

Club One Response

Gaming Machine Entitlements Approved Trading System – Consultation Paper – July 2010 (Government of South Australia – Department of Treasury and Finance)

“The Trade “

Introduction

This paper is a response to the paper “Draft Amendments to the Gaming Machines Regulations 2005 – Approved Trading System” and addresses the request of the consultation paper to “provide practical implementation of the proposed Trading System”.

Background.

Club One made submissions to a similar consultation paper in 2008. The present paper noted Club One’s comments to that paper and has adopted positions at variance with those put by Club One.

Club One argued for an open (free market) trading system – termed a bilateral system in the consultation paper. This position has been rejected as lacking transparency and having the potential flaws of permitting the application of undue pressure onto small players and of being costly for participants.

The variance is also explained by the application of a trading model based on six design principles.

The intent of the discussion paper is to achieve the aim of establishing a trading system “that will remove the obstacles to trade in order to accelerate the reduction in the number of gaming machine entitlements”

The preferred system of the paper is for Periodic Trading System that sets an equilibrium price, with trades two times a year.

It is to be noted that regardless of whatever system, Club One will maintain its present capacity to purchase Gaming Machine Entitlements (GMEs) at large. The difference is that unlike at present, Club One will not buy to a fixed price but will have to bid to an unknown equilibrium price.

Importantly, the present forfeiture process will remain (the cull in hotel GMEs and the allocation of 1 in 4 Club GMEs to Club One)

Response

For Club One, the proposed trade design has faults in that:

1. It excludes Club One from the process of bidding and selling,
2. The policy objective of retaining the number of GMEs in the Club sector is not met,
3. Club One's charter to retain GMEs and their income within the Club sector is frustrated, and
4. In Club One's assessment, it is not a system that is likely to see enough sales to meet the government's objectives.

Club One Position

Club One seeks

1. Inclusion in the model as a participant – presently Club One is entitled to enter the “Trade” if the Minister for Recreation Sport and Racing approves (regulation 14(2))
and
2. Recognition of the need to preserve the existing quantum of Gaming Machine Entitlements in the Club Sector.

Club One Proposal

To achieve this position Club One seeks to have the following addition to the model and subsequent regulatory changes:

1. The retention of Club One as a participant in the “Trade” as per existing arrangements
and
2. The creation of a specific role for Club One in the “Trade” as a pre -purchaser of GMEs at the equilibrium price.

Club One Pre- Purchase Mechanism

Club One to be included such that

1. At the conclusion of the determination of the equilibrium price (Section 7 pg 29 et seq.), the Commissioner will determine by reference to the forfeiture principle, the proportion of Gaming Machine Entitlements that have been lodged for sale by Clubs.
2. This proportion of GMEs shall be offered to Club One to purchase at the equilibrium price.
3. Club One will purchase as many or all such GMEs (determined by Club One's capacity to buy) as it requires and that number of GMEs will not be available to bidders
4. The remaining GMEs will then be subject to 7.6 Determining a Final Market Outcome of the paper (page 37)

Conclusion

In inserting the additional step of Club One pre-purchasing at the equilibrium price, neither the price mechanism, the Market Design Objectives nor the Common Market Features that inform the model are impacted.

Further, subject to Club One's capacity to pay, the objective of preserving the number of GMEs in the Club Sector will be met and the charter of Club One enhanced.

Importantly, the number of GMEs to be culled in any trade will not be compromised.