Gary Banks AO
Chairman
Productivity Commission
GPO Box 1428
Canberra City   ACT   2601

10 March 2009

Dear Mr Banks,

Re: Submission 2 – Tim Falkiner

Thank you for the opportunity to comment on the above submission to the Productivity Commission's current inquiry into gambling.

Introduction

Mr Falkiner correctly points out that many similarities exist between this submission and that which he provided to the Senate Community Affairs Committee last year.   He also correctly points out that the Gaming Technologies Association (GTA) rejected the assertions made in both his submission and his presentation to the Committee at that time.

In particular, Mr Falkiner said in his presentation on 11 September 2008 to the Committee that "the standards applied to gaming machines were racketeering standards" and that "we have an Australian-New Zealand standard that has a big hole in the middle of it".

In the GTA's view, these comments inappropriately maligned every aspect of government legislation and regulation; improperly insulted all the professional people involved in the design, development, testing, approval, implementation and operation of gaming machines; and were not based in fact.   We tabled a copy of the then-current Australian/New Zealand Gaming Machine National Standard (GMNS) in order to inform the Committee as to the breadth of some of the requirements to which all gaming machines in Australia are subject.

As Mr Falkiner's submissions are so similar this time around, GTA also rejects the assertions made in his submission to the Productivity Commission.

In making these comments, we have sought to provide sensible input to the Commission such that our views are encapsulated in questions we might ask of Mr Falkiner if the opportunity were to arise. These questions are posed in each section and summarised at the end of these comments.

GAMING MACHINE ESCAPE GAMBLING AS SACRIFICE IN TRANSCENDENCE

GTA, its members and the people involved in our organisations do not profess to be conversant with transcendence and related matters. However, we note Mr Falkiner's references to symbols such as hearts, dolphins, gods, goddesses, dragons and unicorns. We find this rather odd and have wondered whether Mr Falkiner also has difficulties with such symbols when they are depicted in the "Harry Potter" books, "Indiana Jones" movies or TV programs such as "Flipper".

We also noted in this section that Mr Falkiner refers to 'evidence' comprising (1) anecdotal evidence, (2) an opinion paper by Charles Livingstone, which we regard as unreliable at best, (3) his own interpretation and (4) a list of the name of a very limited sample's preferred game. We consider this a masquerade.

Question 1: How are symbols such as hearts, dolphins, gods, goddesses, dragons and unicorns different when shown on a gaming machine compared to when they are shown on books, movies and television programs?

REGIONAL CITIES AND TOWNS – DIVERSION OF REVENUES FROM OTHER LOCAL BUSINESSES

We note Mr Falkiner's comments that "where gambling was introduced, retail activity was suppressed" and that "The Commission will doubtless receive evidence from other submitters concerning the low employment levels associated with gaming machine gambling".

GTA has commissioned the Centre for International Economics (CIE) to research the economic contribution of gaming machines (EGMs) to the Australian economy, in order to provide reliable data for the Commission. Among other matters, the CIE report states that removing the gaming machine industry would "reduce employment throughout Australia by 140 000 people" in the short-run.

Question 2: It has been reliably estimated that removing the EGM industry would reduce employment throughout Australia by 140 000 people in the short-run. How does your statement about low employment levels associated with gaming machine gambling relate to this estimate?

STATE GOVERNMENTS HAVE FAILED TO ENSURE GAMING MACHINES ARE HONEST AND SAFE

Mr Falkiner states that gamblers expect gaming equipment in a casino to be of the highest quality (referring specifically to a dice and a deck of cards) and provides that the government reinforces the belief in standards.   EGM manufacturers pride themselves on providing the highest quality products to the Australian market that have been thoroughly tested in internal testing laboratories, independently tested and certified by a separately licensed Approved Testing Facility and then finally approved by the respective regulatory authority.

The respective state and territory governments assure the quality of EGMs through this highly regimented approval process which requires compliance with detailed technical standards.

> Question 3:   State and territory government regulators require detailed internal and external evaluation and implement stringent processes prior to the approval of a gaming machine or a game. Why do you think that governments do not enforce highest quality standards in approving gaming machines?

Gaming machines are cheating devices

Mr Falkiner states that *"Players expect the reels to be the same",* but does not explain why he believes this to be so. We assume that the average person either owns a pair of dice and/or a deck of cards or has at least been exposed to them and their respective characteristics.   A person who approaches an EGM can clearly see the paytables and rules displayed on the machine and can easily conclude that the game in question will offer an entertaining and different gaming experience. There is an expectation and element of entertainment depending on what winning combinations, bonus features or jackpots are triggered.

There is no reason for the player to expect that each winning combination, bonus feature or jackpot will be triggered with the same probability.   Therefore, it cannot be stated that the player would expect each reel has the same number of each symbol and to be identical vertically and horizontally.   There appears to be an assumption by Mr Falkiner that the gaming public takes a highly naïve view of the design of the games.

> Question 4:   Why do you believe that a player would presume that the symbols should be equally distributed in a reel and across the reels when the paytables clearly indicate the various combinations that provide wins including the bonus features?

Each EGM operates a "Random Number Generator" (RNG) which has been tested and approved to provide random numbers for the selection of the reel position at the time the play button is pressed. EGM's are required to be implemented such that the symbols visible to the player (and even whilst spinning) are exactly as per the reelstrip defined when the play button was pressed.

As each symbol appears on the screen, the probability of this occurrence is identical to the frequency of the symbol on the reel. No other symbols or positions on any of the reels displayed can be altered in any way.

Just as physical dice, or a properly shuffled deck of cards produce random numbers, an EGM generates statistically proven random numbers. Each selection of random numbers is an independent event.

> Question 5:   Why do you believe that gaming machines generating statistically proven random numbers constitute cheating devices when each play event is certified by licensed testing authorities to be clearly independent?

Mr Falkiner implies on page 16 that EGMs generate "*near misses*" apparently giving the appearance that the machines should be paying out.

A "near miss" is defined to indicate that the machine is manipulating the display to the player or changing the statistical expectation of a symbols occurrence. This is not permitted and cannot be implemented by EGM manufacturers.

The current (GMNS) Revision 9.0 dated 27 March 2007 provides the following requirements with which all EGM's must comply before approval is granted:

<u>Game Fairness Objectives</u>

> *3.9.57   All games are to be fair to players in that the game must not be designed to give the player a false expectation of better odds by falsely representing any occurrence or event. For example, games (and features within games) that incorporate an illusion of control in that players are offered an option which appears to provide an opportunity to influence the outcome of a game using skill, when in fact the outcome cannot be influenced by the use of skill and/or the outcome has already been determined, are not acceptable.*

> *3.9.57a   The display of the result of a game outcome must not be misleading or deceptive to the player (e.g. must not improperly indicate a near-miss).*

> *3.9.58   The mapping of numbers directly from the RNG output or through a scaling algorithm shall not influence a symbol to occur with a probability not equal to its statistical expectation.*

3.9.59 Symbols of virtual reel games (video) must be displayed in the same arrangement as per the reel strips. No manipulation and rearrangement of the reel's symbols when displayed to the player is permitted.

Requirements 3.9.57a, 3.9.58 and 3.9.59 were implemented in GMNS Revision 2.0 dated 4 November 1998.

An EGM in compliance with the GMNS will correctly display the statistical expectation of a symbol through the selection of statistically proven random numbers.

> Question 6: Statistical expectation of symbols appearing and random number selection create winning and losing combinations. Do you consider that every losing combination is a "near miss"?

All forms of gaming are for entertainment purposes and provide a statistical advantage (or "edge") to the house. For EGMs, each regulator defines a minimum and, if applicable, a maximum theoretical/estimated statistical expectation for the return to player (RTP) with which every approved game must comply. This information can be obtained from GMNS Revision 9.0 Section 8.3.

> Question 7: Why do you think that players expect EGMs to provide an RTP of 100% or greater when no other game in a casino provides this level of return?

Player Information Displays (PIDs) are required in some Australian jurisdictions. As an example, in Victoria this information provides the RTP of the game, average number of individual games played per any win, chances of achieving the top 5 and bottom 5 (in value) individual winning combinations and the maximum and minimum bet options available.

Information session tracking is also implemented. Session tracking allows players to display, at their discretion, electronic player information in respect of all games played on the gaming machine in a session.

Further information can be obtained from the Victorian Appendix to the Australian/New Zealand Gaming Machine National Standard Revision 9.0, 5 December 2007, Sections V9.15, V9.16 and V9.17.

> Question 8: How can you correlate mechanised cheating with EGM's that provide Electronic Player Information?

In the section "Ordinary people becoming addicted" there is reference to a Roger Horbay pointing out a fraudulent design. The design of EGMs in Australia is not fraudulent. Players can review the rules of the game and player information before playing and can make a decision whether to play or not. Rules of the game and player information are accessible at all times, and the collect button is available at all times for the player to collect credits.

The machines are designed to operate at a specific RTP which is defined in each jurisdiction's requirements and the game operates to these requirements. As described earlier the distribution of the symbols on the reelstrips, and their display, is exactly as designed and approved. There can be no manipulation of reels or symbols to change the true probability of a symbol occurring in the machine reel window.

On page 21 Mr Falkiner infers that players are denied access to the rules of game. This is incorrect as all rules and player information are clearly provided and available to the player at all times the machine is available for play.

The design of the machine and operation is protected by Intellectual Property as there are many different implementations of a "basic" design. The internal design is how gaming machine manufacturers differentiate their products and maintain a competitive industry.

We trust these comments are of assistance and look forward to providing further information in due course.

Yours sincerely

Ross Ferrar
Chief Executive Officer

SUMMARY OF QUESTIONS

Question 1:   How are symbols such as hearts, dolphins, gods, goddesses, dragons and unicorns different when shown on a gaming machine compared to when they are shown on books, movies and television programs?

Question 2:   It has been reliably estimated that removing the EGM industry would reduce employment throughout Australia by 140 000 people in the short-run.   How does your statement about low employment levels associated with gaming machine gambling relate to this estimate?

Question 3:   State and territory government regulators require detailed internal and external evaluation and implement stringent processes prior to the approval of a gaming machine or a game.   Why do you think that governments do not enforce highest quality standards in approving gaming machines?

Question 4:   Why do you believe that a player would presume that the symbols should be equally distributed in a reel and across the reels when the paytables clearly indicate the various combinations that provide wins including the bonus features?

Question 5:   Why do you believe that gaming machines generating statistically proven random numbers constitute cheating devices when each play event is certified by licensed testing authorities to be clearly independent?

Question 6:   Statistical expectation of symbols appearing and random number selection create winning and losing combinations.   Do you consider that every losing combination is a "near miss"?

Question 7:   Why do you think that players expect EGMs to provide an RTP of 100% or greater when no other game in a casino provides this level of return?

Question 8:   How can you correlate mechanised cheating with EGM's that provide Electronic Player Information?