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How can U.S. lotteries and operators work together with sports leagues and franchises to build a healthy sports betting industry

Paul Jason: Is there an ideal or preferred regulatory model, one that you think takes the most balanced approach towards meeting the needs of the different sports betting industry stakeholders and interest groups?

Scott Kaufman-Ross: We have been transparent and forthcoming with the regulatory approach that we think serves the best interests of the different stakeholders. We believe the best regulatory model would minimize confusion on the part of the bettors as well as the operators. It would provide consistency from state-to-state so that everyone knows the rules and protocols. It would ensure all stakeholders – operators, leagues, lotteries, players - are treated the same wherever you go. It would have a robust nationwide system to ensure integrity in betting and in sports. It is our view that these goals would be best accomplished with federal legislation. Without federal legislation, we are seeing the development of a regulatory structure that is wholly determined at the state level, and inevitably, rules are not consistent across state borders. Enforcement mechanisms applied at the state level will not be as effective as those that can be applied on a national level.

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But we’re aware that in practice, this conversation is happening at the state level and not currently at the federal level. To that end, we have been working with state legislatures and regulators in different states to implement regulatory frameworks for sports betting that make sense. We are advocating for a system that treats all stakeholders as partners and aligns incentives across all of these parties. We

created a model piece of legislation which includes a number of key provisions. I think the top priority for all of us (sports leagues, lotteries, technology partners, and operators alike) is to protect the integrity of sports and sports betting. Frankly, the leagues have the biggest stake in that issue and so the leagues should be empowered to protect their reputation for integrity and the value of their brand. Further, the leagues have tools which can help protect the integrity of the industry from corruption. To that end, cooperation between operators and sports leagues is key, and the real-time information sharing of betting data with sports leagues will enable effective monitoring of suspicious betting patterns and effective enforcement to prevent insider information from corrupting the fairness of betting for everyone. The interests of all industry stakeholders depend on protection of integrity of sports and the betting industry, and working together is essential for this.

Second, we need strong consumer protections such as effective IP website blocking of illegal operators, geo-targeting capabilities, age verification, and self-exclusion capabilities for problem gamers. Additionally, the security and accuracy of the data-feeds that bettors are basing their decisions on is vital for consumer protection. The speed and accuracy for in-play betting can only be optimized in one way, and that is through the use of official, verified data from the leagues. We think it is important that if consumers in a given state are going to put their money on the line, they should know that their odds are priced and their bets are settled using verified official information from the sports league and not from unverified third-party oddsmakers.

Third, the majority of illegal sports betting is happening online and on mobile phones in particular. Since that is the channel the consumers are using to place bets, there

needs to be a safe, secure, and regulated mobile destination for them to play legally. Without a mobile option, consumers will continue to place their bets with the illegal offshore operators. That’s bad for everyone – bad for consumers who have no protection from fraud and illegality, bad for operators who lose the business, bad for sports leagues where we cannot monitor suspicious behavior, and bad for governments that lose potential tax revenues from betting. We need to bring the offshore market into the sunlight where it can be regulated, and that means making sports betting available online and on mobile devices.

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Next, it is important that the leagues have a voice in determining what types of bets are appropriate. Certain types of bets may be especially vulnerable to manipulation and should be prohibited. Generally, bets on an event that depend on the action of an individual player and that do not have a significant impact on the outcome of the game are particularly vulnerable to manipulation and also very difficult to detect. We think those types of bets may not be appropriate and should potentially be prohibited. And we think the sports leagues should have a voice to work with the regulators and the operators to ensure that we have the right type of offering and not ones that leave the industry vulnerable to manipulation.

Finally, the owners and producers of the competition should be compensated for the use of their product. If third parties are

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going to generate revenue using the content that the leagues create, i.e. the games themselves, the leagues should share in the revenue that is created from that. We can't think of another business that uses a third-party product to generate revenue, and does so without consent or without an obligation to compensate the third-party for the use of that product. We contend that it is only reasonable that the leagues and franchises share in some of the direct economic benefit created from the use of our product.

We believe this is the optimal regulatory model that balances the interest of all the stakeholders and treats everyone as partners.

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Could you explain the role that official data plays in the conduct of sports betting, what it means to be “officially verified”, and how the production and dissemination of data would be controlled?

S. Kaufman-Ross: Official league data is essentially our real-time statistics feed. Our real-time statistics feed is collected courtside by the official scorer and then distributed in real time to media companies and sports betting companies for usage in their product. Having a real-time feed was less important years ago when betting consisted exclusively of fans placing their bets before the game started, and the only bets you could place were on who won the game and by how many points. Now, people are betting during the game itself, making bets in-play, in real time. Fans can bet on who will score next or grab the next rebound or dish out the next assist. Many of these require a degree of subjective judgment: who gets credited for a rebound? What constitutes an assist? We think it is important that there be one verified source of information to ensure that people are not recording different outcomes and grading bets differently. Our official scorers are trained to score the plays properly. The use of multiple third-party data feeds becomes problematic as the bet types become more and more exotic.

Live, in-play betting [betting while the game is in progress on events that happen during the game and betting on outcomes that are constantly updated over the course of the competition] has become extremely popular

across the world. Overseas, the research suggests that up to 80% of total sports betting is done in-play. In New Jersey, our partners are telling us that in-play is already north of 50% of total betting on the NBA. For bettors to make bets during the game in real time, they need to have real-time updates to essential information - not data and stats and that are tabulated by an unlicensed third-party based on a delayed broadcast feed.

You referred to applying tools to monitor betting patterns for the purpose of discerning anomalies that might indicate corruption and manipulation. Being the provider of the real-time in-play data feed would seem to go hand-in-hand with the goal of preventing corruption

S. Kaufman-Ross: Providing the data feed is a different issue from detection of betting pattern anomalies, but there is an overlap. Our main thesis is that the operator should be required to use the verified league-generated statistics and information in order to price and settle their bets and determine if a fan wins or loses money. Separate from that is our view that the operators should share information with us about how their betting patterns are trending so that we can monitor any suspicious activity. Monitoring suspicious betting patterns and protecting the integrity of games is the responsibility of the operators, of the regulators, of the leagues and everyone needs to be working together. But as this state-by-state regulatory framework develops, the leagues are the only ones in a position to monitor betting activity across operators and across states, so we necessarily play a key role in monitoring integrity risks to our games. And we need the operators to share information with us so that we can play our role in this partnership.

How would it be controlled? What's to stop entrepreneurial companies from getting into the business of providing data feeds of in-play activity?

S. Kaufman-Ross: The first step is for sports betting operators and media companies to agree that the industry is best served by relying on a verified, consistent source for live in-play data feeds, and that can only come from the creators of the competitions. By definition, all other sources will be inferior because of delays in capturing and disseminating the data, and the result of piracy of information from our feeds or a spectator illicitly collecting data in the arena. And, multiple feeds means conflicting classifications of the in-play action. For example, was that an assist or not? We need

the entire system to rely on a single, trusted source to provide consistency as well as accuracy.

Think about it from the perspective of financial services industry. Imagine if the price of a stock could be determined by multiple third-party exchanges instead of solely by the official exchange that lists it, like the New York Stock Exchange. It's about consumer protection, preserving the integrity of the games and the betting on the games.

Lotteries have an underlying culture and mission that is different from commercial operators. Lottery's direct stakeholders are legislators, governors, and good causes and so our objectives are directly aligned with the best interest of society. Are there synergies between the political and regulatory agenda of the leagues and franchises, of the NBA, and lotteries?

S. Kaufman-Ross: I think there is significant overlap in the values and the approach between sports leagues and lotteries. This overlap forms a solid foundation and significant opportunity for partnerships in that space. We expect there are going to be many states where the lotteries offer sports betting - whether that be exclusively or alongside commercial operations - and there are a lot of things that the leagues do that coincide well with the approach of the lotteries. Licensing our official data feed - so that their product is best-in-class and they're offering a real-time in-play product using verified information - is a great way the lotteries could align with the leagues. Licensing the trademarks of the leagues and teams to create a much more authentic product for our fans and lottery players is another, and reinforces the reputation for trust and integrity that lottery brands have. This builds upon the partnerships that we've had for years with many state lotteries for branded instant-win games. And so, yes, there are tremendous synergies and opportunities for the leagues and the lotteries to work together on sports betting and all lottery products. We value the relationship we have with state lotteries and are excited and optimistic about building on that solid foundation going forward - in general and in sports betting in particular. ■