAL COMPANIES, BUT THERE REMAINS CONSIDERABLE UNCERTAINTY ABOUT THE TIMELINE FOR IMPLEMENTATION OF THE NEW REGULATIONS.

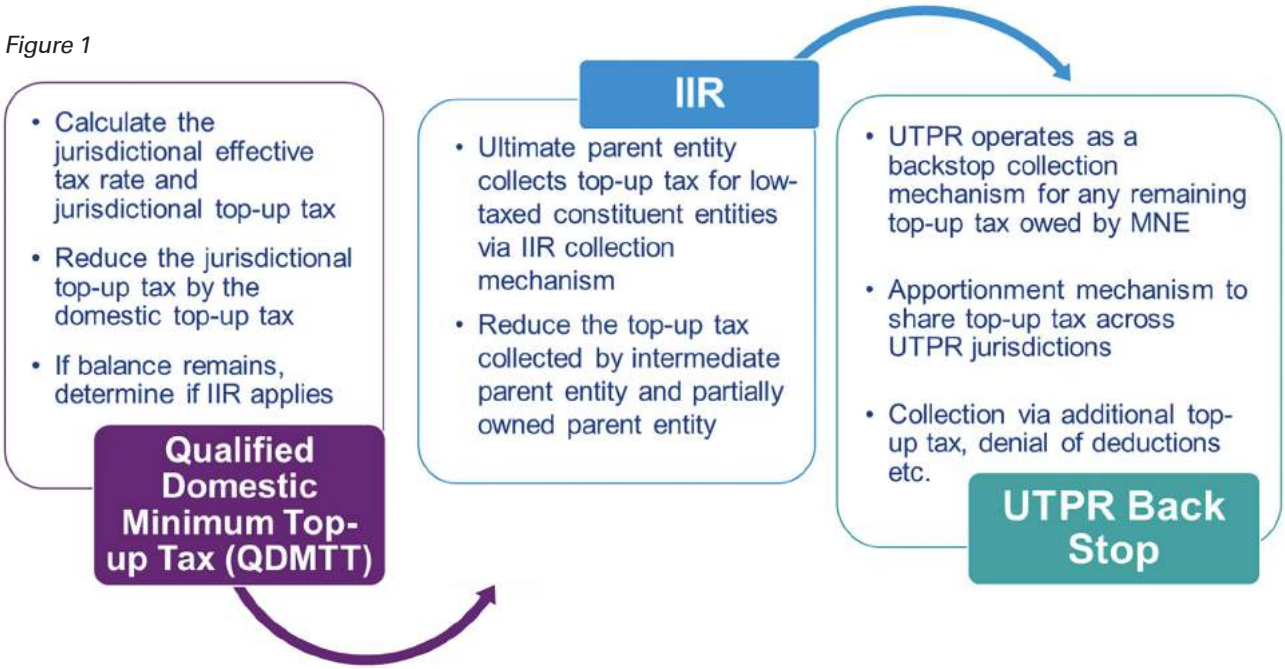
Article written by Juanita Brockdorff, Trudy Muscat & Aniket Rajesh Gupta

The bedrock of the corporate international tax framework is all set to change from 2023. As part of the reforms introduced under BEPS 2.0, the Inclusive Framework (IF) members agreed to a minimum tax of 15 per cent on worldwide profits earned by Multinational Enterprises (MNEs). While the work was carried out to address tax challenges brought about by the so-called digital economy, the impetus is the mitigation of tax competition that has prompted a 'race to the bottom' on corporate tax rates in turn putting a strain on tax revenues.

The Global Anti-Base Erosion (GloBE) Rules that form part of Pillar II lay down the framework for ensuring the collection of minimum taxation by deploying an interlocking mechanism comprising the income inclusion rule (IIR) and the undertaxed profits rule (UTPR). The IRR imposes a top-up tax on the ultimate parent entity of a low-taxed subsidiary, while the UTPR is an adjustment that acts as a backstop in cases where the IIR fails to achieve the minimum corporate tax. Rules ensure that the relevant income is subject to at least 15 per cent tax somewhere. For this reason, several jurisdictions are opting to reduce or eliminate tax revenue leakages by introducing a domestic top-up tax, thus ensuring that in-scope entities resident in their jurisdiction are subject to minimum corporate taxation therein. *We set out an overview of how the GloBE Rules work in the figure 1 below.*

Pillar II also includes a Subject-to-Tax rule which is a built-in double tax treaty rule to be adopted through a multilateral convention. This rule is an important compromise for developing nations given that

Figure 1



it gives a Contracting State the right to withhold tax on certain types of related-party transactions of a passive nature where the payments are not subject to a minimum tax rate of 9 per cent in the recipient jurisdiction.

The EU issued a proposed minimum corporate tax Directive the day after the OECD published the Model Rules in December 2021. The draft Directive comprises the GloBE rules (not the Subject-to-Tax rule because this should be a matter for bilateral tax treaties) and closely follows the OECD Model GloBE Rules. It extends the scope to domestic groups so as to ensure alignment with the EU's fundamental freedoms. The application of the Directive is expected to largely align itself with the OECD Commentary.

The Directive is anticipated to significantly impact MNEs that would fall within scope. The primary test to determine whether the Directive applies to an MNE relates to consolidated group revenue in excess of EUR 750 million in at least two of the last four consecutive fiscal years. MNEs that are within scope will require the implementation of checks and tests to determine and assess their tax efficiencies in terms of jurisdictional effective tax. While the Safe Harbour rules have yet to be developed, a delineation can be drawn between in-scope and excluded entities as well as the entities that will clearly exceed the minimum Effective Tax Rate (ETR) threshold and those that may not.

MNEs would need to allocate resources to ensure correct and complete reporting given that the Directive unavoidably increases their administrative burden to ensure compliance. In order to mitigate such risks, it would be prudent for such MNEs to undertake a high-level evaluation of the applicability of the Directive provisions, options and carve-outs to assess its impact in light of the MNE's obtaining standing. It is also worth identifying potential sources for collating information and ironing out any issues with collecting the data. Tax teams and accounting teams would be required to work together since much of such information is based on accounting data and principles, particularly in relation to deferred tax.

The EU intends to adhere to the G20/OECD's ambitious timeline by requiring transposition of the Directive by each Member State by 2024 for the IIR and by 2025 for the UTPR. Yet given the reluctance of the US Congress to adopt Pillar II and the proposed modification to align the Global Intangible Low-Taxed Income (GILTI) rules, and also that Poland is requiring a legally binding commitment by the EU on the adoption of Pillar I and Pillar II together, this proposed implementation timeline remains unpredictable at best.

As part of the compromise sought amongst Member States, a derogation was provided for allowing Member States that host 12 or fewer Ultimate Parent Entities (UPEs) an option to defer the application of the GloBE rules by 6 years. Malta is expected to elect for the deferral to allow for a longer transition time meaning that local UPEs will start applying the rules to fiscal years beginning as from 31 December 2029. This said, an MNE would still need to assess the impact of other jurisdictions' UTPR adjustment allocated to Malta. It would be prudent for each MNE to assess the impact of said UTPR on its financial and cashflow position in the light of such delayed application of the rules.

In order to ensure alignment of its current tax system with developing international tax rules, Malta's Finance Minister has announced that work is ongoing to reassess and reformulate the mechanics of the tax system, including a migration from the current imputation system to a more classical system. The ongoing discussions also explore the co-existence of different permutations in respect of incentives and shareholder tax refunds in an attempt to ensure that the tax system, while keeping up with the times, remains competitive and sustainable, with limited ripple effects on out-of-scope taxpayers.

ADVERTISING IN GERMANY: What lies ahead for the licensees?

HOLDERS OF THE NEW LICENCES FOR ONLINE SLOTS AND POKER IN GERMANY ARE LIKELY TO FIND THEIR ADVERTISING OPTIONS LIMITED, WITH THE AFFILIATE, INFLUENCER AND OUT-OF-HOME CHANNELS ALL SUBJECT TO RESTRICTIONS.

> “IT APPEARS HIGHLY PROBLEMATIC, BECAUSE IT IMPOSES ON OPERATORS THE OBLIGATION TO CONTINUOUSLY CHECK THEIR AFFILIATES”

Article written by Yannick Skulski

About 10 months after the application procedures for virtual slot machines and online poker began, the first permit has now been granted and more permits are likely to follow in the near future. It is therefore time to look ahead and deal with the actual content of the licences. Among other things, the ancillary provisions on advertising for virtual slot machines and online poker are likely to be a topic of discussion.

INITIAL SITUATION

Advertising for public games of chance has to comply in particular with the provisions of § 5 ITG 2021. Accordingly, advertising for permitted games of chance is generally allowed, but must comply with the further requirements of § 5 ITG 2021. This regulates, on the one hand, the content of the advertising and, on the other hand, the necessary measures for the protection of vulnerable groups. For example, advertising for games of chance may not be excessive, may not be directed at minors, and no revenue-, deposit- or stake-based remuneration may be agreed or paid for advertising via affiliate links. Furthermore, virtual slot machines and online poker may not be advertised on TV, radio or the internet between 6am and 9pm

Despite the partly very detailed requirements of § 5 ITG 2021, the ancillary provisions of the licences introduce further advertising restrictions, some of which go beyond the wording of the law.

BAN ON INFLUENCER MARKETING AND FURTHER RESTRICTIONS

- The most striking additional provision is the ban on influencer marketing. This is to be understood as the planned interaction of a licensee with "social media multipliers" and is prohibited without exception. This is based on the assumption that the licence holder has no influence on the content and presentation of the advertising measures when using influencers and thus no effective protection of players and minors can be guaranteed.

  However, it was disregarded that the protection of minors and vulnerable groups could also have been achieved through detailed regulation of the cooperation between licensee and influencers. In addition, the term influencer is not very well defined. In practice, the demarcation of influencers from the testimonials of the operators is likely to be of particular importance, as is the question of how to deal with the licence holders' own channels. When using testimonials and marketing via their own channels, the assumption that the organisers have no influence on the content and presentation of the marketing measures is no longer tenable.

- Affiliate marketing is only to be possible under the condition that only gambling offers from licence holders are linked on the affiliate's website. Even though this ancillary provision may well be in the interest of channelisation and the licensees may also have a vested interest in ensuring that their affiliate partners do not link to black market offers, it appears highly problematic from a legal point of view, because it imposes on operators the obligation to continuously check their affiliates.

- The licences do not just contain further restrictions for the digital space, as far-reaching restrictions are also introduced for the offline world. Advertising for virtual slot machines and online poker in public spaces (out-of-home advertising) is to be completely prohibited. The blanket ban is also justified by the protection of minors. However, it was again disregarded that a milder means would have been available. For example, time-controlled advertising could have been allowed and oriented to the embargo time.

OUTLOOK

Some of the ancillary provisions on advertising meet with considerable legal concerns. The discussion will probably focus in particular on the question of proportionality and the legal basis of individual ancillary provisions. It is to be hoped that a practical and, above all, legally secure advertising regulation can be found with the future competent authority, the Joint Gambling Authority of the Länder.

CYBER IS THE NUMBER ONE RISK TO GROWTH

IMPLEMENTING AN INFORMATION SECURITY MANAGEMENT SYSTEM (ISMS) IS MUCH MORE THAN A BOX-TICKING COMPLIANCE EXERCISE. IT CAN ALSO HELP TO PREVENT OPERATIONAL DISRUPTION AND REPUTATIONAL DAMAGE, WHILE BUILDING THE KIND OF TRUST THAT HELPS TO WIN BUSINESS.

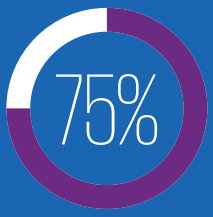
Article written by Dino Conti & Robert Gauci

Cyber security risk, tied with today's burning environmental and supply chain issues are the top threat to organisation growth over the next three years.

Building trust with your customers, partners and stakeholders is the ultimate business enabler in the digital era where risk and regulations have to be embedded in the transformation journey to ensure growth and high performance. Providing online services through conscious decisions to respect the environment and society by implementing robust ESG (Environmental, Social and Governance) frameworks shows responsibility and encourages customers to choose your products instead of competitors.

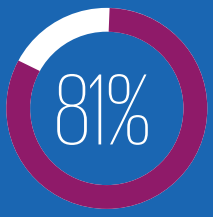
Alignment or compliance with any leading Information Security Management System (ISMS) generates trust in the market for both customers and business partners. It also proves that your organisation and its employees take data security seriously, have the right governance in place and are continually monitoring for better performance, efficiency, and compliance both internally and for their external providers.

It is a misconception to think that gaming companies only derive value in aligning their organisation to the comprehensive characteristics of internationally-recognised information security standards such as ISO/IEC 27001 or NIST purely for regulatory compliance.



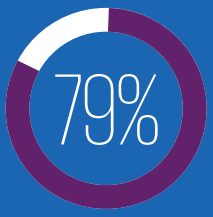
BUILDING CYBER TRUST

Majority of CEOs believe a strong cyber strategy is critical to engender trust with key stakeholders.



BUILDING CYBER SECURITY CULTURE

CEOs say that "building a cyber security culture" is just as imporatnt as building technological controls.



GRASPING THE SUPPLY CHAIN SECURITY CHALLENGE

CEOs now see the challenge of protecting their partner ecosystem and supply chains as being just as important as building their own organization's cyber defences.

> PROTECTING REPUTATION AND INFORMATION IS OF PARAMOUNT IMPORTANCE FOR ALL COMPANIES, AND BEING TRUSTED IS A KEY ELEMENT OF BUSINESS SUCCESS

The truth is that protecting reputation and information is of paramount importance for all companies, and being trusted is a key element of business success.

Complying to today's regulations, laws and data privacy requirements is a burden for many gaming companies, in particular those that do not have a strategic approach to information security. By following an ISMS framework, all of your organisation will be working strategically to improve the security posture and be aware of what threats exist and what actions to take if malicious activity or cybercrime is detected. By following such an approach, gaming companies can be more proactive, know where their critical assets and information reside, and be constantly monitoring their providers, subcontractors, and assets for compliance.

Segregation of duties and defining the correct roles and responsibilities for your Platform and IT systems are important in order to provide the right level of access to the infrastructure and data. Roles and responsibilities have to be defined, documented and evolved throughout the life of the organisation and, of course, implemented correctly. An ISMS provides the necessary insight to structure the roles and provide resiliency in case of threats to the employees (such as a pandemic) to help your company continue working. Access control is important especially with cloud-based operating environments to provide operational permissions only to specific infrastructure or data.

Keeping up to date with the always evolving threats is a headache and information security policies need to provide rules and guidelines to your employees to build and protect the company infrastructure. By adhering to a strategic ISMS, your policies and procedures will be appropriately aligned to provide best coverage from attacks and minimise risks to an acceptable level.

Having appropriate policies defined is a good starting point, but it is not enough. Your employees must know what the information security policy and procedures are, what the rules of the organisation are, what are their roles in the proper execution, and what to do in case of a security breach or cyber-attack. Awareness training will drive your employees to keep themselves updated and be able to identify malicious attacks, stop them and recover services or data to keep delivering the services.

> CHANGES TO PLATFORM AND INFRASTRUCTURE HAVE TO BE CARRIED OUT WITHOUT DISRUPTION AND WITHOUT INTRODUCING SECURITY VULNERABILITIES IN THE SYSTEMS

Recovering from a malicious attack or data corruption requires appropriate Incident Response, Business Continuity (BCP) and Disaster Recovery (DR) plans. Once a system or data is compromised there's no time to play around and your operations team must already know what to do and how to do it efficiently. BCP and DR testing have to be carried out periodically, keeping records of success, failures, and lessons learned during the exercise. An ISMS provides a strategic approach to making your gaming platform resilient to attacks and having procedures and human resources available to handle adverse conditions and keep working with the least disruption. Resiliency is not just on the technology aspect, but also on the human resources and knowledge sharing, which is required to make the systems failover to another site or recover from backups in case of major disaster.

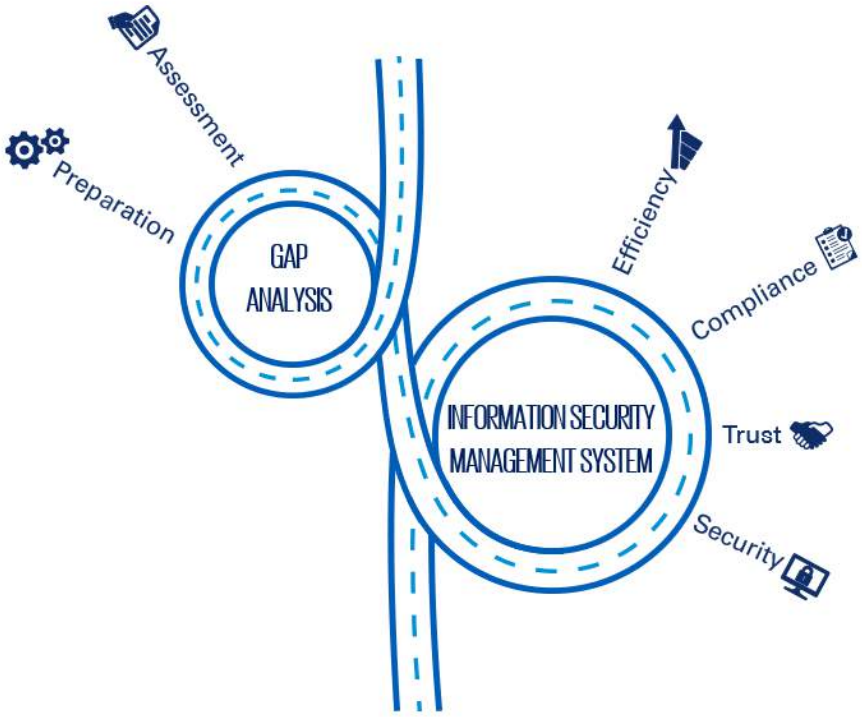
Changes are always happening to your platform and infrastructure, either to provide new products or to improve current services for better user experience. However, these have to be carried out without disruption and without introducing security vulnerabilities in the systems. An ISMS will help you have the appropriate documentation in place and be in a position to deploy changes when required with appropriate approvals both from internal stakeholders and the authorities.

Third party suppliers and partners are an integral part of how gaming industry ecosystems operate. Having the right contracts, security requirements and security reviews in place help you to understand what risks these suppliers and partners bring to your business and continuously monitor their service levels. Third-party suppliers and partners must also comply with gaming requirements and have appropriate protection, redundancy, incident management and business continuity plans in place to continue offering their services to you, even when under attack.

Are you just complying with regulations, or are you being proactive and using information security management frameworks to ensure alignment to industry best practices? How important is the business to you? Having an ISMS in place helps you not just comply with the minimum regulations but provide protection, detection and recovery mechanisms to keep your business working even when under attack.

FROM WHERE DO YOU START?

Performing a Gap Analysis or Implementation Assessment against the best practices and internationally recognised information security management system standards supports your understanding of the areas that require attention, potentially necessary changes to policies, procedures, and work practices.



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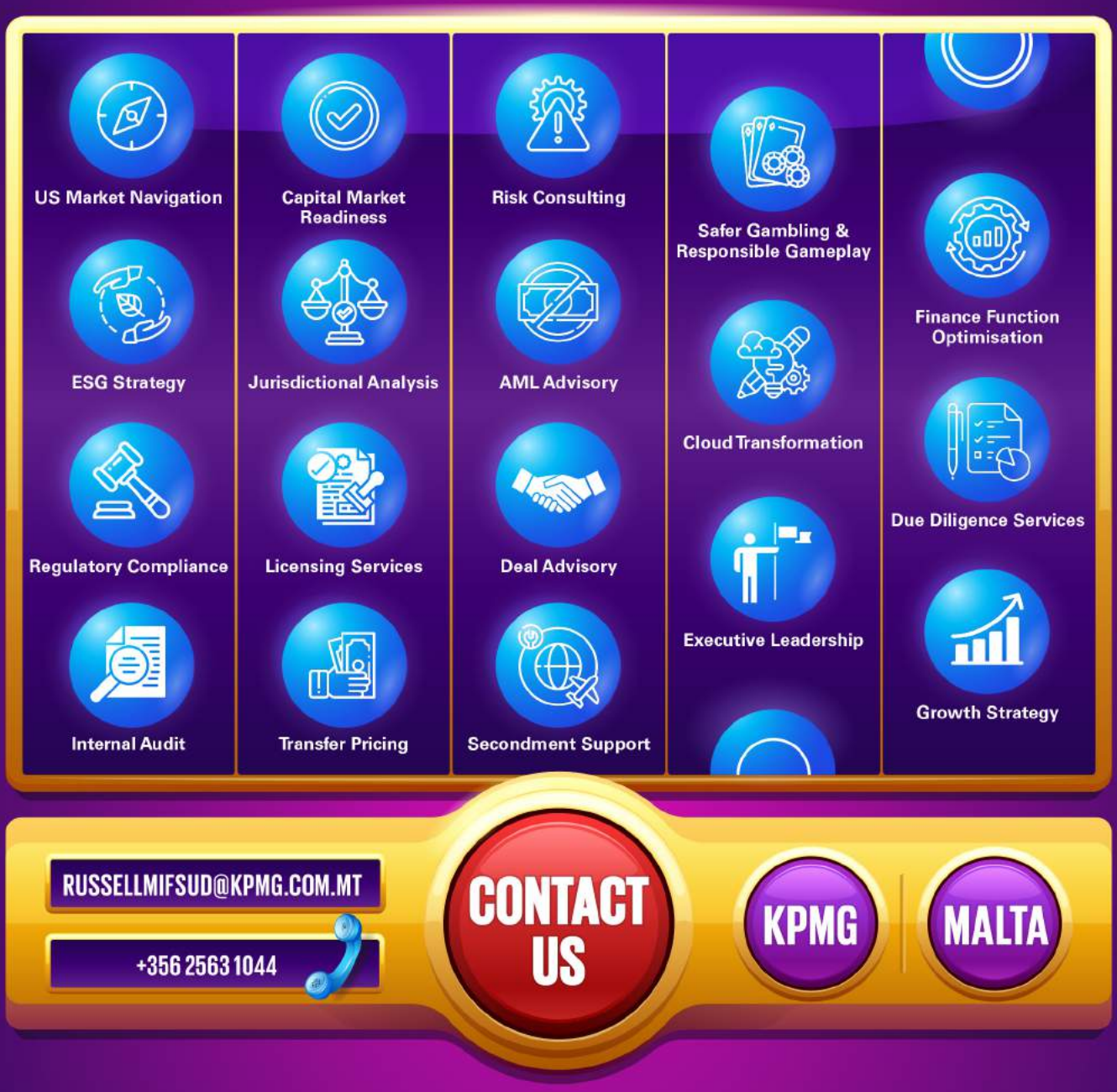
KPMG

Your Trusted Gaming Advisor

KPMG has built unrivalled capabilities within the remote gaming sphere at both local and global level. Across Audit, Tax and Advisory functions our industry specialists retain a pulse of industry happenings and its anticipated direction. This has armed the KPMG Global Gaming team with deep insight, influence and reach, to best gear our clientele up for success across a multitude of avenues.



Contact our Gaming Industry Lead, Russell Mifsud on *russellmifsud@kpmg.com.mt* to discuss how KPMG can be of support to your company's efforts.

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