

United States House of Representatives
Committee on Financial Services
Washington, DC 20515

April 21, 2008

**Burden without Benefit:
Prevent the Implementation of the UIGEA Regulations**

Dear Colleague:

On Wednesday, April 2, the Committee on Financial Services Subcommittee on Domestic and International and Monetary Policy held a hearing entitled, "Proposed UIGEA Regulations: Burden Without Benefit?" to examine the regulations issued last year by the Federal Reserve and the Treasury on the Unlawful Internet Gambling Enforcement Act (UIGEA), which garnered more than 200 comment letters. At that hearing, the testimony of the regulators and the industry made it clear that the regulations are unworkable. Subsequently, we have introduced new legislation, H.R. 5767, which would prohibit their implementation. We are writing to request your cosponsorship of this legislation.

The regulations, like the underlying legislation, fail to define the term "unlawful internet gambling," leaving it to each financial institution to reconcile conflicting state and federal laws, court decisions and inconsistent Department of Justice interpretations, when determining whether to process a transaction. Furthermore, some of the information needed to make this determination would likely be unavailable to banks because customers or financial institutions in foreign jurisdictions will likely be unwilling or unable to provide it. At the hearing, representatives from the regulatory agencies themselves admitted that there are substantial problems in crafting regulations to implement the UIGEA in a manner that does not have a substantial adverse effect on the efficiency of the nation's payment system.

We commend the attached *Financial Times* article to you and we urge you to join us in this effort to prevent these vague, burdensome and confusing regulations from being implemented. Please contact us, Kellie Larkin of the Financial Services Committee staff at 5-6052, or Norman Singleton of Congressman Paul's office at 5-2831 with questions or to add your name as a cosponsor.



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Committee on Financial Services



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Subcommittee on Domestic and
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Chairman
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Lawmaker challenges internet gambling law

By Stephanie Kirchgaessner in New York

Published: April 12 2008 03:09 | Last updated: April 12 2008 03:09

Barney Frank, the powerful Democratic congressman, is pressing the Federal Reserve and the US Treasury to drop controversial regulations that would force the banking industry to identify and block internet gambling transactions.

The move represents the second time Mr Frank has challenged the enactment of the *Unlawful Internet Gambling Act of 2006*, a law that wiped billions of dollars in value from non-US gambling websites by barring credit card companies from accepting gambling bets by US citizens.

Mr Frank, who chairs the House financial services committee, introduced a bill on Friday that would forbid the Treasury and the Federal Reserve from finalising regulations that would enact the law.

The proposal was unveiled just days after representatives from the banking industry warned in a hearing on Capitol Hill that the regulations would be impossible to comply with unless the Bush administration clarified its conflicting views on online betting.

The Financial Services Roundtable, among others, have expressed “deep concern” that implementation of the rules could impose “significant” and costly compliance burdens on banks by forcing them to know the purpose and legality of payments in an industry where federal and state statutes often clash. For example, some state regulators have blessed domestic horse betting websites even though federal regulators have deemed them illegal.

“These regulations are impossible to implement without placing a significant burden on the payments system and financial institutions, and while I do disagree with the underlying objective of the act, I believe that even those who agree with it ought to be concerned about the regulations’ impact,” said Mr Frank.

It is unclear whether Mr Frank will win enough support to pass the legislation. But one industry lobbyist said the proposal would send a strong signal to federal regulators that the proposed regulations ought to be reworked.

Louise Roseman, director of the division of reserve bank operations at the Fed, acknowledged the complexity of the issue in recent testimony before Mr Frank’s committee.

Ms Roseman pointed out that it could be “particularly difficult” to craft “workable procedures” that bar people from making payments to foreign internet gambling sites, because gambling is lawful in many countries where US banks have corresponding relationships.

Mr Frank has separately proposed a law that would legalise, regulate and tax gambling websites, but the proposal has failed to gain significant traction on Capitol Hill.