

GAMBLING COMMISSION

Private and Confidential

Mr Jason Drummond
[REDACTED]
[REDACTED]
[REDACTED]

By post and email to j@j4.uk

24 May 2017

Dear Mr Drummond

Review of a Personal Management Licence under section 116(2) of the Gambling Act 2005 Mr Jason Drummond Personal Management Licence: 000-038064-M-325687-001

I write further to the Gambling Commission's (the Commission) notice of review sent to you on 16 May 2017.

Reasons for review

As you are aware, we commenced a review a review of your personal management licence (PML) under section 116(2) (c) (i) and (ii) of the Gambling Act 2005 (the Act). We thought it appropriate as we suspected that you (the Licensee) may have carried on activities in purported reliance on the licence but not in accordance with a condition of the licence; and that you may be unsuitable to carry on the licensed activities.

Background

On the 17 March 2017 the Gambling Commission ('the Commission') commenced a licence review in respect of Gametech (UK) Limited ('Gametech') who held a Combined Remote Operating Licence: 000-038061-R-319186-009; the review concluded on the 11 May 2017 as Gametech surrendered the operating licence.

The Commission's preliminary findings in respect of its review of Gametech were sent to you on the 11 April 2017. Gametech were invited to make any representations it may have had in respect of the Commission's findings by the 8 May 2017. No representations were received and so the Commission would have determined its findings on the basis of the information contained within its preliminary findings.

In summary our preliminary findings were that Gametech:

(1) breached conditions of its licence by:

- failing to segregate customer funds
- failing to report key events to the Commission as soon as reasonably practicable and in any event within five working days



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- (2) suitability to hold a licence was in question. In particular, we were not satisfied with Gametech's financial suitability, management structure and competence to carry out licensed activities

As part of the review of Gametech we also considered the information provided by you at the meeting with Commission officials on the 5 April 2017. We will now set out in some detail the basis of our concerns in respect of your actions as a PML at Gametech:

Customer funds

Operating licence condition 4.1.1, as contained in our Licence Conditions and Codes of Practice (LCCP), requires operators (in this case Gametech) who hold customer funds to ensure that these are held in a separate client bank account or accounts.

In your email to the Commission dated 9 January 2017, you stated that Gametech's customer fund rating is basic and that customer funds are kept in a segregated client account. You also confirmed that Gametech ran a weekly reconciliation report on its customer funds to make sure that it always has a minimum of 100% coverage of player balances in the segregated player client account.

In our email to you dated 8 March 2017 we asked you to provide us with a copy of Gametech's customer funds bank statement and the most recent reconciliation of the liabilities against the balance held in the customer fund bank account. In your response dated 9 March 2017 you provided us with an account summary page dated 8 March 2017 which shows the client account balance as £24,257.41. You explained in your response that the total player balance was £21,642.13 and stated that Gametech ran a weekly reconciliation report on customer funds to make sure that it always has a minimum of 100% coverage of player balances. You did not provide us with a statement in line with our request.

Following a further request from the Commission, on 13 March 2017 you provided us with the customer funds bank statement. You also explained, for the first time, that Gametech also "holds funds / customer funds in a number of additional bank accounts / places", including with Nedbank.

We examined the customer funds bank statement (NatWest Bank Account - account number 25925415) that you provided to us. We noted that this account had not held a minimum of 100% coverage of the player balances you reported to us since 30 January 2017. We also note that on 7 March the balance of this account was £0.00 and that on 8 March 2017, the day that we originally asked you to provide us with a copy of the Gametech's customer funds bank account, a BACS payment of 21,000.00 was made into the account from another account in your name. This will have increased the balance of the account such that, when you provided us with the account summary page, it gave an inaccurate impression that there had consistently been 100% coverage of the player balances. We understand that you were personally responsible for topping the monies up.

Reporting key events

Operating licence condition 15.2.1 requires operators to notify the Commission, or ensure that the Commission is notified, of the occurrence of key events, as soon as reasonably practicable and in any event within five working days of the operator becoming aware of the event's occurrence.

We are aware that whilst you were sole PML holder, Gametech failed to notify us of the following key events within 5 working days:

- We were not informed of an apparent further investment or loan of £21k made by you into the NatWest customer funds bank account on 8 March 2017;

- We were not informed of any change in Gametech's arrangements for the protection of customer funds in accordance with licence condition 4; and
- We were not informed of the apparent deficit in the reconciliation of the customer funds held in a separate bank account.

Integrity and competence

In light of the events we outline above, it appears to us that whilst a PML holder on behalf of Gametech you have either provided false and misleading information to us, or you have not worked with us in an open and co-operative way. In our view, this calls into question either your integrity or competence. We are particularly concerned about:

- The inconsistency between the explanation and information provided to us on 9 January 2017, 9 March 2017 and 13 March 2017, about the manner by which Gametech segregated customer funds, and the failure by Gametech to demonstrate to us that its approach to the segregation of funds was consistent with its stated approach;
- The inconsistency between the explanation and information provided to us about the weekly reconciliation of the segregated customer funds accounts and the failure by Gametech to demonstrate to us that its approach to the segregation of funds is consistent with its stated approach;
- The inconsistency between the explanation and information provided to us by you on behalf of Gametech, when suggesting that a subsidiary company, Gametech (Cyprus) Limited, is holding customer funds, when you were aware that this subsidiary company was not licensed and had been sold.

Financial circumstances

As part of our review we have reviewed the Accounts, which were filed by Gametech for the year ended ending 31 December 2016. According to the Accounts, the Group has losses before tax of circa £3.0m during 2015 and circa £4m during 2016. These losses have been funded by investor loans of £4m (the £4m was originally raised by the company to float on the AIM stock exchange) and cash held by the company brought forward from 2014.

On behalf of Gametech you asserted that you were confident the company was in an improving position, based on:

- The sale of a non-profit area of the group (the Cyprus office) for £87,000 which Gametech purchased for over £500,000 during the year ended 31 December 2016;
- The restructuring of the business following the above sale which Gametech believed would reduce the monthly trading costs from £350,000 to £80,000;
- A £35,000 working capital loan from a related company, Hyde Park Holdings Limited (in which you are a 10% shareholder) - notified to the Commission by way of a key event on 10 March 2017;
- The potential to raise £1 million from a proposed share issue linked to Gametech's flotation on the stock market.

However on 17 March you provided us with a notice confirming Gametech intention's to appoint an administrator under the Insolvency Act 1986. In this notice, which was filed at the High Court of Justice on 16 March 2017, you had made a statutory declaration as a Director of Gametech to confirm that Gametech was, or was likely to become, unable to pay its debts.

Preliminary Findings

The Commission's initial investigations have now concluded and we now set out our preliminary findings in respect of your conduct as a PML at (1) and (2) below.

As the primary PML holder from 14 February 2017 and the CEO of Gametech during the time the failings occurred, you were responsible for ensuring that Gametech adhered to its obligations in respect of the issues identified in the Gametech preliminary findings. The material we have gathered to date indicate that some or all of the failings of Gametech may be attributable to you.

At the meeting that took place at the Commission's offices on 5 April 2017 you accepted responsibility for some of the failings, albeit you indicated you were acting in the best interest of Gametech UK Ltd to secure it as a going concern.

The Commission's preliminary findings identify:

1) Breaches of conditions of your personal licence

Gametech failed to act in accordance with the Commission's guidance on the segregation of customer funds (Licence condition 4.1.1) and the reporting of key events (Licence condition 15.2.1) as outlined in your personal licence.

As a result, you do not appear to have complied with the suite of general condition attached to personal licences under Section 75 of the Gambling Act 2005; section 1 requires that 'personal licence holders must take all reasonable steps to ensure that the way in which they carry out their responsibilities in relation to licensed activities does not place the holder of the operating or any relevant premises licence in breach of their licence conditions'.

As the primary PML holder and the CEO of Gametech during the relevant time you had knowledge and control of the operator in relation to these defaults.

2) Your suitability to hold a PML

The level of your personal involvement in the failings we have identified appears to either indicate your active involvement in the failures in question, or, at the very least, demonstrate a lack of awareness of your responsibilities as a PML holder of a licensed operator. In any case, we are concerned about your suitability, specifically, your integrity and competence to carry on the licensed activities, given the following:

- it appears to us that you had been aware that Gametech did not have adequate resources available for the purpose of carrying on the licensed activities.
- you were aware that Gametech was using customer funds to cover its operating costs
- you either provided false and misleading information to us, or you have not worked with us in an open and co-operative way.

In our view, these inconsistencies raise concerns about your integrity and/or competence. In either case your suitability to carry on the licensed activities is called into question.

Preliminary Assessment

Our preliminary assessment at this stage is that your personal licence is at risk of being revoked or other regulatory action may be taken against you. Our Licensing, Compliance and Enforcement policy statement sets out our regulatory powers and is available on our website.

Representations

You now have an opportunity to consider the preliminary findings of fact as set out in this letter. The Commission asks you to confirm whether you agree with those facts.

You further have the opportunity to make written representations in response to the Commission's preliminary findings of fact and the assessment of seriousness.

Please respond with your views as to the facts and your representations by **30 June 2017**. If we have not heard from you during that period of time the review will be determined on the basis of the information currently available to us.

Disclosure

The Commission has gathered various documents during the course of the review. There is material which has been gathered which we are not relying on and which does not form part of the Commission's findings.

It is our view that, on the basis of the information available at this time, there is no unused material which supports your case or undermines the Commission's case.

Please contact Simon Vowles Casework Investigator if you would like a copy of the Schedule of Non-Sensitive Unused Material nonetheless.

Regulatory Settlement

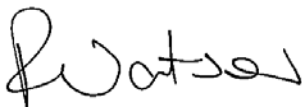
I remind you that the Commission encourages licensees to come forward and make full disclosure of all the relevant facts relating to a matter as early as possible.

Where a licensee makes a full disclosure, the Commission will consider whether its investigations need to continue, or whether the Commission is prepared to agree the facts and the nature of the action in lieu of formal sanction (if any) which ought to be imposed.

Further details about regulatory settlements can be found in the Commission's *Licensing, compliance, and enforcement policy statement*, available on our website.

If you have any questions please contact Simon Vowles the Case Manager, on 0121 230 6617 or by email at svowles@gamblingcommission.gov.uk.

Yours sincerely



Richard Watson
Programme Director