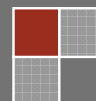


2010

Overview of the Italian Regulatory Framework for Online Gaming

Evolution of the Italian Online Gaming
Regulation 2002-2009

MAG
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Executive Summary

The MAG study provides a comprehensive overview of the Italian model for online gaming, its key provisions as well as its evolution into today's format. It addresses the following areas:

Structure of the Italian regulatory framework

There is no single text regulating online gaming in Italy. The gaming sector is governed by a collection of single regulatory interventions – some of general (primary laws), other of technical or operational nature (secondary laws) – which succeeded each other over time. While the introduction of new games and their taxation is the prerogative of the Parliament, Italy's Minister of Finances holds responsibility for issuing gaming regulations and the single gaming authority AAMS is in charge of defining the implementing provisions. The latest, so-called "Community" law – which was adopted in 2009 and is expected to enter fully in force in the course of 2010 – has removed some previously EU non-compliant provisions, including the requirement of Italy-based servers or operational headquarters/registered office, recognizing instead location in one of the states of the European Economic Area.

Gaming licenses

Organisation and operation of online gaming in Italy is legally reserved to the State. However, the Italian Government has opted to entrust the management of online gaming to the approved private operators via so-called concessions or licenses. In order to obtain a 9-year license, operators must meet strict technological requirements, prove their economic-financial stability as well as demonstrate their reliability, particularly as regards consumer protection. As of today, there are 1.023 functioning online gaming licenses and additional 200 may be issued (subject to the market needs) under the recent "Community" law. The latter will allow private operators to offer a complete portfolio of online games, including sports and horse racing bets, games of skill (such as poker) as well as casino games. The logic behind extending the online gaming portfolio over time has been to align the legal offer with the consumers' demand so as to effectively prevent them from reverting to the black market to satisfy their needs.

Consumer protection

Italian regulatory framework lays down a number of limits to protect consumers and contain compulsive gaming, for instance by setting maximum allowed stakes and winnings. Under the "Community" law, the online gaming license holders are

furthermore obliged to put in place specific tools to enhance consumer protection such as possibility for the consumers' self-limitation or self-exclusion. Operators must also assume an obligation to provide for tools excluding access by minors. Both the operators and AAMS can verify in real time information entered for every new registration, including the tax ID which identifies the birth date. Italian rules also reflect on the potential of online gaming for a real time detection and an early analysis of suspicious financial transactions and thus effective prevention of possible money laundering or manipulation of sports events. Hence for instance sponsorship and advertising are allowed, both by the private operators and AAMS.

The penalty system

AAMS closely monitors the Italian online gaming landscape in order to ensure that only authorized operators can offer the games in its portfolio. Accordingly, the regulatory body can take various measures to block the websites of unlicensed operators and impose monetary or criminal sanctions. Current law provides for monetary fines as well as imprisonment for from 3 months to a maximum of 3 years.

Taxation model

Two bases for taxation are currently used in Italy. While sports betting is taxed between 2-5% on turnover (depending on the number of events), cash poker and casino games are taxed 20% on Gross Gaming Revenue¹ to reflect their particularly high payout ratio². These rates are significantly lower than the initially applied ones as the Government gradually made the link between the decreasing tax rates and the growing gaming turnover in the country. At the same time Italy also strived to align its taxation with international standards. Lower taxes boosted competitiveness of private online gaming operators and thus resulted in an attractive and diversified online gaming offer that swayed players from the black market towards a legal one, whilst significantly inflating the state revenue. By reducing taxation, the Government effectively managed to curtail the black market and consequently increase the level of consumer protection as well as the state income. As a result, Italy's gaming turnover more than tripled from €15 billion in 2003 to over €54 billion at the end of 2009 which translated into more than a 240% increase of the state budget, from €3.5 billion in 2003 to €8.8 billion in 2009.

¹ stakes minus winnings that the operators pay out to the customers; also referred to as GGR

² winnings paid to customers

AAMS

AAMS is Italy's single gaming authority responsible for the regulation and control of the entire gaming sector. It issues licenses to reliable private operators, defines the final gaming product line-up and its distribution, as well as the criteria for tax collection. Having a constant access to the servers of private operators, AAMS controls all gaming operations in real time.

Possible elements to be replicated

The study recognizes the following key elements which underline the success of the Italian model and could possibly be replicated in other European countries:

- licensing model, particularly if a single license covers the complete gaming portfolio to provide private operators with economic certainty and a stable business horizon;
- clear regulatory definition of the games to protect consumers and the market itself;
- integrated regulatory model, with a primary law being complemented by intermediate secondary decrees which allow for speedy legislative refinement;
- single point for the organisation and regulation of gaming;
- mixed taxation model adapted to the type of game and the need for control, which ensures stable tax revenues;
- interaction with gaming operators.

Evolution of the Italian gaming regulation

Since the first mention of online gaming in 1998, Italy's regulatory framework needed to be completely reworked in order to reflect the technological developments and consumers' demand but also to address several critical aspects which initially remained unregulated. Maturing over the years – in particular since a comprehensive strategy outlined in 2002 – the online gaming regulation was completed in 2009. Beyond the full market opening for an entire range of online games, the Government also seized the occasion to address the concerns expressed by the EU, namely by eliminating several pre-existing restrictions and strengthening dispositions concerning consumer protection, as mentioned above.

In the appendix, the study also provides detailed information about specific laws and provisions for each online gaming sector.



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