

**Club One - Response to Draft Amendments to the Gaming Machines Act 1992 -  
Consultation Paper September 2008**

**Introduction**

This paper is written in response to the consultation paper titled "Draft Amendments to the Gaming Machine Act 1992 Consultation Paper". It addresses the paper in four parts.

1. A discussion of the policy informing the proposed changes to the Gaming Machine Act 1992, commencing with a background to Club One
2. Commentary on specific proposals of significance to Club One
3. Statements to the consultation points as requested by the consultation paper
4. A summary

**1. Policy**

**1.1 Background – Club One**

Club One derived from a concept put before the Independent Gambling Authority (IGA) in May 2003 by Clubs SA in submissions to the "Inquiry into the Management of Gaming Machine Numbers"

The submission contained the following core principles

- An independent body (Club One) set up to work with all Clubs
- Club One to fund raise for all Clubs using Gaming Machines
- Club One able to move Gaming Machines and hold more than 40 under a general License
- The building of new Club Gaming Machine venues
- A maximisation of income to all Clubs
- The prevention of any loss of Gaming Machines and their revenue from Clubs
- The distribution of revenue to grass roots recreation and sport on a merit basis
- Openness, transparency and accountability

The IGA approved and improved the concept by introducing the concept of a Gaming Machine Entitlement (GME) and recommended the proposal to Parliament (December 2003). The amendments to the Act travelled through Parliament for most of 2004 and were passed by the final sitting. In response, Club One was set up (February 2005) and applied for the Club One Licence.

The License was granted in October 2005 (Nine months later) at the time Club One had no source of income. The banks would not lend as they had no security as Club One could not realise its GMEs. An Expression of Interest was conducted seeking interested parties. Finally a

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consortium was put together (Club Management Services – CMS) and a contract entered into and put before the Liquor and Gambling Commissioner (OLGC) in June 2006.

Access to the contract was granted in November 2006. One month later Club One was able to supply Adelaide Juventus Soccer Club with 40 GMEs and the Oakden Central Club could commence trading. In August 2007 the milestone of 100 GMEs was reached (9 Months of activity) and by February 2008 Club One had 142 GMEs (16 months of activity).

In early 2008, it was announced that the price cap would be removed and a market would be initiated. All Clubs, except for the Mount Gambier North Football Club (20 GMEs), cancelled their negotiations believing they will make more from the new (unknown) legislation.

### **1.2 On policy**

The consultation paper seeks to implement changes proposed by a stream of inquiries and recommendations subsequent to 2004.

It states there are three areas of policy initiative:

1. *Better Responsible Gambling Environments*
2. *Reducing Costs and Risks associated with Regulation*
3. *Technical improvements to the act.*

These three proposals are part of a larger stream of changes which have transferred gaming from the community sector to private control. They have been barely balanced by reforms such as Club One, and they have limped the management of gaming towards a market model.

The process commenced with the introduction of the Adelaide Casino. The impact on community based gambling was not immediate as the Casino was an almost quarantined and niche business located in the CBD. In time it would move from table gaming to gaming machines for its income and impact that sector. At the time of the Casino legislation the Not for Profit sector, through lotteries, bingo and like games, had a significant income stream; some Not for Profit groups had incomes of up to one million dollars per year. Thus whilst there was some competition for income by the Casino, the Not for Profit sector was still in receipt of significant proportion of the gambling dollar.

However with the introduction of Gaming Machines there was a shift in income from the Not for Profit bodies into the hands of hotel owners and a few Clubs. This substantive privatisation of a hitherto community monopoly was possible because the legislative conditions, some moral reticence and the nature of the Gaming Machines demanded capital intensive investment and an administrative commitment that hotels and only a few Clubs could manage.

An important consequence of the change was the creation of new supervisory instruments to match the more professional structures of gaming and a suite of new regulatory tools and policies to match the new arrangements.

In this process, gaming moved from being a community and primarily recreational pursuit that funded social purposes into a more objective commercial activity.

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This commercialisation was accelerated by the introduction of the concept of a GME which made each gaming machine a tradable item. For the first time a gaming machine could be separated and traded without being part of a total venue. However the attendant market arrangements muted the potential of the new ownership arrangements, even if they increased the capital worth of those who owned the newly created GME's.

In the latest proposals, Club One sees an acceleration of the market processes and an increase in the private control of the industry as the proposals permit a more flexible market and most particularly, they permit Clubs to utilise their GMEs as commodities – available for a type of rent rather than usable only as assets.

The utilitarian philosophy informing the commercialising and privatising of gaming appears to be twofold:

1. A public benefit of maximising public return – characterized by maximising the government's financial return from gambling– defined mainly as revenue (taxation). This is leavened with a positive discrimination in favor of Not for Profit entities that by definition return their surplus' to the community – or at least an identifiable section of the community.
2. A public benefit of controlling or containing gambling – characterised as “harm minimization” which in itself seems to cover everything from excessive gambling by those that cannot afford it (which is undefined) to the presence of gambling facilities in communities. The latter consideration includes the reduction of raw numbers of gaming machines as well as placement of venues, the advertising, the practices and the promotion of gaming.

Missing in this equation is the maximising of the public benefit of having a strong industry sector or of the encouragement of the good that the gaming industry can procure as an economic instrument. Such positives include capital formation, provision of infrastructure, recreation, self sufficiency in the community, strategic economic development and the social support mechanisms funded by the revenue exchange.

The absence of this third public good is in contrast to the use of gambling and related facilities as deliberate development policies by Australia's neighbours Singapore, Malaysia and China (Macao). A further example is the spectacular role gaming has played in the economic revival of the fortunes of some Native American peoples.

Club One argues that there needs to be a consideration by government of the potential that exists for gambling to provide economic growth and community benefit , particularly when an appropriate role is allocated to the Not for Profit sector.

Club One, for example, would argue that a new resort facility based in the northern suburbs of Adelaide, using a large gaming Club or Not for Profit Casino as an anchor would be a substantial economic stimulus to an economically challenged community and, with appropriate tourist policies, South Australia could participate more in the international market for such resort activities.

To maximise the benefit to that community, the Club One model would be the ideal instrument – particularly in its capacity to relocate existing Gaming Machine Entitlements (GMEs) into a new venue and to channel revenue to both those who participate and the wider community.

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A further example of strategic economic policy using gaming would be the establishment of a state-wide linked jackpot system within gaming venues. Presently stand alone progressive jackpot gaming machines already operate in gaming venues in South Australia and the development of this concept to linked jackpots state-wide is a logical extension of the existing situation. Linked systems have been operating satisfactorily in interstate venues for years.

Club One would propose that such a system could operate in South Australia with venues paying a fee to have the link. The money thus generated would be added to the pool already being garnered by Club One to provide grants to develop the Not for Profit sector. It is an obvious synergy to have Club One licensed to operate the proposal and to manage the distribution of monies within its grants scheme.

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**2. Specific Commentary**

**2.1 Club Sector Reform - page 19 of the Consultation Paper**

*“Clause 22 of the draft Bill provides for the possibility of a transfer of a gaming machine entitlement under section 27B (1) (b) or 27B (1) (c) being for a limited period (i.e. a specified period of time or a specified event). “*

**2.1.1 The present arrangements**

At present, Club One buys GMEs and its advice has been that GMEs must be sold to Club One to effect a transfer. This is in contrast to the statement in the consultation paper that states that GMEs may be transferred from a Club in a manner that permits them to revert back to that Club.

Club One has purchased its GMEs either at a price of \$40,000 which is set above the net \$37,500 a Club can receive by entering the present trade arrangements or by paying an ongoing sum of \$5,000 pa indexed to the performance of Club One.

Club One has secured 162 GMEs. This is below the original estimates but Club One was delayed in its commission by 18 months; and some 18 months after commencing its offers, the market closed down in anticipation of changes mooted by the government that might bring Clubs more money for their GMEs. If it were not for the announcement of changes Club One would be in a position of having over 240 GMEs.

Despite this enforced hiatus, Club One has

- 162 GMEs worth \$6,702,574
- paid monthly vesting fees to Clubs of \$27,500
- paid Clubs \$2,760,000 to buy GMEs
- contributed \$80,000 p.a. to Clubs for services
- paid \$218,000 in stamp duties and increased revenues from gaming tax by about \$1,800,000. A proportion of this increase being generated by moving GMEs from non taxed venues to taxed ones at the highest marginal (Club) rate.
- funded small grants totalling \$1,000 per month and has built up a large grant fund of \$50,000
- enabled the building of the \$5 million plus Adelaide Soccer Club (Juventus) venue – Oakden Central
- participated in the building of a refurbished Club at Roxby Downs
- plans to participate in two new Clubs in the next two years

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### **2.1.2 The proposed arrangements.**

The proposed arrangements provide for the possibility of a transfer of a gaming machine entitlement under section 27B (1) (b) or 27B (1) (c) being for a limited period (i.e. a specified period of time or a specified event). “

Under the proposed arrangements Club One sees five outcomes:

1. Clubs will not sell but rather “rent” for fixed periods of time. This will not rationalise the sector as per the reforms that saw Club One created.
2. Clubs will seek the highest price. This inflated value will reduce the capacity for Club One, or any other Not for Profit Body that participates, to generate enough to make any new ventures viable. Clubs already expect to make \$200,000 for sale of a GME or the equivalent in income (\$20,000 pa). The long term impact will be to diminish the capacity of the Club sector.
3. Clubs will ensure that income will remain with them. In “renting” out their GMEs Clubs will effectively remove the capacity of Club One to distribute income from gaming to all Clubs. Should Club One participate, the price of the rental will be such that the capacity of Club One to generate surpluses will be diminished.
4. Clubs will seek to maximize their control over their GMEs. This will mean short term rental arrangements and frequent renegotiation periods. This in turn will undermine the capacity of new ventures to manage the risk and investment demands of providing new venues.
5. New ventures set up to house the “rented” GMEs will need to meet high revenue targets to meet rental costs. This will be counterproductive to harm minimisation.

### **2.1.3 Club One’s response**

Club One is not opposed to Clubs maximizing their income from their asset – the GME.

However Club One is uncertain how the proposal fits into any coherent proposals for the Club sector. The arguments presented by Clubs SA when proposing Club One addressed reforms which

1. Sought to have a sustainable club and sport and recreational sector as an end goal of any Club gaming reform
2. Create mechanisms for Clubs to pool resources for all the club sector
3. Develop systems to distribute gaming monies throughout the sector
4. Generate sector wide solutions rather than serve particular Club interests
5. Retain wealth and wealth generation within the sector
6. Generate social capital and resources for self management

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Tested against these principles, the proposal for a rental component to Not for Profit Gaming Machine transfer will thwart many of the club sector reform objectives as it will enhance a privileged few and may well reduce the redistributive capacity of Club One.

Presently the increased asset value generated by the creation of GMEs has been realised by the Clubs using the asset to obtain capital either by way of loans or by selling to Club One. In selling to Club One, such Clubs are effectively contributing a portion of the increase of the GME asset to all Clubs though the medium of the grants and benefits distributed to the Not for Profit sector by Club One.

Club One's suggestion is that those Clubs that seek to enter such commercial arrangements that do not redistribute the returns beyond their specific Club pay a Community Contribution levy of 10% on any rented GME.

This would not apply if the arrangement is with Club One as it has a specific function of redistributing the moneys to all Clubs.

To reflect the redistributive process, the levy should be paid either to a locally administered fund or added to the pool of grant funds made available by Club One for distribution to Clubs. The latter path is preferred as the funds are audited and reported to parliament on an annual basis.

## **2.2 Gaming Machine number reduction – page 6 of the Consultation Paper**

*The South Australian Government accepted the recommendation contained in the IGA's 2003 Inquiry into the Management of Gaming Machine Numbers that there be a 20% (3,000) reduction in the number of gaming machines operating in South Australia.*

*The 2004 Amendments established the concept of gaming machine entitlements and created 12,950 gaming machine entitlements on 1 February 2005. This achieved the first reduction of 2,168 gaming machine entitlements or 72% of the 3,000 reduction target recommended by the IGA.*

*The remaining 832 gaming machine entitlements were to be removed through forfeiture requirements of the approved trading system with a fixed price of \$50,000. One out of every four hotel gaming machine entitlements traded through the approved trading system would be forfeited. After three trading rounds, only a further 50 entitlements were forfeited leaving a further 782 gaming entitlements to be forfeited before the 3,000 target is achieved.*

*The low rate of forfeiture arises because at a fixed price of \$50,000 there is little interest by venues to sell gaming machine entitlements.*

### **2.2.1 The intent of the target**

Club one understands from the submissions that were made that led to the adoption of a reduction target that the intent was to reduce the number of GMEs so that there would be fewer opportunities to gamble. It was also put that the GME reduction would also lead to a concentration of GMEs into bigger venues thereby making for better funded harm minimisation.

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These larger venues in turn would be further apart and, as there is a belief that gambling occurs within given distances of a gamblers residence, the result would be less easy access to gambling venues.

### **2.2.2 Club One Response**

Club One questions the validity of the assumptions that has led to the quest to further reduce the number of gaming machines.

The political position is well understood- to abandon the target might be seen as an inability to deliver on a commitment, the question however has to be asked as to whether the expenditure and effort demanded in reaching the target is worth anything, even a political consideration.

Research has established that the reduction in gaming machine numbers did not impact on the spend on gaming. More was put into fewer machines. Research by the Independent Gambling Authority has established this and it was verified by Nick Xenophon, ex -Independent No Pokies MLC and now Senator for South Australia, at the 2008 Sydney Gaming Conference.

His concession was supported by evidence supplied by a Citi Bank presenter at the same conference, who stated categorically that all a reduction in machines achieves is to enrich the owner of the remaining machines. This occurs because the machines increase in value, their usage rate increases and the individual machine returns are higher, the number of staff required to manage them reduces and the infrastructure and depreciation costs also reduce.

If it is the government's intention is to re-enforce this cycle of enrichment, then the policy of trying to reach the target by removing the remnant machines will achieve this.

If the intent is to reduce any harm, it is difficult to support.

### **2.3 The managed market – page 6 of the Consultation Paper**

The scheme of reduction argues that the price is too low to cause a sale of the machines. It proposes a managed system of sales seeking to achieve some median or benchmark value.

*Clause 22(3) of the draft Bill removes the fixed price of \$50,000.*

*The detail of the approved trading system is contained in regulations. New regulations will be required to implement an approved trading system with a variable price.*

*At this stage, new regulations have not been drafted. If the amendment is passed, it is proposed that the new regulations would let:*

- *buyers indicate how many entitlements they wish to buy and the maximum price they are willing to pay; and*
- *sellers indicate how many entitlements they wish to sell and the minimum sale price they are willing to receive*



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**2.3.2 The policy**

Club One argues that the proposal confuses three separate policy matters:

1. The value of a GME
2. The development of an exchange mechanism that is responsive, open, transparent, efficient and effective
3. The reduction of GMEs

All three have been compressed into the concept of a managed market.

**2.3.3 Club One Response**

Club One does not believe the proposals will result in the reduction of the GMEs by the amount sought by government. It is the understanding of Club One that many of the potential machines are in small hotels in small numbers. They are the possession of the landlord who would see the GME as worth more to the total lease or as a mortgage asset rather than as an object for sale.

There is also a numbers consideration, at 1 in 4 being culled; over 3,200 sales will be required. The experience of Club One, which has been in the marketplace for over 18 months, predicts that this volume of trade is not feasible, as stated; most would rather hold the appreciating asset and access capital rather than sell into the marketplace. This is particularly so for landlords of small hotels who use the GME asset as a means of extracting greater rents from leaseholders.

Further, whilst it can be argued that everything has its price, Club One believes the capacity of buyers to offer beyond a nett \$80,000 is limited (\$110,000 gross) and as a result the price expectation held by many of \$200,000 - \$250,000 will not be met and the incentive to sell will not be present.

Note that this comment is made without a full appreciation of the impact of the present global crisis which may force sales at any price.

Club One does not believe the managed market will set a real value for the GMEs. Whilst it will reach a median price this is not a true value of a GME. It is also a product of a stilted fixed one off activity. The value of a GME should move with the changing fortunes of the economy and the fixing of a place and time and process does not reflect this dynamic. In the present financial crisis, for example, there may be some need for forced sales. This cannot occur in the managed market.

Given the mooted capacity of creditors to 'take over' GMEs, they will need to sell quickly but will not be able to do so in such a static market.

Given that any new system for a managed market will require new regulations and may not increase sales substantially and there was a commitment given of ten years of stability, if the government wants a managed market, it would be best to stay with what it has instead of changing the goal posts.

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Club One supports an open and free trade system and points to its own efforts in setting up a market process utilizing the OLG. Club One believes that a simple continual sale system would operate to set a value for the GMEs and to encourage an efficient and effective transfer of an asset so it might reach its market potential. Thus Club One does not accept that a new managed trade system should be introduced to effect a GME reduction. If a new trade system is to be introduced it should be for its own merits.

Finally, should the government be so moved as to have a managed market, and thereby set a price, Club One would seek to have the first option to buy Club GMEs at this price so that the principle of maintaining GMEs within the Club sector can be maintained.

**2.4 Recognition of financial arrangements –page 17 of the Consultation Paper**

*It is proposed to amend the Act to clarify that gaming machine entitlements and gaming machines can be used as collateral in finance arrangements by holders of gaming machine licences. It should be noted that existing prohibitions, e.g. offences relating to profit sharing, remain.*

*Clause 47 of the draft Bill implements measures relating to finance arrangements.*

Club One welcomes the ability to realise the value of a GME for legitimate capital raising. The issue for Club One is the process by which a GME is to be valued. Club One would understand that a market value would be the truest measure and one which will not involve any artificial inflating of values or understating of a value. As outlined previously, Club One would prefer an open market or a stated price for a GME as at present.

Regardless of process, Club One has been hampered by the fact that it can obtain assets but not realise them. This has stopped Club One obtaining capital from banks and other finance organisations and has led it to deal with consortia for money.

With the release of the restriction on capital raising, Club One will be able to enter the marketplace, whatever its construction, on fairer terms. Club One would also be able to access alternative financial packages that could release Club One to be a bigger player in making money for Clubs and in preserving GMEs within the Club sector.

Club One notes that the consultation paper permits the sale of GMEs by the creditor should they come to possess them. Club One suggested that the proposed managed market will not facilitate the rapid realisation of such default assets and may create reluctance by creditors to advance funds.

Club One understands that it could be an immediate purchaser of all types of GMEs at whatever median price has been set and argues that the exercise of this ability would be appropriate given the key role of Club One in maximizing the Not for Profit GME population.

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**3. Summary Responses by Club One**

policy initiative	impact of implementation	suggestions on how the draft Bill could be improved so that the policy initiative can be achieved	comments
GME reduction/trade system	Significant but not positive	<p>Club One supports an open and free trade system utilising the arrangements already pioneered by Club One.</p> <p>Club One does not accept that a new trade system should be introduced to effect a GME reduction. If one is to be introduced it should be for its own merits.</p> <p>Club One argues that the proposal confuses three separate policy matters</p> <ol style="list-style-type: none"> <li>1. The value of a GME</li> <li>2. An exchange mechanism that is flexible, open, transparent, efficient and effective</li> <li>3. Reduction of GMEs.</li> </ol>	Club One does not believe the proposals will result in the substantial reduction of the GMEs sought by government. It will make those holding GMEs richer and as the spend on Gaming seems to be constant; the GME holders will experience a greater return from their lesser GMEs.
Social Effect Test	Club One has an interest in establishing viable Clubs and consequently has apprehensions about any misadventures that might occur.		
Social Effect Certificate	As above.		
Late Trading and Closing Hours	Presently Club One does not operate any venues. If it did it would adhere to accepted Club practices which see closures near midnight and late morning commencements.		
No location of Gaming Machines in smoking areas	minimal	Nil	<p>The proposal blurs the original purpose of smoking bans as an OHS measure for workers in enclosed areas threatened by passive smoke.</p> <p>If it is safe to eat in such open areas, it should be safe to play.</p> <p>It is agreed that is the ban on smoking has seen the only effective reduction in Gaming Machine use – but not necessarily any harm reduction.</p>
Responsible Gambling measure expanded to Airport	minimal	Nil	Nil

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Compliance and enforcement provisions	minimal	Nil	Nil
Formalising recognition of responsible gambling agency	Will improve the industry.	Nil	Nil
Conciliation process	Will improve the dispute resolution and potentially reduce costs.	nil	The recommendations of the conciliator should be taken into account in any arbitrated settlement.
Recognition of financial arrangements	Significant improvement in the access to capital by Clubs and Club One.	It would be preferable to have the valuation of a GME resolved by access to an open marketplace or failing that by legislated norm.	Club One is uncertain as to how a credit provider will sell the GMEs it may come to possess – there is no general mechanism other than by the managed market which may not be responsive enough to encourage the advancement of credit – unless Club One is permitted to buy GMEs from creditors.
Premises certificate	Nil	Nil	Club One supports measures to reduce costs and risk.
Club Sector Reform - GME rental by Clubs	It will impact Club One and will increase new venue costs and reduce potential returns to all clubs whilst increasing the income of Clubs with GMEs.	A levy of 10% on non Club One rented GMEs that would be dedicated to Club sector grants.	The proposal does not increase the Club sectors sustainability and benefits the few.
Eliminating unnecessary Regulation	Agreed no comment		
Eliminating State Procurement Board	No comment		
Technical Improvements	Club One is concerned that related legislation be amended in tandem with the Gaming Machine Act. One Act not referred to is that of the Planning Act that designates planning zones and land use. Club One notes that the two Acts are not synchronized to the extent that if a land use changes as per the relevant planning process, the Gaming Act does not recognize this change. For example should a retail precinct be rezoned, the Gaming Act does not recognize this and it will still have a prohibition based on the previous land use.		

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**3.2 Timing**

Club One proposes that the timing of the implementation of the consultation document amendments be in two steps:

**Immediate:**

1. The financial matters – access to credit – this will permit participation in any changes
2. The Club Reform (rental) – should it be pursued – this will clarify the opportunities for Clubs

**Within 3 months**

3. The pre market preparatory matters including the new administrative arrangements (conciliation/ certifications etc) – this will clarify the arrangements that will be in place after the market has been implemented. It will also enable everyone to know what they have to do and what they will have left over after complying.
4. The market regime regulations consultation – to ensure their relevance and
5. then the sale process

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**4. Summary**

Club One (SA) Ltd is managed by a board made up of three Independents with expertise in Gaming Law, Accounting and welfare issues (appointed in accordance with provisions of the Gaming Machine Act 1992), two nominees of the Licensed Clubs Association of South Australia (Clubs SA), a nominee of The South Australian Sports Federation Incorporated (Sport SA) and a nominee the South Australian National Football League (SANFL). It holds the Special Club License created by the parliament in the 2004 changes to the Gaming Machine Act 1992.

Club One has the objectives of

- maximising the number and spread of gaming machine entitlements, gaming machines and gaming revenues for Licensed Clubs
- generating income and determining policies to foster and support grass roots sport, recreation and community benefit
- generating income and determining policies to foster and support the peak bodies and Associations involved with Clubs

To a large degree Club One was meeting these objectives through the existing arrangements.

In response to the consultation paper Club One has sought present arguments to:

- Raise the potential and mechanisms for government to view gaming as a positive economic instrument.
- Determine the real value of a Gaming Machine Entitlement (GME) through a free market.
- Establish mechanisms by which Club One can maintain its role in retaining Club GMEs within the Club sector. Club One strongly supports the credit proposals in the consultation paper and argues for a first right of purchase of Club GMEs in any managed market
- Retain the mechanisms by which Club One can return income to Clubs. Club One can only do this if it retains a leading role in the management of GMEs. This means access to capital, an ability to intervene to protect Club GMEs and the capacity to spread wealth through grants.

