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QUESTION/ANSWER SESSION II

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3 COMMISSIONER MC CARTHY: Mr. Bell, when you said the
4 odds would be better, consumers would benefit, the odds would be
5 better, what did you mean? What odds were you talking about?
6 The odds of winning or just more choices in which to lose?

7

8 MR. BELL: Well, I suppose it would be both in some
9 sense. If you think that the market tends to push services
10 towards a more competitive consumer satisfying direction, then it
11 stands to reason, consumers would be offered competition, better
12 odds at winning on the Internet eventually. It would take a
13 while for the market to sort out but people would advertise. Our
14 slots are looser. They do that now. They would do it even more
so.

15

16 COMMISSIONER MC CARTHY: Knowing what the odds are in
17 winning a state run lottery, whether it's 80 million to one with
18 Powerball or whether it's a mere five million to one, what public
19 interest is served in our trying to do things that will
facilitate that kind of consumer choice?

20

21 MR. BELL: My understanding is many people who worry
22 about gambling see it as frankly a rip off on people who haven't
23 studied. It's sort of a tax on people who really don't
understand probability theory and maybe that carries some weight.
24 But the point is, if it's true, we might as well decrease that
25 punishing tax. We might as well give consumers better odds.
26 Recognizing they're going to gamble, let's at least give them one
27 million to one odds, rather than six million to one.

28

29 COMMISSIONER MC CARTHY: How do you calculate the
odds? Are the odds from the gambling sites overseas promised as

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1 something better to consumers? I've asked some information here
2 of earlier witnesses today but I haven't seen any odds yet.
3 We've had some testimony yesterday on parallels to SEC
4 regulations, should there be disclosures about the odds, as far
5 as at least informing consumers so that then they can make a
6 choice of whether they want to bear the loss or not. But I
7 haven't heard anything about odds as far as any of the games
8 offered over the Internet. Is there some information you have?

9 MR. BELL: I think a good model to look at would be
10 the proposed Australian regulations. My understanding is there,
11 they will have a commission that will be investigating the odds
12 offered by people providing gambling services over the Internet.
13 And of course, another benefit of the Internet is consumers can
14 communicate amongst each other and say, I tell you, this casino
15 says they offer better odds than this other one but they don't
16 and here are the facts. There's all kinds of intermediary
17 services that would inform consumers about the real odds.

18 COMMISSIONER MC CARTHY: Not too convincing yet.
19 Maybe there will be more to come.

20 MR. BELL: Perhaps.

21 COMMISSIONER DOBSON: Mr. Terwilliger, this question
22 is for you. I believe I heard Mr. Bell indicate that gambling
23 enterprises that are based in other countries can't be regulated
24 here and yet, at lunch you and I were talking about that and I
25 believe you said that American law does apply to gambling
26 enterprises that come into our country and are participated in by
27 our citizens.

28 MR. TERWILLIGER: That's basically right. The reach
29 of the federal Wire Fraud statute, as one example, can extend to

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1 frauds that are run overseas where the victims are in the United
2 States, to simplify it as much as possible. There is a lot of
3 debate, as is reflected in Allison's excellent paper, about
4 jurisdiction being created in particular courts, particularly of
5 states, simply by virtue of the fact that activity on the
6 Internet takes place in that state when the provider, such as the
7 gambling enterprise may be outside that jurisdiction. But
8 certainly if it was a fraud, federal prosecutors could address
9 fraudulent Internet gambling today.

10 COMMISSIONER DOBSON: Mr. Bell, you indicated that
11 you see no difficulty with -- or at least you implied you see no
12 difficulty with gambling being available right in your own home.
13 I think there are studies that indicate the more accessible it
14 is, the more people do in fact gamble. Preliminary studies that
15 I've seen show, the Harvard study and others, that teenagers have
16 almost twice the addictive rate as adults. Does it bother you at
17 all that that kind of accessibility would be available to
18 families and especially kids by having a gambling center in your
19 own home, in every home?

20 MR. BELL: I agree. That's something that we should
21 be very concerned about. I'm not going to pretend Internet
22 gambling is all pluses. My argument is simply there are benefits
23 that seriously deserve consideration.

24 As regards teenagers getting on the Internet, I'm not
25 a big fan of regulation, but I can tell you, I have to think it
26 would be easier to regulate the access of teenagers to Internet
27 gambling than it would be to prevent them from gambling in
28 casinos. The last time I went through Las Vegas, no one checked
29 my ID at the door. Whereas with the Internet there's various

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1 automated processes that you could use, that are used now on
2 pornography sites.

3 COMMISSIONER DOBSON: They don't work at all.

4 MR. BELL: They work to greater or lesser efficiency,
5 it's true.

6 COMMISSIONER DOBSON: They work to lesser efficiency.
7 They don't work at all.

8 MR. BELL: No one will have an incentive to do any of
9 these things you're describing if it's made illegal. Contrary to
10 Mr. Terwilliger's comments, we will not be able to stop overseas
11 Internet servers from offering their gambling services to U.S.
12 consumers. We might be able to prosecute U.S. consumers. That
13 will be very unpopular, but we will not be able to send the
14 Marines to Antigua and shut down a server. We are not going to
15 extradite people running those servers.

16 So my comment is simply we have to learn to live with
17 this. If it's illegal, you'll have no protection for those
18 teenagers. If it is legal, you will have more than you have now.

19 COMMISSIONER DOBSON: For what it's worth, of all the
20 people who have testified before us, I think I disagree most
21 strongly with you, sir.

22 MR. BELL: Thank you.

23 COMMISSIONER MOORE: Have you gambled on the
24 Internet?

25 MR. BELL: Actually I haven't. I'm not a gambling
26 man myself, except for the baby.

27 COMMISSIONER MOORE: Usually you think gambling on
28 the sexes would be 50/50. Are there more girls born or more boys
29 born?

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1 MR. BELL: I'm sorry. More adults gambling on the
2 Internet?

3 COMMISSIONER MOORE: Are there more female babies or
4 more male babies?

5 MR. BELL: Honestly I've not seen any statistics on
6 that. When an activity is considered illegal, it's hard to get
7 good figures.

8 COMMISSIONER MOORE: But you need to know those odds
9 if you're going to make your money.

10 MR. BELL: Are you talking about the baby bet? Oh,
11 actually I didn't put money down. I thought that was unfair, as
12 the father.

13 COMMISSIONER MOORE: That's a separate example, but
14 if you were a real gambler you'd want to know if there's more
15 girl babies than boy babies that are born.

16 MR. BELL: Right. I think there's a few more girls.

17 COMMISSIONER MOORE: So you should always bet on a
18 girl.

19 CHAIRMAN JAMES: I could not agree with you more.

20 (Laughter.)

21 CHAIRMAN JAMES: Any other questions for Mr. Bell?
22 Mr. Bell, thank you so much for being here. We appreciate your
23 testimony and with that, we're going to move to our next panel.