
INFORMATION BULLETIN No. 62

Regulatory Changes to Break Open Ticket Lotteries

Effective July 1, 2010

The Alcohol and Gaming Commission of Ontario (AGCO) is pleased to announce a comprehensive package of regulatory and policy changes designed to assist the break open ticket (BOT) industry in maintaining and growing the marketplace. These changes will take effect on July 1, 2010.

This regulatory reform is a product of extensive consultation with stakeholders in the BOT sector who presented the AGCO with numerous suggestions for its consideration which were intended to provide greater flexibility to licensees in the management and conduct of break open ticket lotteries. These stakeholders include: the Ontario Charitable Gaming Association, the Commercial Gaming Association of Ontario, the Registered Gaming Suppliers of Ontario, the Break Open Ticket Program Management Alliance, the Association of Municipal Managers, Clerks and Treasurers of Ontario, Arrow Games/Bazaar & Novelty and Specialty Print. This flexibility being provided is in keeping with the guiding principles of the ongoing Modernization of Charitable Gaming initiative which holds that enhanced flexibility must be balanced by appropriate levels of accountability and trackability and that adaptability is necessary in a continually and rapidly changing environment.

The AGCO is committed to providing additional details and information to assist industry stakeholders with the implementation of this initiative, and will continue to work closely with municipal licensing authorities, providing additional information to them shortly.

The details of the upcoming changes are as follows:

Licensing Framework

- Licensees will be given the flexibility to apply for a single licence for all BOT ticket types sold by the licensee at a retail location. A single licence system for provincially and municipally licensed break open tickets will allow for multiple ticket types to be sold under the same licence and may include BOT product from more than one manufacturer.
- Licensing authorities will be given the flexibility to extend the length of a licence period past the current one year limit, up to a maximum of five years. Licensing

authorities are encouraged to use risk-based criteria when determining whether to offer the extended licence period.

- Licensees will be given the flexibility to carry over partially sold deals of break open tickets from one licence period to another eliminating the need to collapse partial deals at the end of the licence period. The prohibition on carrying over unopened deals of break open tickets will be maintained.

Reporting Requirements

- To ensure consistent levels of accountability and trackability, current reporting requirements will be maintained. This will include a need to report, at a minimum, annually and the need to reconcile ticket counts at the conclusion of a licence period even if partial deals are being carried over to the next licence period.

Fees

- Licensing authorities will be given the flexibility to determine policies regarding the collection of fees (e.g. timing and frequency). Licence fees will not be altered and will remain at a maximum of 3% of prize board for tickets sold through a third party retail location or owned premises. The licence fee for tickets sold through pooling bingo halls will continue to be set at 0.78% of gross wager.

Prizing

- Licensees will be given the flexibility to retail break open tickets with prize board percentage payouts that range from 50% to 70%. The minimum prize board value has been lowered to 50% from the current allowable minimum of 65%. The current maximum prize board percentage payout will remain at 70%.
- Licensees will be given the flexibility to offer merchandise prizes for BOT in all retail venues. Like cash prizes, the value of merchandise prizes will be part of the approved prize board value for the specific ticket type and will be based on the manufacturer's suggested retail price (MSRP).

Sponsorship and Promotions

- Licensees will be given the flexibility to permit an external sponsor to place their branding on BOT products sold by the licensee. External sponsors may pay for the opportunity to promote themselves on the ticket. The product will continue to be required to clearly convey that it is a charitable product.
- Licensees will be given the flexibility to offer prizes that are part of the prescribed prize board that have been provided by external sponsors.
- Licensees will be given the flexibility to offer promotions that have additional value that are not included in the prize board. These promotions may consist of a

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ticket being redeemed for a coupon given to the player, that when redeemed, results in discounting of merchandise where an additional purchase is required.

- Licensees will be given the opportunity to offer promotions that have additional value that must be included in the prize board. These promotions may involve the redemption of the ticket for merchandise or coupons that have a fixed value and require no further purchase by the consumer.

Further background and some additional questions and answers are provided in the attached documents.

If you have any questions of require further clarification, please contact David Szeto, Gaming Registration Officer at 416-326-8719 or our toll-free line at 1-800-522-2876.

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BACKGROUNDER

BREAK OPEN TICKET MODERNIZATION 2009/2010

The Alcohol and Gaming Commission of Ontario's (AGCO) Modernization of Charitable Gaming consultation, initiated in 2005, was launched to identify solutions leading to strategic change intended to allow the sector to sustain and grow charitable gaming. A primary goal of that consultation and the initiatives that have resulted from it is to modernize the regulation of charitable gaming in Ontario to reflect the needs of the industry in the 21st century.

The health of the BOT marketplace is in part reliant on providing industry stakeholders the appropriate tools to continue to adapt to the marketplace and the purchasing patterns of its customers. It is for that reason, that the AGCO is implementing a comprehensive package of changes to the regulatory framework governing the BOT market that have been designed to meet the needs of both the industry and the regulator.

Extensive progress has already been made in assisting the industry in countering the challenges they face. Since the implementation of the Modernization of Charitable Gaming initiative in 2005, significant opportunities have been provided to the industry. These opportunities include:

- The elimination of exclusive contracts with two BOT manufacturers that resulted in removing segmentation in the marketplace and providing the opportunity for competition and innovation - 2005
- The opening up of the BOT marketplace to additional manufacturers - 2005
- The approval of new types of BOT games, including Bingo Event Tickets, Seal Card Tickets - 2005 and Progressive Style BOT, Bingo Event Tickets and Seal Card Tickets – 2007
- Providing equal treatment for third party retailers and lottery retailers relating to registration requirements - 2007
- The suspension of the \$200.00 BOT retailer registration fee - 2007
- Deeming existing registered lottery retailers to be registered as BOT Sellers without the need to obtain a separate registration - 2008
- Permitting BOT licensees to retail from more than one location in a municipality - 2009

The new opportunities being provided to the industry include:

- Permitting licensees to sell multiple ticket types under a single licence
- Extending the maximum length of a licence period from one year to five years

- Permitting the carry-over of partially sold deals of BOTs from one licence period to the next
- Permitting the sale of BOTs with prize board percentage payouts ranging from 50-70%
- Permitting additional flexibility in the types of prizes awarded for BOT lotteries as well as the inclusion of promotions attached to BOT lotteries

The changes being made to the BOT regulatory framework as part of the modernization of this sector of the charitable gaming industry strike a balance between providing enhanced flexibility for BOT industry stakeholders, while maintaining and ensuring appropriate levels of accountability and trackability, while also recognizing that adaptability is necessary in a continually and rapidly changing environment; guiding principles of the modernization initiative. The AGCO remains committed to consulting with members of the Charitable Gaming Strategic Working Group, with representation from the charity, manufacturer, supplier and municipal sectors to identify opportunities to assist in sustaining a viable BOT industry and related fundraising opportunities for Ontario charitable organizations.

For further information on this initiative, please call: David Szeto, Gaming Registration Officer at 416-326-8719 or our toll-free line at 1-800-522-2876.

Questions and Answers
Break Open Ticket Modernization
Regulatory Changes Affecting Break Open Ticket Lotteries
Effective July 1, 2010

Licensing Framework

Q1. What is meant by the “single licence”?

A: A single licence permits licensees to sell more than one ticket type under the same licence. Licensing and reporting the sales of BOT product under a single licence will be similar to the current system. Currently a separate licence is required for each ticket type being sold by the licensee at a particular location. For example, two licences are required to sell BN1 and SP21 ticket types. With the single licence the two ticket types would be sold with only one licence required for both the BN1 and the SP21.

Q2. Will the single licence apply to both municipally and provincially licensed BOT?

A: Yes. The issuance of single licences will be implemented for BOT licences issued by municipalities and the Alcohol and Gaming Commission of Ontario (AGCO). All licensing authorities will issue single licences as of July 1, 2010.

Q3. How will multiple ticket types sold under a single licence be tracked?

A: Licensing authorities will provide a single licence covering multiple tickets over a set licence period. While there will be one licence number the different ticket types being sold under the single licence will have unique identifiers (e.g. licence number 12345-a, 12345-b, 12345-c) for the purpose of imprinting the tickets. The frequency of reporting of sales of the various ticket types will be established by the licensing authority and at minimum will be required annually and upon the conclusion of the licence period and possibly more frequently if the licensing authority finds that appropriate.

Q4. Will I be permitted to sell different ticket types or tickets from different manufacturers in the same compartment of a container/dispenser?

A: No. The current requirement that each ticket type be sold from a single compartment of a transparent container or break open ticket dispenser will be maintained. The prohibition on mixing different ticket styles (e.g. same ticket type with different payouts) in the same compartment of a transparent container or break open ticket dispenser will also be maintained.

Q5. The maximum permitted licence period for a BOT lottery will be extended to five (5) years. Will all BOT licences have to be issued for 5 years?

A: No. The AGCO will extend the length of time permitted for a BOT licence up to a maximum of five years. Licensing authorities will continue to have the flexibility of issuing licences for a period less than the maximum. When determining whether to offer longer licence periods, licensing authorities should consider the possible risks associated with issuing a licence for a longer period of time while also considering the potential benefit to the licensee in regard to the reduction in administrative work incurred by the licensee.

Q6. What criteria should be used to determine eligibility for a longer licence period?

A: The AGCO is recommending to municipalities that they use risk-based analysis when determining the appropriate licence period for each licensee. A few suggested considerations for that analysis include:

- The licensee's experience with charitable gaming
- The licensee's demonstrated level of compliance
- The licensee's record of filing completed reports in a timely fashion

Q7. Only partially sold deals of tickets will be permitted to be carried over from one licence period to another. Why won't licensees be permitted to carry-over unopened deals of tickets?

A: The ability to carry-over partially sold deals is being provided as a solution for licensees in dealing with product that remains unsold at the end of the licence period. Quite often, licensees suffer losses at the end of a licence period when they are required to collapse partially sold deals of tickets. Permitting licensees to carry-over the partially sold deal will give them the opportunity to realize the full profit from that deal. However inventories must be managed by licensees and their supplier to eliminate, where possible, any full deals remaining at the conclusion of a licence period. The AGCO will continue to prohibit the carry-over of any unopened deals of tickets to the next licence period. This is consistent with the principal of maintaining trackability and accountability.

Q8. When partially sold deals are carried over from one licence period to another what will need to be reported?

A: A full reconciliation will be required at the end of the licence period. This will include a full count of all remaining tickets and reporting the carry-over of product to the next licence period as well as reporting the sale of those tickets as part of the reporting on the next licence.

Reporting

Q1. With lengthened licence periods being offered, will there be any changes to reporting timelines?

A: Licensing authorities will have greater flexibility in establishing their own reporting timelines for BOT lotteries. A report detailing the results of the lottery will be required to be submitted, at minimum, once a year. More frequent reporting, possibly on a quarterly basis, will be recommended for high volume locations or licensees. Licensees will be required to update the core information (e.g. changes to constitution or by-laws, updated board of directors etc.) on file with the licensing authority, at minimum, annually.

Q2. Will there be any changes to the ticket retention and destruction requirements?

A: The requirement that winning tickets with a prize value greater than \$1.00 and unsold deals of tickets be retained for a period of 90 days will remain. Administrative burdens will be reduced by not requiring that all winning tickets be retained for 90 days after the conclusion of the licence period but instead as the retention period following the end of each reporting period as well as at the conclusion of the licence period. The requirement that at the end of that 90 day period the retained tickets must be destroyed will also be maintained.

Q3. Licensees now have to provide a signed declaration regarding the destruction of unsold deals of tickets 90 days after the expiry of the licence. Why is this necessary?

A: The destruction of unsold deals of tickets that have been manufactured and imprinted with licence numbers ensures that the gaming product is not re-introduced for illegal sale. The signing of a declaration by the licensee and retailer and verified by an independent third party (e.g. gaming services supplier) regarding the destruction of the tickets is important for tracking and accountability.

Prizing

Q1. Currently, prize payouts for various ticket types range from 65 to 70%. Will there be any changes to the payout percentages?

A: Yes. To allow for greater prize board flexibility, licensees will be permitted to sell approved ticket types that have a prize board payout as low as 50% of gross wager. The Registrar's prescribed prize board percentage will range between 50% and 70%. The 70% maximum prize board payout will remain unchanged.

Q2. Since licensees will be permitted to offer merchandise prizes how will the value of those prizes be determined for the purpose of establishing and being in compliance with the prize board?

A: The value of merchandise prizes will be based on the manufacturer's suggested retail price (MSRP) of the item. This value must be determined at the time that the prize is acquired. All merchandise prizes must be acquired and their MSRP value established prior to the commencement of the lottery event. Licensees must be able to provide documentation indicating the MSRP of prizes for reporting purposes and upon request.

Q3. Some BOT retail locations don't have enough space to store the merchandise prizes on the premises while the lottery is being conducted. In these circumstances how will holders of winning tickets receive the prize?

A: Merchandise prizes will be permitted to be stored on premises other than the location from which the ticket was sold. However, the licensee must provide the winning ticket holder with a "claim" for the purposes of awarding the prize. The actual prize must be awarded to the winning ticket holder at no additional cost or encumbrance to the winning ticket holder.

Q4. In a circumstance where the prize is not kept at the retail location, how long will the licensee have after the winning ticket is surrendered to provide the holder of the winning ticket with the prize?

A: Merchandise prizes must be awarded within one week after the winning ticket has been surrendered.

Promotions

Q1. What is sponsored branding on BOT?

A: Sponsored branding is when a sponsor, someone other than the licensee, has their product brand name, logo or corporate identifier printed directly on the BOT. Sponsors will be given the opportunity pay to place their brand on BOT, and any financial benefit realized by a party other than the licensee (suppliers or manufacturers) as a result of sponsored branding, must be disclosed to the licensee. The charitable nature of the gaming product must always be paramount.

Q2. Will there be limits to the amount of sponsored branding a licensee will be permitted to offer?

A: Yes. Changes to the Terms and Conditions will be made to remove the prohibition on promoting any organization other than the licensee on BOT. As they relate to branding, the Terms and Conditions will be amended to ensure that the product continues to be seen and perceived as a charitable gaming product.

Q3. What is a promotion that has additional value?

A: A promotion with additional value is where the BOT lottery is played as a regular BOT game (instant win, bingo event or seal card), and in addition to the regular prizing, tickets can be redeemed for a promotional item. This sponsored promotional item, possibly in the form of a coupon, could be provided to the player when they present their winning or non-

winning BOT. The coupon could then entitle the bearer to a free promotional item or a discount on an item.

Q4. Under what circumstances will the value of the promotional prizing or offer made to players not be included in the licensed prize board?

A: The value of the promotion will not be counted in the prize board when the promotion is for a discount on an item which requires the customer to purchase an item. For example, if a coupon can be redeemed for a one dollar discount off the purchase of a case of soft drinks, that dollar is not added to the licensed prize board.

Q5. Under what circumstances will the value of the promotional prizing or offer to players be included in the licensed prize board?

A: The value of the promotion will be included in the prize board when the promotion involves awarding merchandise or products requiring no further purchase. For example, if a coupon is redeemable for a package of potato chips then the manufacturer's suggested retail price of that package of potato chips at the time the promotion was arranged will be included in the licensed prize board.

Licensing Fees

Q1. Will there be any change to the licensing fee of a maximum of 3% of the prize board?

A: No. Licensing authorities will be permitted to set licensing fees at their discretion up to 3% of the licensed prize board (in pooling bingo halls operating under the bingo revenue model, licence fees will remain at 0.78% of gross wager).

Q2. Will there be any changes to how licensing fees are collected?

A: Licensing authorities will have the flexibility to determine policies regarding the timing and frequency for the collection of the licensing fee. They will be permitted to collect fees at the commencement of the BOT lottery licence period, during the licence period (likely at the point of interim reporting) or the conclusion of the lottery event.