110TH CONGRESS
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HOUSE OF REPRESENTATIVES

REPORT
110–910

PAYMENTS SYSTEM PROTECTION ACT OF 2008

OCTOBER 3, 2008.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. FRANK of Massachusetts, from the Committee on Financial Services, submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 6870]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 6870) to ensure that implementation of proposed regulations under subchapter IV of chapter 53 of title 31, United States Code, does not cause harm to the payments system, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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AMENDMENT

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Payments System Protection Act of 2008".

SEC. 2. PROHIBITION.

(a) IN GENERAL.—The Secretary of the Treasury and the Board of Governors of the Federal Reserve System, whether acting jointly or separately, may not propose, prescribe, or implement any regulation under subchapter IV of chapter 53 of title 31, United States Code, or otherwise give effect to such subchapter or any such regulation, including the proposed regulations published in the Federal Register on October 4, 2007, except to the extent as any such regulation pertains to unlawful Internet sports gambling or except as provided in section 3.

(b) INTERIM FINAL REGULATIONS ON UNLAWFUL INTERNET SPORTS GAMBLING.—Before the end of the 60-day period beginning on the date of the enactment of this Act, the Secretary and the Board of Governors of the Federal Reserve System, in consultation with the Attorney General, shall jointly prescribe interim final regulations as required by subchapter IV of chapter 53 of title 31, United States Code, to the extent that such regulations pertain to unlawful Internet sports gambling.

(c) UNLAWFUL INTERNET SPORTS GAMBLING DEFINED.—

(1) IN GENERAL.—For purposes of this Act, the term "unlawful Internet sports gambling" means bets or wagers placed over the Internet on a lottery, sweepstakes, or other betting, gambling, or wagering scheme based, directly or indirectly (through the use of geographical references or otherwise), on 1 or more competitive games in which amateur or professional athletes participate, or are intended to participate, or on 1 or more performances of such athletes in such games.

(2) EXCEPTION.—For purposes of paragraph (1), the term "competitive games in which amateur or professional athletes participate" does not include events described in section 3704 of title 28, United States Code (parimutuel animal racing or jai-alai games).

(d) TREASURY LIST OF UNLAWFUL INTERNET SPORTS GAMBLING BUSINESSES.—No regulations under subsection (a) to implement the requirements of section 5364 of title 31, United States Code, shall be effective unless such regulations—

(1) require the Secretary of the Treasury to compile and maintain a list of unlawful Internet sports gambling businesses; and

(2) do not require any person to block or refuse to honor any transaction, or prohibit the acceptance of any product or service of such person, other than in connection with a business on the list maintained by the Secretary.

SEC. 3. RULEMAKING TO IMPLEMENT SUBCHAPTER ON PROHIBITION ON FUNDING OF UNLAWFUL INTERNET GAMBLING AND DEFINE UNLAWFUL INTERNET GAMBLING.

(a) IN GENERAL.—Notwithstanding section 2, the Secretary of the Treasury and the Board of Governors of the Federal Reserve System, in consultation with the Attorney General, shall jointly develop and implement regulations (which the Secretary and the Board jointly determine to be appropriate), on the record after opportunity for agency hearing involving an administrative law judge or similar official, under subchapter IV of chapter 53 of title 31, United States Code, that shall include a definition of the term "unlawful Internet gambling" for purposes of such subchapter and such regulations, after conducting a full economic impact study of the proposed regulations under chapter 6 of title 5, United States Code (commonly referred to as the "Regulatory Flexibility Act").

(b) TREASURY LIST OF UNLAWFUL INTERNET GAMBLING BUSINESSES.—No regulations under subsection (a) to implement the requirements of section 5364 of title 31, United States Code, shall be effective unless such regulations—

(1) require the Secretary of the Treasury to compile and maintain a list of unlawful Internet gambling businesses; and

(2) do not require any person to block or refuse to honor any transaction, or prohibit the acceptance of any product or service of such person, other than in connection with a business on the list maintained by the Secretary.

(c) COORDINATION WITH PROHIBITION.—Upon the effective date of final regulations under subsection (a), section 2 shall cease to apply.

PURPOSE AND SUMMARY

H.R. 6870, "The Payments System Protection Act of 2008," requires the Federal Reserve and Department of the Treasury to issue an interim final rule under the Unlawful Internet Gambling Enforcement Act within 60 days of enactment. The interim final rule applies only to sports betting, and would require Treasury to compile and maintain a list of internet sports gambling businesses to which funds could not be transferred.

The legislation also establishes a formal rulemaking process (with on the record hearings) to determine the definition of "unlawful internet gambling." It also adds a new requirement that Treasury compile and maintain a list of unlawful internet gambling businesses.

The bill also prohibits the regulators from issuing or finalizing any regulations under the Unlawful Internet Gambling Enforcement Act (UIGEA), other than these interim final regulations on sports or through the formal rulemaking process.

BACKGROUND AND NEED FOR LEGISLATION

The U.S. government has faced profound difficulties in preventing people from engaging in online gambling, which the Justice Department has deemed to be illegal from the earliest days of the Internet. The Department of Justice interprets the 1961 Wire Act to prohibit all online interstate betting, regardless of type, notwithstanding that the only federal appellate court to consider the issue has ruled that the Wire Act prohibits sports gambling online but does not prohibit non-sports online gambling.[1] Although the Justice Department chose not to appeal that case, it continues to take the position that all online gambling in the U.S., regardless of type, is prohibited by the Wire Act if the wager crosses state borders.

In 2006, Congress enacted the UIGEA, which restricts the use of the payments system for U.S. citizens who seek to gamble online. The UIGEA requires the Fed and Treasury to issue regulations to cover financial institutions. The law required these regulations to be in effect by July 10, 2007. The proposed rules were issued on October 4, 2007, and the comment period ended December 12, 2007.

During subcommittee testimony in April 2008, the regulators and the industry made it clear that the pending proposed regulations are unworkable. On April 10, Chairman Frank introduced legislation, H.R. 5767, which would prohibit their implementation. The current bill, H.R. 6870, which would transition the current rulemaking process to a formal rulemaking process and clarify the definition of "unlawful internet gambling," is very similar to a Peter King of New York amendment which was offered during the Committee markup of H.R. 5767 on June 24th. The King amendment failed on a 32–32 tie vote, and then the motion to order the underlying bill reported failed on a voice vote.

The proposed regulations, like the underlying legislation, fail to define the term "unlawful internet gambling," leaving it to each financial institution to reconcile conflicting state and federal laws,

[1] *In re Mastercard*, 313 F. 3d 257, 262–263 & n. 20 (5th Cir. 2002) ("[A] plain reading of the statutory language [of the Wire Act] clearly requires that the object of the gambling be a sporting event or contest.").

court decisions and inconsistent Department of Justice interpretations, when determining whether to process a transaction. Furthermore, some of the information needed to make this determination would generally be unavailable to banks because customers or financial institutions in foreign jurisdictions will likely be unwilling or unable to provide it. At the hearing, representatives from the regulatory agencies themselves admitted that there are serious problems in crafting regulations to implement the UIGEA in a manner that does not have a substantial adverse effect on the efficiency of the nation's payment systems.

Some common concerns

• *Failure to define "unlawful internet gambling," and "restricted transaction."* The proposed regulation states that a transaction is considered unlawful if it "is unlawful under any applicable Federal or State law in which the bet or wager is initiated, received or otherwise made." As indicated above, the Department of Justice currently applies the Wire Act more broadly than some district courts and the Fifth Circuit Court of Appeals. Furthermore, the UIGEA specifically exempts three categories of transactions from the general definition of "unlawful internet gambling," (i) intrastate transactions; (ii) intratribal transactions; and (iii) interstate horseracing transactions (any activity that is allowed under the Interstate Horseracing Act of 1978 (IHA), 15 U.S.C. 3001, et seq.). However, while the UIGEA excludes these transactions from the definition of "unlawful internet gambling" the Department of Justice has taken the position that the IHA does not alter the criminal statutes prohibiting such transmission of bets or wagers. Finally, the UIGEA contains a Sense of the Congress provision that preserves this ambiguity, indicating that this subchapter "is not intended to resolve any existing disagreements over how to interpret the relationship between the Interstate Horseracing Act and other Federal statutes."[2] This puts every financial institution in the position of choosing between conflicting statutory interpretations.

• *OFAC-type lists*. Many commenters have said that a government-established and -maintained list of unlawful internet gambling businesses would be a helpful resource for the purpose of identifying and preventing restricted transactions, and some requested a safe harbor to accompany such a list. While the agencies indicated that it would be difficult to compile and update, most commenters indicated that individual institutions would be forced to create their own, less reliable and less comprehensive lists.

• *"Knowledge" standard*. The regulation requires certain policies and procedures (which may include closing the customer's account or severing the relationship with the customer) if an institution "becomes aware" that a customer is processing a restricted transaction or if a foreign bank is "found to have" engaged in restricted transactions. Commenters have argued for an "actual knowledge" standard, which is less vague than the proposed terminology.

• *Implementation period*. Most commenters indicate that the six month implementation period is insufficient, and should be extended to 24 months after publication of the final rule to allow for the amending of existing agreements.

[2] 331 U.S.C. 5362(10)(D)(iii)

• *Additional payment system exemptions*. Some commenters requested that ACH, wire transfers and check collection systems be completely exempt from the regulations. Cross-border implementation issues will encounter significant difficulties. Unlike card transactions, these payment systems do not have codes to indicate the type of transaction, and given that internet gambling is legal in many foreign jurisdictions, cooperation by correspondent banks may be problematic within their own jurisdictions.

• *Regulatory Flexibility Act*. The Small Business Administration's Advocacy Office, which has the statutory responsibility to ensure agency compliance with the Regulatory Flexibility Act, submitted a comment that the agencies have not properly analyzed the economic impact of the proposed rule on small businesses, and should revise the analysis to consider potential legal fees and training costs, as well as less burdensome alternatives and exemptions. Finally, under RFA the agencies have an obligation to determine if there are any duplicative, overlapping, or conflicting federal rules, rather than shifting this burden to commenters. SBA sent a written statement to Treasury and the Fed which concluded:

• that the agencies did not disclose the totality of the cost estimates to the public and that the cost estimates did not include all relevant costs,

• that the agencies failed to give attention to exercising their legal authority to exempt small entities from the proposed rule, and

• the agencies should revise the Initial Regulatory Flexibility Analyses and send it out for public comment.

• *Paperwork Reduction Act*. In its comment letter, the Center for Regulatory Effectiveness argued that the proposed rule's failure to define "restricted transaction" in its delegation to the banks of the responsibility for determining what is and isn't "unlawful Internet gambling" is a de facto labeling requirement under the Paperwork Reduction Act, as payment processors would be required to electronically "label" transactions as restricted or unrestricted. If it is determined that a proposed rule contains a labeling requirement, it faces a higher threshold for approval by OMB.

When an agency proposes a rule that would require individuals or companies to retain records, it is considered an Information Collection Request (ICR), which has to be approved and assigned a tracking number by the Office of Management and Budget to show that it is compliant with the Paperwork Reduction Act.

In a memo from OMB to Treasury, OMB refused to approve Treasury's ICR or assign it a tracking number, because Treasury hadn't adequately addressed the PRA issues raised by CRE. This memo was posted on OMB's web site in February, but at some point before the hearing on UIGEA in April, it was taken down with no explanation.

HEARINGS

The Subcommittee on Domestic Monetary Policy, Trade and Technology held a hearing on April 2, 2008 on "Proposed UIGEA Regulations: Burden without Benefit?" The following witnesses testified:

Panel one

• Ms. Louise L. Roseman, Director, Division of Reserve Bank Operations and Payment Systems, Board of Governors of the Federal Reserve System.

• Ms. Valerie Abend, Deputy Assistant Secretary for Critical Infrastructure Protection and Compliance Policy, U.S. Department of the Treasury.

Panel two

• Ms. Harriet May, President and Chief Executive Officer, GECU of El Paso, Texas on behalf of the Credit Union National Association.

• Mr. Wayne A. Abernathy, Executive Vice President, Financial Institutions Policy and Regulatory Affairs, American Bankers Association.

• Mr. Leigh Williams, BITS President, The Financial Services Roundtable.

• Mr. Ted Teruo Kitada, Senior Company Counsel, Legal Group, Wells Fargo & Co.

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on September 16, 2008, and ordered H.R. 6870, the "Payment System Protection Act," as amended, favorably reported by a roll call vote of 30 yeas and 19 nays.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the motion to report legislation and amendments thereto. A motion by Mr. Frank to report the bill, as amended, to the House with a favorable recommendation was agreed to by a record vote of 30 yeas and 19 nays (Record vote no. FC–121). The names of Members voting for and against follow:

Record Vote No. FC–121

Representative	Aye	Nay	Present	Representative	Aye	Nay	Present
Mr. Frank	X			Mr. Bachus		X	
Mr. Kanjorski	X			Ms. Pryce (OH)	X		
Ms. Waters	X			Mr. Castle		X	
Mrs. Maloney				Mr. King (NY)	X		
Mr. Gutierrez	X			Mr. Royce		X	
Ms. Velázquez	X			Mr. Lucas		X	
Mr. Watt	X			Mr. Paul			
Mr. Ackerman	X			Mr. LaTourette		X	
Mr. Sherman	X			Mr. Manzullo			
Mr. Meeks		X		Mr. Jones		X	
Mr. Moore (KS)	X			Mrs. Biggert	X		
Mr. Capuano	X			Mr. Shays	X		
Mr. Hinojosa				Mr. Miller (CA)			
Mr. Clay				Mrs. Capito		X	
Mrs. McCarthy	X			Mr. Feeney			
Mr. Baca	X			Mr. Hensarling		X	
Mr. Lynch	X			Mr. Garrett (NJ)		X	
Mr. Miller (NC)				Ms. Brown-Waite		X	
Mr. Scott		X		Mr. Barrett (SC)		X	
Mr. Green				Mr. Gerlach	X		
Mr. Cleaver	X			Mr. Pearce		X	

Record Vote No. FC–121—Continued

Representative	Aye	Nay	Present	Representative	Aye	Nay	Present
Ms. Bean	X			Mr. Neugebauer			
Ms. Moore (WI)	X			Mr. Price (GA)			
Mr. Davis (TN)				Mr. Davis (KY)		X	
Mr. Hodes				Mr. McHenry			
Mr. Ellison	X			Mr. Campbell		X	
Mr. Klein	X			Mr. Putnam		X	
Mr. Mahoney (FL)				Mrs. Bachmann		X	
Mr. Wilson	X			Mr. Roskam		X	
Mr. Perlmutter	X			Mr. Marchant			
Mr. Murphy	X			Mr. McCotter			
Mr. Donnelly				Mr. McCarthy	X		
Mr. Foster	X			Mr. Heller	X		
Mr. Carson							
Ms. Speier							
Mr. Cazayoux	X						
Mr. Childers							

During the consideration of the bill, the following amendment was considered:

An amendment in the nature of a substitute by Mr. Frank, No. 1, making various technical and substantive changes, was agreed to by a voice vote.

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee held a hearing and made findings that are reflected in this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee establishes the following performance related goals and objectives for this legislation:

H.R. 6870 requires the Federal Reserve and Department of the Treasury to issue an interim final rule under the Unlawful Internet Gambling Enforcement Act within 60 days of enactment. The interim final rule applies only to sports betting, and would require Treasury to compile and maintain a list of internet sports gambling businesses to which funds could not be transferred. The legislation also establishes a formal rulemaking process (with on the record hearings) to determine the definition of "unlawful internet gambling." It also adds a new requirement that Treasury compile and maintain a list of unlawful internet gambling businesses. The bill also prohibits the regulators from issuing or finalizing any regulations under the Unlawful Internet Gambling Enforcement Act (UIGEA), other than these interim final regulations on sports or through the formal rulemaking process.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

COMMITTEE COST ESTIMATE

The Committee adopts as its own the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

CONGRESSIONAL BUDGET OFFICE ESTIMATE

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

SEPTEMBER 29, 2008.

Hon. BARNEY FRANK,
Chairman, Committee on Financial Services,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 6870, the Payments System Protection Act of 2008.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Kathleen Gramp.

Sincerely,

PETER R. ORSZAG.

Enclosure.

H.R. 6870—Payments System Protection Act of 2008

Summary: H.R. 6870 would amend existing law regarding federal regulation of Internet gambling. It would suspend certain restrictions on such activities until the Department of the Treasury and the Board of Governors of the Federal Reserve develop new regulations based on the terms and conditions outlined in the bill. H.R. 6870 would add a statutory definition of "unlawful Internet sports gambling," require the regulators to define "unlawful Internet gambling," and direct the department to publish lists of businesses engaged in such unlawful activities. Implementation and enforcement efforts for the final regulations would be based on those lists and on a study of the economic impact of the proposed guidelines and public hearings.

Assuming appropriation of the necessary amounts, CBO estimates that implementing the bill would cost $227 million over the next five years, primarily because of the costs associated with publishing lists of businesses engaged in unlawful Internet gambling activities. Enacting H.R. 6870 would affect revenues because of the provisions affecting the Federal Reserve, but CBO estimates that such impacts would not be significant. Enacting this bill would not affect direct spending.

H.R. 6870 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 6870 is shown in the following table. The costs of this legislation fall within budget function 800 (general government).

	By fiscal year, in millions of dollars—					
	2009	2010	2011	2012	2013	2009–2013
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	135	30	31	31	32	259
Estimated Outlays	27	87	51	31	31	227

Basis of estimate: For this estimate, CBO assumes that the legislation will be enacted near the beginning of fiscal year 2009 and that the necessary amounts will be appropriated each year.

Spending subject to appropriation

CBO expects that implementing H.R. 6870 would significantly increase the workload of the Department of the Treasury, which currently has fewer than 10 full-time staff dedicated to regulating Internet gambling. Developing lists of businesses engaged in unlawful Internet gambling that would withstand regulatory scrutiny would involve screening hundreds of thousands of Web sites, examining targeted Web sites in detail, coordinating with state and foreign governments, and monitoring changes in the Web sites included on the lists. Little is known about the number, location, or complexity of Internet gambling sites, and the department expects that extensive data collection efforts would be necessary to comply with the bill.

For this estimate, CBO assumes that the department would acquire computer software to identify Internet gambling Web sites and conduct comprehensive reviews of at least 2,000 businesses. Based on information from the department, CBO estimates that preparing the lists would require an initial appropriation of about $130 million and that maintaining them would cost about $30 million a year. Costs could be higher if additional businesses required an in-depth examination, with all costs subject to appropriation of the necessary amounts.

H.R. 6870 also would direct the department to conduct special studies and hearings on proposed regulations related to Internet gambling. Based on information from the department, CBO estimates that those activities would cost about $5 million in 2009.

Revenues

Under H.R. 6870, the Board of Governors of the Federal Reserve would participate in the development of the revised regulations governing unlawful Internet gambling activities. Based on information from the Federal Reserve, those activities would have no significant effect on its workload or budget. The budgetary effects of the Federal Reserve are recorded as a change in revenues (governmental receipts). Thus, CBO estimates that enacting this bill would have a negligible effect on revenues over the 2009–2018 period.

Intergovernmental and private-sector impact: H.R. 6870 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimate prepared by: Federal costs: Kathleen Gramp; Impact on state, local, and tribal governments: Elizabeth Cove; Impact on the private sector: Paige Piper/Bach.

Estimate approved by: Peter H. Fontaine, Assistant Director for Budget Analysis.

FEDERAL MANDATES STATEMENT

The Committee adopts as its own the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds that the Constitutional Authority of Congress to enact this legislation is provided by Article 1, section 8, clause 1 (relating to the general welfare of the United States) and clause 3 (relating to the power to regulate interstate commerce).

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

EARMARK IDENTIFICATION

H.R. 6870 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9 of rule XXI.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Section 1. Short title

This section establishes the short title of the bill, the "Payments System Protection Act of 2008".

Section 2. Prohibition

Section 2 prohibits the Federal Reserve Board and the Treasury from finalizing regulations under UIGEA except as they pertain to unlawful internet sports betting, or as provided in section 3. Section 2 defines unlawful internet sports betting, and requires that interim final regulations be issued within 60 days of enactment. Treasury is required to establish and maintain a list of unlawful internet sports gambling businesses.

Section 3. Rulemaking to implement subchapter on prohibition on funding of unlawful internet gambling and define unlawful internet gambling

Section 3 requires the Federal Reserve Board and Treasury to undergo formal rulemaking (with on the record hearings) to determine what other forms of gambling constitute the definition of "unlawful Internet gambling." That rule would be subjected to regulatory flexibility analysis, and then Treasury would also compile

and maintain a list of businesses that accept other forms of illegal internet gambling.

DISSENTING VIEWS

H.R. 6870 would undermine the effective implementation of the Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA) (Public Law 109–347). UIGEA was intended to stem the growth of gambling on the Internet, by making it illegal for financial institutions and credit card companies to process payments for settling Internet gambling wagers and imposing new criminal penalties on Internet gambling businesses. Prior to UIGEA's enactment, the United States had few tools to enforce applicable state and Federal law because the sites offering Internet gambling services were located overseas and beyond the jurisdictional reach of U.S. law enforcement.

UIGEA was supported by an overwhelming majority of Members on the Financial Services Committee and the full House, and by college and university presidents, the American Bankers Association, the American Psychiatric Association and major sports organizations including the National Collegiate Athletic Association (NCAA), Major League Baseball (MLB), the National Football League (NFL), National Basketball Association (NBA) and the National Hockey League (NHL).

H.R. 6870 would require the Federal Reserve Board and Treasury Department to scrap the proposed regulations mandated by UIGEA, except those applicable to sports betting. It would also require the Treasury Department and Federal Reserve, in consultation with the Justice Department, to jointly develop and implement regulations that define "unlawful Internet gambling," after an administrative hearing and a full economic impact study. There is no deadline for the agencies to finish their work. Thus, while H.R. 6870 would result in financial transactions involving sports betting being blocked, it would allow a wide variety of other addictive forms of gambling to continue unimpeded, including poker, blackjack, roulette, craps, baccarat, and slots.

Enactment of H.R. 6870 would harm families and communities. The consequences of unfettered illegal Internet gambling are profound and its characteristics are unique: online players can gamble twenty-four hours a day from home; children may play without sufficient age verification; and betting with a credit card can undercut a player's perception of the value of cash, leading to gambling addiction, bankruptcy and crime. As a professor of business at the University of Illinois noted, the Internet is "crack cocaine" for gamblers. "There are no needle marks," he says. "There is no alcohol on the breath. You just click the mouse and lose your house."

The real victims are the young people who by the tens of thousands become compulsive, addictive gamblers. Studies show that the earlier one begins gambling, the more likely it is he or she will become an addicted problem gambler. In the most recent study of Internet gambling in Canada, where Internet gambling is regu-

lated, the University of Lethbridge Professor Robert Williams found that the average monthly loss of Internet gamblers is $541, compared to an $82 loss of all gamblers.

Since UIGEA, gambling companies such as PartyGaming, which runs the PartyPoker.com and PartyBingo.com web sites, have withdrawn from the U.S. market. According to the Annenberg Public Policy Center, weekly use of the Internet for gambling among college-age youth declined precipitously, dropping from 5.8 percent in 2006 to 1.5 percent in 2007. "The strong drop in use of Internet sites also suggests that Federal legislation restricting the transfer of funds to Internet gambling sites has had its intended effect," the Director of the Annenberg survey stated.

In addition to its destructive influence on families and our nation's youth, Internet gambling has the potential to undermine our national security. FBI and Justice Department experts have repeatedly warned that Internet gambling sites are vulnerable to exploitation by money launderers, drug traffickers and even terrorist financiers. These sites evade rigorous U.S.-based regulations that control gambling by minors and problem gamblers and ensure the integrity of the games.

In October 3, 2001 testimony before the Financial Services Committee, Dennis Lormel, then-chief of the FBI's Financial Crimes Section, stated:

> Internet gambling and online capabilities have become a haven for money laundering activities. We believe there is a huge potential for offshore sites being utilized to launder money, and there are examples of pending cases, particularly in our organized crime program, involving enterprises using these types of services as conduits for money laundering.

In a March 2004 "International Narcotics Control Strategy Report," the U.S. Department of State expressed a similar concern:

> The Internet gambling operations are, in essence, the functional equivalent of wholly unregulated offshore banks with the bettor accounts serving as bank accounts for account holders who are, in the virtual world, virtually anonymous. For these reasons, Internet gambling operations are vulnerable to be used, not only for money laundering, but also criminal activities ranging from terrorist financing to tax evasion.

While the proponents of this bill have endeavored to refine and modify a previous legislative proposal that the Committee rejected on June 25, 2008 (H.R. 5767), H.R. 6870 remains a fundamentally flawed legislative product. Congress should stop meddling in the regulatory process and allow UIGEA to be fully implemented.

SPENCER BACHUS.

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