



QUBE SERVICES LIMITED

Remote Gaming Operations in Malta

Introduction

Since the introduction of the first offshore betting licences in 2000, the Lotteries and Gaming Authority (the “Authority”) has developed its methodologies to regulate the procedures of remote gaming operations.

In April 2004, Malta published (revised) Remote Gaming Regulations – a comprehensive legislative instrument that aims to provide a secure on-line environment to players and, at the same time, guarantees remote gaming operators a competitive framework. The 2004 regulations are indicative of the fact that the Authority has set out to strengthen its policy of responsible gaming for this industry.

The new regulations were published after extensive consultation with the operators. The end result is a flexible legislative instrument that sets down the fundamental principles, but leaves ample space and scope to deal with future requirements.

On an operational level, Malta has been working hard to improve the critical key drivers of this business such as internet connectivity, a crucial factor for online gaming over the past few years. Internally, Malta has a full digital telecoms network with residential connection reaching 2Mbps. International call rates are at European levels.

In May 2004 Malta joined the European Union. This means that operators having their business in Malta can take advantage of the *freedom of movement* for goods and services within the community.

In a nutshell, Malta sets new standards for operators who want to locate their business in a stable and reputable jurisdiction to obtain a competitive edge within their market.

Licence Applications

In order to provide remote betting/gaming services from Malta, one needs to obtain a licence of the class appropriate to the operations. Licensees are expected to operate in compliance to the Lotteries and Other Games Act 2001 and the 2004 Regulations, as well as anti-money laundering legislation, electronic commerce legislation and any other relevant law.

The following four classes of licences are available in Malta:

- Class 1** For operators managing their own risk on repetitive games.
This class covers casino-type games, skill games and online lotteries
- Class 2** For operators managing their own risk on events based on a matchbook.
Under this class falls fixed odds betting, pool betting and spread betting.
- Class 3** For operators taking a commission from promoting and/or betting games.
This class includes P2P, poker networks, betting exchange and game portals.



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Class 4 To host and manage remote gaming operators, excluding the licensee himself. *This is intended for software vendors who want to provide management and hosting facilities on their platform.*

A licence of any class is granted for the period of five years and may be renewed thereafter for periods of five years. A company may apply for more than one class of licence, but the applicant must be a Maltese registered company.

A basic tenet of the Regulations is the requirement that the core part of the online gaming/betting operations must be physically located in Malta. Other components of the system, for example, front-end of the games or customer support operations, may be situated outside Malta at the location of choice of the licensee.

The online gaming system (which is defined as a computer system deployed by a licensee and including all its components, the operating system and application software) must be certified for compliance to the satisfaction of the Gaming Authority.

Certification is only necessary for those components of the system, the functioning of which directly impacts the operation of the games or the reporting of gaming and financial transactions.

Certification also involves audit as to whether the gaming system is compliant with the requirements of ISO-17799:2000 Information Technology - Code of Practice for Information Security. An "ISO-17799 gap analysis" audit will be carried out by experts approved by the Gaming Authority. Certification costs are chargeable to the licensee; such audit fees approximate to €2,500 for a standard, well documented gaming system.

After the certification process required for issue of the full five year licence, the gaming system need not be tested regularly, but there will be follow up audits by the Gaming Authority when deemed prudent. Only significant changes to the live gaming system require approval by LGA before they can be introduced. Wherever a discrete random number generator (RNG) is used, its certificate must be submitted to the Lotteries and Gaming Authority.

Where the gaming system used by an operator has already been certified (which is possible when one uses the gaming platform already licensed in Malta), no further gaming system certification is required, but then the individual licensee's Control System will be subject to audit by the Authority. The system of internal controls, reporting and accounting procedures used by the licensee constitute their Control System which must be approved by the LGA. Any gaming/betting offered by the licensee should only be conducted under the approved control system. The licensee will set up the Control System in the live environment prior to audit and may be permitted to run operations, under a provisional licence, during this period subject to scrutiny by the Lotteries and Gaming Authority.



Key Official

Every licensee must have one key official, whose role is to personally supervise the operations of the licensee and to ensure that the licensee complies with the applicable laws, regulations, licence conditions and any directives. The key official must be a director of the licensee and be resident in Malta.

Taxation Summary

The **gaming tax** is differentiated according to the type of gaming/betting operations as follows:

- Class 1** Lm2, 000 (approx. €4,660) per month for the first six months, subsequently Lm3,000 (approx. €7,000) per month
- Class 1 (under Class 4)** The gaming tax payable by casino operator is Lm500 (approx. €1,165) per month. The gaming tax payable by the host platform is NO TAX for the first 6 months of operation, Lm1,000 (approx. €2,330) per month for the subsequent 6 months and subsequently Lm2,000 (approx. €4,660) per month for the entire duration of the licence.
- Class 3** Fixed-odds betting: 0.5% on the gross amount of bets accepted.
On betting exchanges: 0.5% on the sum of all net winnings calculated per player per betting market.
(In cases where the exchange is involved in the risk)
Pool betting: 0.5% on the aggregate of stakes paid.
- Class 4** Tax is a percentage of net takings. Percentage amount depends on nature of operation.

Tax Capping

- a. The maximum gaming tax payable annually by one licensee in respect of any one licence is Lm200,000 (approx. €465,875).
- b. However, in case where casino operators (under Class 1) operate from the host platform (under Class 4 licence) the tax cap is applicable to the total tax payable by all licensees in this 'cluster' together. In this case, the tax cap is reached when the sum of tax payable by all casino operators licensed under Class 1 and their common host platform reaches Lm200,000.

Remote Gaming licence fees are

- a. **Application fee:** The application fee for a new licence of any class is Lm1,000 (approx. €2,330). This fee is payable together with the submission of an application for the licence. The fee for the licence renewal (i.e., for subsequent 5-year period) is Lm500 (approx. €1,165).
- b. **Annual fee:** The annual licence fee, for any class of licence, is Lm3,000 (approx. €7,000).