

1 **FRANK MILLER**

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3 CHAIRMAN JAMES: We will begin with Mr. Frank Miller,
4 and again welcome.

5 MR. MILLER: Thank you, Madam Chair, members of the
6 Commission. It's a pleasure to be here before you. A little
7 background about myself before I get into my remarks and share
8 with you some of my views. I spent the last 16 years of my
9 career in the regulation of gaming. I'm the former director of
10 the Washington State Gambling Commission which is the third or
11 fourth largest in the country. I served in that capacity for the
12 last six years. Prior to that I was deputy director and I
13 started my career in the Attorney General's office in Washington
14 State. I'm also the past president of NAGRA, vice president and
15 member of the board. So I've been involved in the regulation of
16 gaming for a lot of years, in the law enforcement side
17 especially.

18 I just returned from a NAGRA conference actually
19 yesterday in Norfolk, Virginia and I can tell you this topic of
20 Internet gaming and regulation versus prohibition is one that is
21 really buzzing. I had a lot of discussion with my colleagues,
22 many of whom are in the Attorneys General office for many states
23 here, represented on this panel as well. And there are different
24 views on this issue and I want to share with you mine.

25 Mine are based on experience. Mine are based on
26 years of dealing with the issues. They're also based I guess
27 from the standpoint that I come from a state that was committed
28 to regulation. I want to stress that to you. Many states want
29 gambling, many don't want to pay for the regulation that's

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1 necessary to do it correctly. We did in Washington, although we
2 were much smaller than some of the states here but certainly we
3 had a pretty good model.

4 One of the points I'd like to stress is that we're
5 talking here about an issue, Internet gaming, that I'd never
6 experienced before. I used to tell my staff, I don't want to
7 waste any money on regulating this activity because I didn't
8 think we could do it. This was two, three years ago. I said the
9 best way to regulate is put an ad in the paper and simply say
10 play at your own risk.

11 As I've gotten more involved in the last couple of
12 years and had different people from the state involved in this
13 issue and seen what's happened, what really struck me is that
14 this is a real industry. It's growing. It is growing
15 dramatically. I just believe that the issue of prohibition
16 versus regulation really has to be looked at in light of one's
17 public policy. What this Commission has the ability to do is to
18 help formulate that public policy in all areas of gaming, and
19 I've worked in many of them, from Indian gaming to everything
20 else. This is a new animal that you're dealing with that doesn't
21 just exist here in Nevada or Washington or Mississippi or New
22 Jersey. It exists all over the world. What makes it so
23 difficult is it can be brought into your home without us having
24 any ability to stop it. So the question is what is the public
25 policy that we're going to try in this country to get to in the
26 area of Internet gaming. The public policy has to be, as it is
27 with all other types of gaming activity, the protection of the
28 general public, the general welfare, health and safety of our
29 citizens.

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1 How do you do that best in this issue? Do we do it
2 by prohibition? Do we do it by regulation? As I speak about the
3 two options and the obstacles associated with both, I would hope
4 that you would look at the term regulation, not so much as
5 expansion or authorization, but I'm going to give you a new
6 concept and that is control. To control you can do sometimes far
7 more limiting things than you can do with prohibition, as you
8 know.

9 So if the public policy is protecting the health and
10 safety of our citizens, specifically I might add, children
11 underage participation, problem gamblers. And I am a member of
12 the board, the Washington State Council on Problem Gaming, so I'm
13 very involved in that issue as well. Or just general fraud and
14 consumer protection, how do we best achieve that? Through
15 prohibition we know that we can make it illegal. The bills
16 before Congress today, not only go after the suppliers of the
17 activity, they go after our citizens for participating.

18 I think it's safe to say that the greatest deterrent
19 and the intent of those bills is to use fear to get people to not
20 play basically. I'd like to stress this point. We were talking
21 the other day about this. There's no intimidating factor here
22 for you to participate in Internet gaming. There's no
23 intimidation associated with this. If you want to get involved
24 in illegal gaming today in states, like bookmaking or other
25 activities that are not authorized, you have to go out and you
26 have to basically find it. That is intimidating. It's a little
27 more difficult than what we're facing with Internet gaming.

28 With this activity, you go to your den and it's
29 there. No one is watching you. No one is intimidating you.

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1 It's much easier to get to. As such, I believe it's because of
2 that very nature we need to look at this from a different
3 perspective. Prohibition will go after the players and the
4 suppliers. It will have a limiting effect.

5 I also believe it may have somewhat the opposite
6 effect from what the parties behind it are intending. Let me
7 share with you why. I have worked with other governments around
8 the world on this issue a little bit. I'm starting to get
9 involved in this. It is very real. There are many governments
10 that would love to license these activities, are doing it right
11 now. They get revenues they never have seen before. Our laws are
12 not going to extend down to the Caribbean. We can stop our
13 citizens here. We can't stop them from beaming it in.

14 Australia has just gone in and taken a very pro-
15 active approach and actually Queensland just adopted a very
16 thorough regulatory program. But the bottom line is prohibition
17 will really result in these activities going off shore and coming
18 back into this country. Companies that want to abide by the law
19 will be out of the activity. Those that remain in will not care
20 about problem gaming. They will not care about underage
21 participation by children. And they will not care about consumer
22 protection. I believe the difficulty in enforcing a prohibitory
23 type of law against those entities, against our own citizens
24 ultimately, having the resources to do it. It's nice to pass a
25 law but I've been involved in too many years in this issue where
26 there are many laws on the books, especially on the federal
27 books, and it's very tough sometimes to get the assistance you
28 need as a state official to carry out those laws.

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1 I only point that out to say that we may enact
2 prohibition, but it doesn't mean it will be enforced rigorously.
3 It's tough to do it. So with those obstacles in view, it's my
4 opinion that the policy that we're trying to achieve, namely
5 protection of our citizens from the items I mentioned earlier,
6 may not be best achieved. This may not happen.

7 By contrast what does regulation or control allow? A
8 policy of regulation or control allows limits to be put in place.
9 It allows jurisdiction to put over these entities. It allows the
10 regulatory bodies to say who can play, who cannot play. It
11 allows the regulatory bodies to say what the limits will be. It
12 allows background investigations. It pushes those entities that
13 would normally come into the legal market out. They can't
14 compete. It is a difficult concept to grasp because it seems
15 like we're expanding. But through regulation you can have
16 limiting effects.

17 My point is, through regulation, you can have
18 control, just like we've done in other states. We don't have the
19 same level of gaming, for example, as in Nevada or Mississippi or
20 New Jersey. You have control and that's on the ways in which you
21 regulate. You can also put in, for example, waiting periods,
22 verification systems to find out who it is that wants to play at
23 this site. That's one of the ways you can keep children off of
24 this I believe. The same with people with problem gaming.

25 Those are the two options. The key then becomes how
26 do you then form a model. There's no perfect model that would be
27 regulatory body. I believe you need a federal/state partnership.
28 It's a scary term for many on this panel, I realize. Federal
29 involvement in gaming has been a fear of many. I think in the

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1 area of Internet gaming, if it ever comes down to this, and
2 chances are it won't, but if it ever does come down to this,
3 because it is so international, in and of itself, we need the
4 federal/state partnership. We would have a licensing standard.
5 And you have states coming into this program working with the
6 federal government to tax it, to control it, to regulate it, to
7 remove the fraud, to remove those parties that will do it in
8 violation of the standards set up to regulate it.

9 I can envision this going beyond the U.S., to
10 international partnerships, with countries that want to control
11 this arena with Australia, with countries in Europe. Ultimately,
12 just look at the last three years, what's happened in this
13 industry. When I used to say, don't worry about, no one will
14 ever play, I was wrong. They're playing and they're playing in
15 quite large numbers I might add. It is a real industry. It
16 needs to be addressed.

17 I would encourage you to keep an open mind on this
18 issue. Finally, I will conclude with one statement. Regulation
19 is not expansion here. Regulation gives the government the
20 ability to control. Thank you.

21 CHAIRMAN JAMES: Thank you.

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