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Contact: Michael Waxman
(202) 872-0010 or (202) 872-4860
info@safeandsecureig.org

Prohibition on Internet Gambling a Failure

U.S. Federal Reserve, Treasury Department and Financial Service Companies Call Proposed Rules Unworkable

(Washington, D.C. – April 2, 2008) Expert testimony to Congress today offered further evidence that the ban on Internet gambling won't work. Witnesses unanimously agreed that U.S. financial service companies would face serious regulatory burdens in attempting to enforce the Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA), a law that is not likely to stop millions of Americans from gambling online.

"Testimony from the federal regulators and representatives of the financial services community made clear today that the prohibition on Internet gambling isn't working now and will not work in the future," said Jeffrey Sandman, spokesman for the Safe and Secure Internet Gambling Initiative. "U.S. banks and credit card companies, along with every other type of U.S. company involved in payment systems, would be forced to spend substantial resources to comply with a ban on Internet gambling that can be easily circumvented by anyone in the U.S. that wants to continue to gamble online."

Representatives of the U.S. Department of the Treasury and Federal Reserve System acknowledged at the hearing the challenges U.S. financial institutions will face in attempting to comply with UIGEA. Since most payment systems are not well designed to comply with this law, "it will be very difficult to shut off payment systems for use of Internet gambling transactions," said Ms. Louise Roseman, Director, Division of Federal Reserve Bank Operations and Payment Systems, Board of Governors of the Federal Reserve System. "The implementing statute will not be iron clad at all."

Representatives from the American Bankers Association, Financial Services Roundtable, Wells Fargo & Co. and Credit Union National Association unanimously opposed regulations proposed to implement UIGEA in testimony to the House Committee on Financial Service's Subcommittee on Domestic and International Monetary Policy, Trade, and Technology. They all questioned the fundamental approach taken by Congress in enacting legislation to force financial institutions to police online gambling.

"The UIGEA and the Proposed Rule do not provide a rational path towards halting unlawful Internet gambling," said Wayne Abernathy, American Bankers Association's executive vice president of financial institutions policy and regulatory affairs. "The path leads to an increased cost and administrative burden to the banks and an erosion in the performance of the payments system, but it will not result in stopping illegal Internet gambling transactions. Imposing this enormous unfunded law enforcement mandate on

banks in place of the government's law enforcement agencies is not likely to be a successful public policy.”

Mr. Leigh Williams, president of the technology division of the Financial Services Roundtable stated in his testimony concerns that enforcement of the proposed rules “could impose significant compliance burdens on financial institutions by increasing their role in policing illegal activities, determining whether a transaction is illegal, or by imposing ambiguous compliance requirements that could be subject to wide variations in interpretation by regulators and law enforcement agencies. We believe these functions are more appropriate for law enforcement agencies.”

The testimony supports over 200 comments submitted to the Department of the Treasury and Federal Reserve System on the burden and ambiguity in the proposed rules to implement UIGEA.

“Rather than trying to implement a ban that is unclear, burdensome and doomed to fail, Congress should instead look to regulate Internet gambling in order to protect consumers and collect billions of dollars that is being lost to offshore Internet gambling operators,” added Sandman.

Congressman Barney Frank (D-MA) introduced the Internet Gambling Regulation and Enforcement Act (H.R. 2046) last year, which establishes a regulatory and enforcement framework for licensed gambling operators to accept bets and wagers from individuals in the U.S. It would include a number of built-in consumer protections, including safeguards against compulsive and underage gambling, money laundering, fraud and identity theft. States would also have the right to control what, if any, level of Internet gambling is permissible within their borders and could apply additional taxes and restrictions.

A companion piece of legislation to the Frank bill introduced by Congressman Jim McDermott (D-WA), the Internet Gambling Regulation and Tax Enforcement Act of 2008 (H.R. 5523), would ensure the collection of taxes on regulated Internet gambling activities. According to a tax revenue analysis prepared by PricewaterhouseCoopers, taxation of regulated Internet gambling is expected to generate between \$8.7 billion to \$42.8 billion in federal revenues over its first 10 years.

Testimony provided at the hearing can be found at http://www.house.gov/apps/list/hearing/financialsvcs_dem/hr040208.shtml.

About Safe and Secure Internet Gambling Initiative

The Safe and Secure Internet Gambling Initiative promotes the freedom of individuals to gamble online with the proper safeguards to protect consumers and ensure the integrity of financial transactions. For more information on the Initiative, please visit www.safeandsecureig.org. The Web site provides a means by which individuals can register support for regulated Internet gambling with their elected representatives.

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