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A CASINO IN EVERY SMARTPHONE:

LAW ENFORCEMENT IMPLICATIONS

Wednesday, December 9, 2015

House of Representatives,

Committee on Oversight and Government Reform,

Washington, D.C.

The committee met, pursuant to call, at 1:24 p.m., in Room 2154, Rayburn House Office Building, Hon. Jason Chaffetz [chairman of the committee] presiding.

Present: Representatives Chaffetz, Mica, Jordan, Walberg, Massie, Meadows, DeSantis, Mulvaney, Buck, Walker, Blum, Hice, Carter, Grothman, Hurd, Palmer, Cummings, Maloney, Clay, Lynch, Connolly, Duckworth, Lawrence, Lieu, Watson Coleman, Plaskett, DeSaulnier, and Lujan Grisham.

Also Present: Representative Titus.

Chairman Chaffetz. The Committee on Oversight and Government Reform will come to order.

Without objection, the chair is authorized to declare a recess at any time. I appreciate the flexibility and your understanding, as we had votes on the floor. Almost every member has voted. There's 23 members that have not yet voted, but -- 21 now. I think it's important that we start this important hearing and I appreciate all of your presence and understanding here.

For more than 50 years we had in place what was called the Wire Act. The Wire Act had a prohibition on gambling. It's why you couldn't go down to your local bookie or go down to Western Union and start wiring money and betting on who knows what.

That was in place until Christmas Eve, the day before Christmas Eve in 2011. With no input from the public or notice to Congress, a single unelected lawyer in the Office of Legal Counsel of the Department of Justice released a 13-page memo reversing 50 years of Department of Justice precedent and an understanding that Congress had that the Wire Act was in place to prohibit the use of wires to engage in gambling.

The memo that was introduced declared that the Federal Wire Act applied only to sports betting and not to all forms of betting. This reverses what the Clinton administration, the Bush administration, the Carter administration, and others had

interpreted.

Now, certainly with the growth and the expansion and difference of the Internet is making on all of our lives, there was this interpretation that didn't come through Congress. It didn't get the proper vetting. There was not the recourse.

The point that I've made in sponsoring a piece of legislation that would take us back to restoring America's Wire Act is that if you want to see a change, if you like a different public policy, if you want to see things done differently, our Framers have put forward a process, and that is you introduce a bill, you fight for it, and you try to get it passed into law, passed through the House, passed through the Senate, and signed by the President of the United States. We don't simply make up laws by one attorney at the Department of Justice down in the bowels there at the Department of Justice. We don't erase laws. We shouldn't be creating laws. That's the whole point of this piece of legislation that I have.

Nevertheless, with this OLC opinion in place, it has created quite a stir, a lot of confusion, and, potentially, an awful lot of problems. The reversal that the OLC put forward was contrary to a plain reading of the statute, the intent of Congress in passing the law, and the longstanding position of the Criminal Division at the Justice Department. And the result is now anything connected to the Internet -- desktops, laptops, tablets, smartphones -- no matter your age, potentially becoming a casino.

I got a problem with that. I think the country has a problem with that. And it certainly needs vetting and discussion.

And, again, you want to make a change? Come to Congress, introduce a bill, and make a change. But don't just change the law based on an OLC opinion. In fact, I would argue that the law actually has -- this confusion by this OLC memo is causing a lot of problems.

I don't believe that the memo has the force of law, but there are some that are basing their -- placing their bets based on this interpretation. To those individuals, those corporations, you're creating an awful lot of liability for yourself and potential prosecution.

The other challenge that we face is that the Internet doesn't have neat walls around it. It's not like a physical facility that we can say: All right, it works just right here. For anybody to argue that the Internet can be walled off and used in just these certain boundaries, it's a joke. Come on. Nobody with a straight face is going to come before the American people and say: Well, the Internet, it's just for the people of Nevada; or it's just for the people of Rhode Island. You kidding me? You give me a good 18-year-old and about 36 hours and you can hack through just about anything.

So let's not pretend that the Internet is special for just certain people. It's one of the big moral challenges that we have, but it's also one of the challenges that we have to do in making

good public policy.

I believe the piece of legislation that I introduced, Restoring America's Wire Act, is a states' right bill. There are States, Utah and Hawaii in particular, that have no gaming. Right or wrong, whether you like it or not, the history of the State of Utah, the history of Hawaii is such that we have elected to have no gaming. We don't have a lottery. We have no Indian gaming. We don't have any gaming of any sort. I believe that's the purview of the individual State. If Nevada wants to have it, they made that choice. There are a lot of Utahans that will travel to Las Vegas or to Wendover, for instance, and go gambling. That's their choice.

But what I don't want is to have gaming coming to Provo, Utah, and Salt Lake City. That's our choice. That our State's right, to say: No, you're not going to be gaming in the State of Utah. That's our decision. And that is the states' right that by pushing gaming online we're having to deal with.

There is a concern that the OLC memo threatens the right of people in certain States to decide not to have gambling within their borders. And it's not just an issue for Utah and Hawaii. It is for other States as well. A bipartisan group of 16 State attorneys general wrote a letter to the leaders of the House and Senate Judiciary Committees in 2014 urging Congress to restore the decades-long interpretation of the Wire Act. They wrote, in part, quote: "The impact of the opinion which, in effect, opens

the door to the spread of Internet gaming will have a potential significant impact on State and local law enforcement," end quote. They went on later to say, quote: "Given the inherently interstate nature of Internet gambling transactions, we anticipate that it will become increasingly difficult to effectively regulate such conduct as additional jurisdictions consider legalizing Internet gambling," end quote.

Federal law enforcement officials have also expressed concerns of online gaming. For example, in 2013 the FBI stated, quote: "Online casinos are vulnerable to a wide array of criminal schemes." They went on to say: "And many provide more opportunities for criminals to launder illicit proceeds with increased anonymity," end quote.

I would note a Newsweek article that came out: "Department of Justice settlements regarding online poker are second only to financial institutions." Fines and settlements in excess of -- I believe the specific number cited in Newsweek was 1 billion, 27 million, 511 -- I'm getting the number wrong, but it's over a billion dollars, it's got a lot of digits to it -- it shows what a significant problem the Department of Justice is currently having with it.

Given the increased access and reliance on technology, Congress must do its job and understand the implications of this OLC opinion.

Let's also understand that you're not going to be able to

distinguish if it's a 7-year-old kid or somebody who's of legal age. The Internet that is used is not going to be able to distinguish the age of that person. When you go to a physical facility, you can pretty much get a guess and some people are carded and checked for their age.

We are raising a generation of children who are extremely comfortable with technology. They think nothing of picking up a smartphone or tablet and entering the information about their life into it. They grow up in a generation where these games, they think they're great, they're fun, where they're playing for coins, and they're spending a lot of money on Candy Crush and others, they don't necessarily know the difference between real dollars and fake dollars, real coins and fake coins.

The speed at which online casinos operate, coupled with their accessibility, availability, and anonymity make it clear we need to understand more about this problem. The Congress must ensure the law is clear and that some unnamed bureaucrat down in the bowels of the Department of Justice isn't making these important decisions. This is one person's opinion, but you can tell by the wide attendance at this hearing today it is affecting a lot of people.

There was no consultation with Federal law enforcement officials or with State or local law enforcement officials charged with enforcing the vast majority of the criminal laws, no opportunity for public comment, Congress was not made aware of

what the Department of Justice was doing. The OLC basically just decided, based on the placement, literally, of a single comma -- a single comma -- that the law didn't mean what everybody thought it meant for more than 50 years. The consequences were not considered.

Our goal at this hearing is to discuss what the Department of Justice Office of Legal Counsel failed to do. We'll hear from Federal, State, and local law enforcement officials who have expressed concerns with online gaming, including its potential to be used for money laundering, terrorist financing, fraud, and other criminal activity. In doing so, we'll respect the 10th Amendment and examine how the borderless nature of the Internet makes it difficult, if not impossible for States to effectively regulate online gaming, protect their States and their citizens within their borders.

I have taken an excessive amount of time. I appreciate the indulgence. I will now recognize the ranking member, Mr. Cummings, for his statement.

Mr. Cummings. Thank you very much, Mr. Chairman. I'm going to yield to Mrs. Coleman in a second. But I want our witnesses to understand that much of this is new to the Congress, and we want a full understanding of what is going on here. We're hearing from both sides, and they're coming at us with everything they've got. And what we seek is fairness.

We also seek information with regard to those States that

are already doing it. I am not of a belief that -- I don't have an attitude of cannot do. I say we can do if we have the will. The question is, is how does that play out?

And, you know, let's not kid ourselves. This is about money. Come on now. In some kind of way we've got to make sure that whatever we do is fair, is just. But, again, we want to hear both sides. As a lawyer for many, many years, I know that there's always another side. So, come on, let's take a look at both sides of this issue.

And so it gives me great pleasure, Mr. Chairman, to yield to my colleague, Bonnie Coleman, who hails from New Jersey. They have online gambling, and she voted for it, and she's been someone who has been extremely active and interested in this issue. And so I will yield the rest of my time to her, and keeping in mind, Mr. Chairman, that I hope that you will give her the same latitude that you would give me in that you used 10 minutes. I'm sure she has 8 more minutes -- 7 more minutes left. Thank you.

Mrs. Watson Coleman. Thank you to the ranking member, and thank you to the chairman. I do speak to you from a position of a little bit more knowledge and experience in this issue coming from the State of New Jersey.

The law enforcement implications of online gambling are an important policy consideration. However, the evidence clearly demonstrates that with proper regulation, instate online gambling poses no more challenges to law enforcement or risk to consumers

than brick-and-mortar casinos. According to the Department of Justice, instate online nonsports gambling is not prohibited by the Wire Act or other Federal gambling laws, so States may regulate online within their own borders.

Currently, the three States, New Jersey, Nevada, and Delaware, have asserted their right to allow regulated online gambling within their borders and have created strong regulatory structures to provide oversight and enforcement of their state regulations. As a member of the New Jersey State Legislature, as the ranking member mentioned, I had the opportunity to vote for my State's legislation that allowed regulated online gambling. I did so because I believed that that legislation offered the best opportunity to mitigate the risk associated with online gambling.

Since then, I've been pleased to see that our experience in New Jersey has proven that assessment to be correct. These three States have not seen an increase in law enforcement challenges or consumer risk related to regulated online gambling in their State. New Jersey's director of gaming enforcement reported earlier this year, and I quote: "From a regulatory standpoint, our system is working. There have been no major infractions or meltdowns or any systematic regulatory failures that would make any doubt the integrity of operations. The issues that have arisen have been dealt with appropriately, just like in brick-and-mortar casinos."

The Division of Gaming Enforcement also established a comprehensive, multifactor geolocation standard that cross references multiple location data sources and has the capability to determine if software is being used to hide a device's location.

Please take a look at the video screen.

[Slide.]

Mrs. Watson Coleman. This is a slide from the company that is used in New Jersey to enforce the instate online gambling requirement that play on licensed sites only occurs within the State of New Jersey.

Federal law enforcement entities have also not provided evidence of challenges related to regulated online gambling activities in those three States. This is contrasted with the significant challenges associated with unregulated offshore online gambling such as limitations on monitoring transactions and activity on offshore servers and low levels of international cooperation. The unregulated offshore gambling sites are not required to verify a player's age, identity, or location, and do not provide the significant evidence trail that regulated online gambling operations provide.

The National Fraternal Order of Police wrote in opposition to a ban of online gambling, describing the threats that exist in the unregulated online gambling arena. Not only does the black market for Internet gaming include no consumer protections, it also operates entirely offshore with unlicensed operators,

drastically increasing the threat of identity theft, fraud, or other criminal acts. There is also evidence that these gaming sites launder money for organized crime and help to finance terrorist networks, and I agree.

Any legislative attempts to ban online gambling will drive U.S. patrons to access the unregulated offshore gambling sites that pose greater risk to consumers. A Federal ban also interferes with a State's right to decide what gambling is permissible in its borders and the right to create a regulatory framework that protects its citizens.

The best way to protect our citizens and support law enforcement is to allow States to establish a regulated system of oversight and enforcement for online gambling that will help drive illegal operators out of the marketplace. And if they are looking to do so, if the State's looking to do so, New Jersey has set a model for regulation that protects its citizens. Other States that choose to allow online gambling can learn from that approach.

Thank you, Mr. Chairman.

Chairman Chaffetz. Thank you.

I'll hold the record open for 5 legislative days for any members who would like to submit a written statement.

[The information follows:]

***** COMMITTEE INSERT *****

Chairman Chaffetz. We'll now recognize our witnesses. We're pleased to welcome Joseph S. Campbell, assistant director, Criminal Investigative Division at the Federal Bureau of Investigation. Mr. Campbell began his career as an FBI special agent in August of 1990 and reported to the Chicago field office, where he investigated white collar crime, public corruption, organized crime, and various drug matters. He also had a distinguished career since then, having served in numerous important positions, including as supervisory special agent in the Counterterrorism Division, Weapons of Mass Destruction Operations Unit at the FBI headquarters, and head of the Joint Terrorism Task Force for the Denver field office.

We appreciate you being here because in September of 2012, Mr. Campbell was promoted to deputy assistant director of the Criminal Investigative Division. And I think you provide a valuable insight.

We welcome the Honorable Alan Wilson, the attorney general of the State of South Carolina. Mr. Wilson was elected South Carolina's 51st attorney general on November 2 in 2010 and reelected again in 2014. As South Carolina's attorney general, Mr. Wilson is the State's chief prosecutor, chief securities officer, and the State's chief legal counsel. Mr. Wilson joined the National Guard immediately after joining college. He was called to serve in Iraq where he led troops through Army fire and earned a combat action badge.

We thank you, sir, for your service to our country.

Today he continues his military service by providing legal support for soldiers and assisting the prosecution of military crimes as a lieutenant colonel in the Judge Advocate General Corps.

We thank you again for your service.

We're also pleased to have the Honorable Donald Kleine, Douglas County attorney in Douglas County, Nebraska. Mr. Kleine was elected Douglas County attorney in November of 2006. He was reelected again in 2010, and again in 2014. In his years as a prosecutor, Mr. Kleine has tried numerous high-profile criminal cases. He is on the faculty at Creighton University School of Law teaching the trial practice and criminal prosecution. He is a past president of the Nebraska County Attorneys Association and a member of the board of directors in the National District Attorneys Association.

We also are pleased to have the Honorable Mark Lipparelli, member of the Nevada State Senate. He has an extensive private sector background, having worked for some organizations, including Bally Technologies, Shuffle Master, Casino Data Systems, and in 2013 Mr. Lipparelli completed a 4-year term on the Nevada State Gaming Control Board, including his final 2 years as the chairman of that board.

We have a good panel. We look forward to a robust discussion. We thank you all for being here. But pursuant to committee rules,

all witnesses are to be sworn before they testify. So if you will please rise and raise your right hands.

Thank you.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Thank you. If you'd please be seated.

And let the record reflect that the witnesses all answered in the affirmative.

In order to allow time for members to ask questions, we would appreciate it if you would limit your oral presentation to no more than 5 minutes, despite the example -- well, I set. But be assured that your entire written record will be made part of the record.

Mr. Campbell, we'll start with you. You're now recognized for 5 minutes.

STATEMENTS OF MR. JOSEPH S. CAMPBELL, ASSISTANT DIRECTOR, CRIMINAL INVESTIGATIVE DIVISION, FEDERAL BUREAU OF INVESTIGATION; THE HONORABLE ALAN M. WILSON, ATTORNEY GENERAL, SOUTH CAROLINA; THE HONORABLE DONALD W. KLEINE, DOUGLAS COUNTY ATTORNEY, NEBRASKA; AND THE HONORABLE MARK LIPPARELLI, SENATE OF NEVADA

STATEMENT OF JOSEPH S. CAMPBELL

Mr. Campbell. Good afternoon, Chairman Chaffetz, Ranking Member Cummings, and members of the committee. Thank you for the invitation to appear before you today to discuss online gambling and the potential criminal activity that could arise within it.

As assistant director of the FBI's Criminal Investigative Division, the responsibility to manage, coordinate, and direct investigative programs focused on financial crime, transnational organized crime, civil rights violations, public corruption, crimes against children, and drug-related and violent crime, fall to the hard-working special agents and professional staff working with me. Together, we remain committed to the goals and vision set forth by FBI Director James Comey to uphold the Constitution and protect the American public from criminal wrongdoing.

We appreciate the committee's interest in the threat posed by online gambling, which can have connections to many other forms

of criminal activity. Illegal gambling businesses, specifically Internet sports books, have become increasingly popular in the United States, as well as abroad. The existence of these Web sites has grown exponentially over the past few years. The National Gambling Impact Study Commission reported illegal betting on sporting events in the United States is estimated to range between \$80 billion to \$380 billion annually.

The Federal Bureau of Investigation works hard to establish and maintain strong partnerships with both public and private entities in order to combat illegal gambling. One of our priorities has been to work with private sector partners like the American Gaming Association to publicize our Internet Crime Complaint Center, IC3. The IC3 is an online tool which allows the public to report tips about suspected online criminal activity, including illegal gambling.

Any discussion of issues concerning online gambling should include the potential for money laundering. Money laundering is rightly defined as any transaction that seeks to conceal or disguise proceeds from illegal activities. Thus, it is any act that converts proceeds gained from illegal activity into assets that appear legitimate. Money laundering can undermine the integrity and stability of financial institutions and systems, discourage foreign investment, and distort international capital flows.

We suspect online casinos are potentially susceptible to

criminal and money laundering schemes. Online gambling could provide criminal actors with the potential to be anonymous. The use of the TOR network, proxy servers, and encryption through virtual private networks could potentially conceal a player's identity, location, and true gambling activity.

Criminal actors could fraudulently manipulate games and conspire with other to use their online gambling accounts to transfer criminally derived funds to each other. A private tournament or game could create a platform allowing one person to transfer funds to another person. Once the private tournament is created, the criminal actor could raise their bet to the maximum permitted bet and then fold or intentionally lose.

The movement of funds which appears as gambling winnings to one and gambling losses to the other is simply a transfer of criminally derived funds. One of the goals of criminals who generate revenue from criminal activity is to launder their proceeds through our financial systems to make the funds appear legitimate. Criminal actors use numerous methods to launder their proceeds. One of those methods is through the use of casinos.

Internet-based casinos, like physical casinos, can be used to launder criminal proceeds. A person's online gambling account can be funded through various methods. Some of these methods include prepared cards, debit cards, credit cards, previous gambling winnings, or in-person presence at a physical casino.

An individual wishing to launder criminal proceeds by funding their online gambling account at the casino could structure their transactions in efforts to evade regulatory reporting.

Bank Secrecy Act regulations applicable to physical casinos also apply to legal online casinos. These Bank Secrecy Act regulations are designed to detect money laundering activity. Bank Secrecy Act regulations also require casinos to file BSA reports when the casino detects suspicious funding or gaming activity. The FBI reviews these reports regularly.

I thank you all again for inviting me to participate in this hearing today, and I look forward to taking your questions. Thank you.

[Prepared statement of Mr. Campbell follows:]

***** INSERT 1-1 *****

Chairman Chaffetz. Thank you.

Attorney General Wilson, you're now recognized for 5 minutes.

STATEMENT OF ALAN M. WILSON

Mr. Wilson. Thank you. Good afternoon, Chairman Chaffetz, Ranking Member Cummings, members of the committee. I appreciate the opportunity to be heard here today.

I'd like to preface my testimony with the reality that the 2011 Wire Act revision is one that should have been debated legislatively, not decided administratively by a DOJ opinion. Members of this committee already recognize that under our Constitution, particularly the 10th Amendment, the States have virtually exclusive authority over gambling. As the fourth circuit has held, "Gambling regulation is an area where States have much expertise and competence, and it lies at the core of a State's police power," end quote. Each State is entitled to decide for itself how or whether to regulate gambling or to ban it altogether.

This is the way our Founding Fathers intended the Constitution to work. The Federal Government should respect the rights of States, not destroy those rights. They should not legalize gambling activities the States make illegal. But the DOJ opinion strikes at the very heart of State powers. DOJ lawyers

cannot rewrite what Senators and Congressmen have enacted. The executive branch cannot supersede the legislative. The original Wire Act, with its respect for State sovereignty and prerogatives, should thus be restored so that casino gambling does not operate over the Internet in the States which have outlawed it in their communities.

In South Carolina, gambling is largely prohibited and has been throughout the history of our State. Our courts recognize that the public policy of the State is to prohibit gambling. In recent years my office, our State Law Enforcement Division, or SLED, and various local law enforcement agencies have had to combat short-term proliferation of Internet sweepstakes cafes which displayed Internet-based casino-like games on computer terminals in strip mall outlets, some of which even lured patrons with promises of free cell phones provided by the Federal Government.

Furthermore, South Carolina's experience with video poker was traumatic. Video poker became a \$2 billion industry in the State and carried with it such an addiction problem that there are stories where mothers have left children to die in cars while they played video poker. As a result of video poker, families were destroyed and gambling addictions proliferated exponentially. Robert Stewart, our then chief of SLED, even warned that video poker was bringing organized crime to South Carolina.

Despite South Carolina's continued best efforts over the decades to protect our citizens from the threats posed by gambling, DOJ's revised interpretation of the Wire Act has opened the door to Internet gambling, potentially turning any mobile device in our State into a virtual casino. What South Carolina's legislature has specifically shut down DOJ has reopened in another form with a single stroke of a pen.

As demonstrated in letters from governors and attorneys general to Congress on this matter, States are befuddled that a 180-degree turn in Federal policy on such an important issue was able to occur without public comment or input. Decisions with such broad national policy implications as the 2011 DOJ opinion, which abandoned 50 years of DOJ policy, should be debated by Congress, not left to a lawyer at the Justice Department operating within a vacuum.

This unilateral opinion has opened a Pandora's box of enforcement issues for States like South Carolina. Overnight, a DOJ attorney transformed casino gambling from a tightly controlled activity requiring interstate or international travel for South Carolinians to an app on a smartphone available 24/7 with the tap of a finger.

While it is reasonable to assume that one day in the future technology will be in place in virtual casinos to prevent these sites from being accessed in another geographic area, the reality is offices like mine charged with the responsibilities of

enforcing our own gambling laws and protecting the public cannot be expected to rely on the good faith of massive foreign-owned gambling companies licensed by other States.

Our system of government reserves intrastate matters, including the regulation of gambling at brick-and-mortar facilities and intrastate lotteries, to the States. But the Internet, as the Justice Department has successfully argued in the courts, is inherently interstate, and so are any gambling casinos offered online. States are ill equipped to enforce gambling laws against interstate and international companies, particularly given the technological vulnerabilities of the Internet and age and location verification mechanisms that are subject to compromise.

The 2011 DOJ opinion endangers citizens of States like South Carolina, especially our children. As a result of this opinion, States with strict laws prohibiting online gambling are forced to rely on the promises of foreign gaming corporations and the regulatory agencies of other States which have legalized online gambling, despite their best intentions.

If we have trouble protecting our children from cyberbullying and other Internet crimes-against-children cases, then how can we expect a State to protect our youth from the potential harm of putting an online casino in their pocket. This is why I appreciate this committee's thoughtful efforts to address this serious threat to the citizens of my State and of our country

and support legislation to restore the traditional interpretation of the Wire Act. Thank you.

[Prepared statement of Mr. Wilson follows:]

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Chairman Chaffetz. Thank you.

Mr. Kleine, you're now recognized for 5 minutes.

STATEMENT OF DONALD W. KLEINE

Mr. Kleine. Thank you, Chairman.

Chairman Chaffetz, Ranking Member Cummings, and distinguished members of the committee, thank you for giving me the opportunity to speak today about the challenges of local law enforcement and protecting our most vulnerable citizens from the dangers that lurk in the realm of online gambling.

I am the county attorney for Douglas County, Nebraska. Myself and other colleagues around the country, the local DAs, prosecute over 95 percent of the crime that occurs in America. Douglas County encompasses Omaha and much of its metro area and is home to over one-fourth of Nebraska's residents.

As this committee is well aware, prior to 2011 the Department of Justice interpreted the Wire Act to prohibit wagering of any kind over interstate telecommunications, including the Internet. The Wire Act essentially serves as a Federal prohibition to online gambling.

In 2011, DOJ revised its longstanding interpretation of the Wire Act to only apply to wagers placed on sporting events, opening the door to online gambling in States without any input at all from law enforcement. The FBI has warned Congress that

online gambling is uniquely vulnerable to criminal activity, but DOJ's dismantling of the Wire Act eliminated the risk of Federal prosecution for online gambling. This left policing of online gambling to State and local officials with limited resources.

For example, the Douglas County Attorney's Office, my office, has an annual budget of approximately \$8 million. We have 56 attorneys dedicated to prosecuting approximately 3,500 felonies that occur within Douglas County. Our office is largely focused on violent crimes rather than online gambling. Moreover, while some violations of Nebraska's antigambling laws are felonies, many are misdemeanors, making it even more difficult to devote precious resources to enforcement.

In addition to the limited resources available for enforcing the law, prosecution of gambling laws is especially difficult given that online gambling is inherently interstate and often has international implications. It has been my experience the law enforcement issues concerning in-person casino gambling are for the most part contained within the general vicinity of the gaming establishment itself. But online gambling easily crosses domestic and international borders and can often be accessed by anyone with Internet access.

Several countries have legalized online gambling, and companies house servers that are accessible to people outside the host country. The primary companies operating these online gaming sites are massive foreign companies against whom it would

be nearly impossible for my office, a local law enforcement DA, to bring charges. These companies recognize that criminal prosecution by local officials would be very difficult, which creates even more opportunities for these companies to defraud players, launder money for much more dangerous operations.

Even more troubling are the risks beyond illegal gambling associated with many online gambling sites. Credit card fraud, identify theft, and other financial crimes can occur when players disclose information that should be kept secure. Unlike other licensed and regulated activities, Internet gamblers often do not know who is operating the gambling site, if the games are honest, if the winnings will be paid, or if the money wager will be used for criminal purposes. Once an individual chooses to engage in online gambling activities, there are few remedies should they fall victim to a dishonest site.

The anonymous virtual nature of online gambling also increases opportunity to gamble more frequently. As I left my office yesterday, we had two new felony cases come in just from people who had gambling issues, and they obviously committed other crimes because of their gambling problems. As a county attorney, I have prosecuted numerous crimes stemming from gambling issues, including white collar crimes involving significant sums of money, to neglect cases from parents not caring for their children due to gambling issues.

Easy access to gambling is particularly dangerous to young

people, who are two to three times more likely to develop a gambling problem. The Mayo Clinic compares the physiological impact of gambling to the impact drugs have on a brain's reward system. From the mental and emotional perspective, pathological gamblers are at an increased risk to develop stress-related conditions, major depressive episodes, anxiety disorders, or substance abuse issues. Impulsive gambling can also lead to financial loss, increased crime, lost time at work, bankruptcies, strained relationships with family members, and even homelessness.

Finally, online gambling activities are extremely difficult to monitor because users can remain largely anonymous. Law enforcement often has limited tools to identify who is gambling illegal and from where they are engaging in the unlawful activity. Any smartphone, tablet, or laptop can be a vehicle for online gambling, and it is virtually impossible to pinpoint players who sign on from isolated networks.

Members of the committee, thank you for the opportunity to share my concerns with you today regarding the dangerous consequences of online gambling and the resources required to support a state-by-state regulating scheme. Law enforcement is charged with protection of our most vulnerable citizens, but we cannot be expected to accomplish this monumental task alone. We need the important resources and expertise of the FBI and Federal law enforcement to ensure those online gambling companies preying

on our citizens are brought to justice. Thank you.

[Prepared statement of Mr. Kleine follows:]

***** INSERT 1-3 *****

Chairman Chaffetz. Mr. Kleine, thank you.

Mr. Lipparelli, you are now recognized for 5 minutes.

STATEMENT OF MARK LIPPARELLI

Mr. Lipparelli. Thank you Mr. Chairman and members of the committee, for the invitation to speak today. I am Mark Lipparelli, and I was asked to present the result of the emphasis of my work for the past 7 years and my over 22 years of experience in the gaming technology field.

In January of 2009, I was appointed by the Governor of my State to the Nevada Gaming Control Board, and in January of 2011, I was elevated to the position of chairman. I also served on our State's Gaming Policy Committee that adopted support of regulated interactive gaming in our State. This is relevant because during my tenure on the Board, our State embarked on creating the first set of gaming regulations governing legal interactive gaming in the United States.

I concluded my tenure on the Gaming Control Board in October of 2012, and since that time have provided advisory work to a number of entities engaged in the gaming, technology, sports, and investment sectors. I'm also the cofounder of the International Center for Gaming Regulation at the University of Nevada, Las Vegas, and currently serve as a Nevada state senator. I would add that prior to serving on the Board, I spent 15 years

in senior management positions with some of the industry's leading gaming technology providers. The comments I make today are my own.

As you continue to review gaming and the related role of law enforcement, I can tell you confidently your committee is now in a position to benefit from a significant amount of deliberation and contribution from many well-informed and experienced operators, regulators, technologists, and industry experts. Unlike 2009, we are no longer in greenfield.

We have learned a great deal in the past 6 years. The creation of enabling law and regulation in three States and a large number of informed studies and debates, as well as, perhaps most importantly, the creation, testing, and deployment of many gaming systems throughout the world has created concrete knowledge that does now and should replace speculation. The healthy portion of the knowledge gained also comes from international markets that by our U.S. standards are not highly regulated.

From a regulatory and law enforcement perspective, Nevada, New Jersey, and Delaware have been successful. Where there were concerns over licensing, protecting children and the vulnerable, player protection, tax collection, money laundering, and geolocation, these States have had good success. I have provided further discussion of these items into my full remarks.

We know there have been many attempts to compromise these

systems, but those issues are being revealed, thwarted, evaluated, and, where warranted, new standards are implemented. This is a hallmark of gaming regulation of the traditional casino business.

I would provide praise to my former colleagues in Nevada for beginning this effort, and particular praise of the efforts of Dave Rebeck and the New Jersey Division of Gaming Enforcement. Unlike Nevada, where regulations currently authorize only online poker, New Jersey chose to implement all forms of gaming. This no doubt expanded the scope of the effort and the energy to get it right.

Like any innovation, ongoing diligence and continued product improvements will be necessary to meet the constant work of those who seek to compromise laws and regulations. The three existing U.S. markets and several regulated markets in Canada have now applied their knowledge to actual operations, and historical speculation has given way to their success and foundation knowledge.

Future regulatory agencies that consider igaming legislation will be subject to inquiry from those seeking clarity on the subject of licensing, product submissions, site approvals, employee registrations. These questions have been widely debated, tested, and largely addressed. To the degree possible, I have advised governments, law enforcement, and regulatory policy advisers to provide for a broad statutory framework but

leave the specific requirements to the regulations. This approach gives regulators, the experts in the field, more opportunity to adjust to changing technology and provide flexibility where appropriate.

Depending on the underlying products that may be introduced in the future, it is important that law enforcement and regulators strike an appropriate balance of clarity and regulatory policy. Where the intent is to allow full commercial-style casino games, a more robust form of oversight is likely warranted. Where there are other forms of online gaming entertainment that fall short of these definitions, lighter forms of regulation may suffice.

I have a couple concluding remarks. One, I would not leave this subject without specific reference to what I consider to be the much bigger policy challenge. In my opinion, illegal gaming operators need to be put in the spotlight. These operators continue to exist in the shadows and enjoy untaxed and unregulated operations.

This is an area where States that have authorized gaming and those that have not need to work together with Federal law enforcement to continue to reveal these rogue operators. It is a continual effort, but cooperation between all levels of government, financial institutions, and licensed operators is critical. If illegal nontaxing operators are allowed to freely compete untested with unregulated products, the playing field will remain unlevel and consumers will be unprotected.

Nevada, New Jersey and Delaware, as well as many test labs, have begun to reverse this trend. In the short and the long term, the lasting impacts on licensed operators will be significant. This knowledge must be shared with other States and the Federal Government as policies are shaped.

Number two, the pace of U.S. legalization has to date been modest. This has largely abated concerns 5 years ago that igaming would spread too quickly without proper oversight and without actual knowledge that it could be effectively regulated. Even with our law in Nevada in place for over 15 years, we remain only a poker jurisdiction, and several States, after study, elected not to proceed with igaming legislation.

Three, there's a host of attendant businesses that desire further clarity around igaming policy. These include financial institutions, handset providers, network providers, credit card issuers, and many others. In nearly every case, they too seek the advantage of legal markets and seek to avoid those who are not providing such clarity.

Four, technology innovation is taking place at a higher and higher speed and consumers are adopting mobile preferences. Newer technology to protect State choices on allowing or prohibiting igaming is getting stronger and more diverse. For example, the proximity of New Jersey to New York and Pennsylvania highlights these protections in operation.

Five, consistency in igaming regulation is very important.

The security of any system is made more difficult if we end up with an application code that varies widely from market to market. If policy changes are considered, this should be kept firmly in mind.

And lastly, you have no doubt heard and will continue to hear from those who suggest that the risks are simply too great or that you cannot be given complete assurance that legal igaming can be properly governed. As chairman, these concerns were very real for me. No other State had taken up the regulation of igaming, and we had a 75-year history to protect. My Governor, himself a former Gaming Commission chair, attorney general, and Federal judge, made it clear to me that outside risk was not in his or our State's interest.

However, after spending 6 years with experts in the field, developers of products, independent test labs, and regulators, from Alderney, the United Kingdom, Gibraltar, France, Italy, Malta, and the Isle of Man, Singapore, and many others, I can give you confidence that the regulated market model does work.

That said, you must be willing to accept that this market, like any market, is not entirely bulletproof prove. As markets grow, there will no doubt be challenges. I expect we will uncover new risks that we did not anticipate despite our exhaustive efforts. State regulators and independent test labs have and will continue to act to address those challenges.

Thank you very much for your attention. I am happy to answer

any questions you may have.

[Prepared statement of Mr. Lipparelli follows:]

***** INSERT 1-4 *****

Chairman Chaffetz. Thank you.

Before I get to our questioning, I have two UC requests. First, the chair notes the presence of our colleague, Congresswoman Dina Titus from Nevada. While she's not a member of the Oversight Committee, we thank her for the interest in the hearing topic, and I'd ask unanimous consent that Ms. Titus be allowed to fully participate in today's hearing.

Without objection, so ordered.

I also have a series of letters that I would ask unanimous consent to enter into the record letter. A letter from eight State attorneys general urging Congress to restore the longstanding interpretation of the Wire Act. A letter from the Nevada attorney general, Adam Laxalt, expressing the need for congressional review of the Wire Act and the 2011 OLC memo. A letter from 16 State attorneys general urging Congress to restore the longstanding interpretation of the Wire Act. A letter from Congressman Bill Young that was dated September 20, 2013, stating online casinos are vulnerable to a wide array of criminal schemes. A letter from the FBI to Congressman Spencer Bachus dated November 13, 2009, expressing concerns with online gaming, including its potential use for money laundering.

Individual letters from various governors across the country, all expressing concerns with online gaming and the need to address the Wire Act: Arkansas Governor Asa Hutchinson from Arkansas, Utah Governor Gary Herbert, Florida Governor Rick

Scott -- again, these are all individual letters -- Florida Governor Rick Scott, South Carolina Governor Nikki Haley, Texas Governor Rick Perry, Indiana Governor Mike Pence.

A letter from Congressman George Holding expressing concerns with online gaming. A letter from the Family Research Council expressing support to restoring the Wire Act. As well as a Newsweek cover story on the issue.

Without objection, I would like to enter these into the record. Without objection, so ordered.

[The information follows:]

***** COMMITTEE INSERT *****

Chairman Chaffetz. Now we'll get to the questioning. I would like to recognize the gentleman from Kentucky, Mr. Massie, for 5 minutes.

Mr. Massie. Thank you, Mr. Chairman. And thank you for holding this hearing.

Mr. Campbell, my first question is for you. Approximately how much of the FBI's budget is dedicated to regulating and enforcing laws on Internet gambling? What percentage, if you would, not asking for an exact number.

Mr. Campbell. I don't have with me the exact percentage related to the budget that we dedicate it to. However, I can tell you that --

Chairman Chaffetz. If you can move -- all of you, if you can that microphone up close and snug and turn it right -- there you go. Thank you.

Mr. Campbell. Okay. However, in regard to our investigations regarding this violation, it could cross a number of areas that of course are funded, such as transnational organized crime, potential terrorism financing, other criminal enterprises involved in it.

Mr. Massie. Speaking of that, have you prosecuted anybody for terrorism financing using Internet gambling as a nexus?

Mr. Campbell. We do have one investigation that we did conduct where the individual used, among other things --

Mr. Massie. Was there a prosecution?

Mr. Campbell. -- gambling for money laundering purposes and so forth.

Mr. Massie. Was it one of these Internet gambling sites in one of these three States that allow it?

Mr. Campbell. I don't have that information. I can provide you with more particulars on that.

[The information follows:]

***** COMMITTEE INSERT *****

Mr. Massie. How big of a priority is this and how prevalent of a problem is it compared to, say, terrorism -- for the FBI -- compared to terrorism, insider trading, counterfeiting, political corruption? Is it more important than any of those?

Mr. Campbell. Well, it fits into the priority in the sense that as we go after critical organizations that can hurt America -- and, again, whether those are transnational organized crime groups, other criminal enterprise groups, terrorism, et cetera -- we look for any and all violations that those individuals are involved in. And certainly if it involves online gaming, we're going to pursue that threat and fully investigate that aspect.

In addition, as information comes to us whereby online gaming may be occurring in an illegal manner or promoting those types of threats, we're going to drive most definitely as a priority.

Mr. Massie. But your testimony is that today, so far, you are not aware of any terrorism that's been financed using Internet gambling in any of the three States.

Mr. Campbell. As I said, I can take that back, and we can do some further analysis to determine --

Mr. Massie. But right now you're not aware of it.

Mr. Campbell. But as I sit here, I do not have that answer.

Mr. Massie. Mr. Campbell, following up, can't States just pass laws to prevent their own citizens from gambling on the Internet?

Mr. Campbell. Well, certainly it's up to the States to determine how they might want to police online gaming. From our perspective, we use a number of statutes, the illegal gambling business statute, Unlawful Internet Gaming Act, as well. The Travel Act, the money laundering statutes, bank fraud, wire fraud, mail fraud, et cetera. And we partner with States in investigations and prosecutions.

Mr. Massie. Attorney General Wilson, same question for you. Can't your State just pass laws regulating this in your State?

Mr. Wilson. It's my opinion that it would not be practical for States on a state-by-state and a quilt-like matter to pass laws on something that the Federal law has passed unanimously across all 50 States.

Mr. Massie. Is that because of enforcement?

Mr. Wilson. Well, it is very difficult from an enforcement purpose. I mean, it is extremely difficult to enforce.

Mr. Massie. Well, here's my concern. And my next question is for Mr. Lipparelli. I want to know if you have the same concern that I do that if we pass a national online gambling prohibition, under the presumption that it's necessary for Federal legislation to overturn -- essentially overturn State laws, to deal with a State problem on it, you know, because they don't want to do it on a state-by-state basis, couldn't that logic be used in the same way with gun control, for instance? Because if a State's allowed to sell guns in one State, that makes enforcement of gun

control laws in another State difficult. Isn't there sort of the same logic at play there? Or do you share that concern?

Mr. Lipparelli. I wasn't prepared to discuss gun control in today's hearing. But what I would say to that question is --

Mr. Massie. Well, let's just back it up to the 10th Amendment, then.

Mr. Lipparelli. Right. What I would say to that question are two things. State laws that exist today that either authorize or make illegal gaming operations apply every bit as much to something that is exposed on the Internet as it would be in a brick-and-mortar facility. For example, in the State of Nevada, you no more have a right to expose a gambling game on the Internet as you do going down the street and opening up a building without a gaming license. So those State laws apply regardless. And so that would be my response, is State law already prevails regardless of whether it's Internet or not.

Mr. Massie. So just in closing, I would say that I do have that concern, that if we use this logic at the Federal level that it's hard to enforce, for instance, gun control laws in one State so we have to have a universal ban, that seems like the same logic that we're using here by prohibiting Internet gaming. That is just my concern, Mr. Chairman. And thank you. I yield back.

Chairman Chaffetz. No, listen, I appreciate your thought on this. I know you care about this issue.

I would just add to my colleague that the Department of

Justice, second only to the financial sector, more than a billion dollars in fines -- a billion. So they are pouring an awful lot of resources into this, and there have been quite a few incursions in this category.

We now recognize Mrs. Watson Coleman for 5 minutes.

Mrs. Watson Coleman. Thank you, Mr. Chairman.

You know, the three States that have created a regulatory framework to allow licensed online gambling operators have already greatly reduced the risk of collusion of money laundering due to regulated sites.

So, Mr. Campbell, I need to ask you, has the FBI had any successful convictions of a regulated gambling operator, or have you seen an increase in criminal activity through the regulated gambling sites?

Mr. Campbell. So for the FBI, we're more concerned with those businesses that are operating illegally outright. However, we do look at information that we receive that could demonstrate that a regulated gambling business might be acting illegally. I think an important point to make is that individual subjects, criminals, could still be utilizing any legal gambling business for illegal activity, such as money laundering, and then to support other illicit criminal activity.

Mrs. Watson Coleman. Possibly. However, has the FBI any record of these instances that I've asked about?

Mr. Campbell. I don't have the specific details regarding

that. I can take that back and see whether that does in fact exist.

[The information follows:]

***** COMMITTEE INSERT *****

Mrs. Watson Coleman. And whether or not you've seen an increase in criminal activity on those sites.

The other thing, Mr. Campbell, I wanted to ask you, what are some of the challenges that the FBI faces in going after illegal online gambling schemes that are unregulated and offshore? And are there measures to counteract those challenges on the regulated sites?

Mr. Campbell. Well, certainly, as with any investigation, whether it's nationally or globally based, we're going to utilize all investigative techniques in order to gather information about what criminal activity may be occurring, which includes working with our State, local, Federal, and private sector partners, and even foreign government partners related to that particular threat. So regardless of the circumstance, we're going to apply the same techniques and utilize every capability to obtain evidence for a prosecution.

Mrs. Watson Coleman. I can appreciate that. So I just kind of want to, for the record, in that that might be the case, you have not come here today with any particular knowledge about problems of this nature in the three States that have the regulated online gambling and you would have to find out if there's such a record and let us know. Is that right?

Mr. Campbell. That is correct.

Mrs. Watson Coleman. Thank you, Mr. Campbell.

Mr. Campbell. I would have to provide you some other

information on that. That's correct, yes.

[The information follows:]

***** COMMITTEE INSERT *****

Mrs. Watson Coleman. With the little bit of time that I have left, I'd like to contrast the kind of challenges that have been discussed here by the panel with what happens when States do regulate online operations.

And so, Mr. Lipparelli, I'd like to know from you, from your experience, what controls are in place on regulated online gambling sites that make it easier to catch attempts at criminal activity like money laundering or collusion?

Mr. Lipparelli. It's a very fair question. One thing that is probably misrepresented too many times in the public is the U.S. regulated industry of igaming dramatically differs from our counterparts in most foreign jurisdictions. We set in place what many people in foreign jurisdictions criticize us as a very tight system.

So everything from player registration all the way down to player transactions is completely transparent to the regulator. So there is a relational database that identifies issues associated with potential fraud, collusion, player manipulation, credit issuance, the laundering of money.

It would be my considered opinion that if you were going to try to launder money, a legal regulated site would probably be the last place that you'd want to try to do that. From a law enforcement perspective, the tools we put in place are quite robust and would lead right to the doorstep of those that were using illegal site for those kinds of purposes.

Mrs. Watson Coleman. I know that no system can be perfect and no enforcement effort is actually perfect. But to your knowledge, are there sufficient layers of identification requirements that would ensure that an individual is playing from a legalized State in a State that has regulated gambling, a geolocation issue?

Mr. Lipparelli. There are, to answer your question directly and separately. Beyond that, it's not just simply identifying the IP address. The standards that I think were referenced by one of the witnesses here relate to very specific knowledge of the location of the transaction. It also incorporates tools that require users to disable certain functions on their computer so as to prevent people from disguising their location. If those applications are actually operating while the site is accessed, the site will deny access.

Mrs. Watson Coleman. Thank you.

Mr. Lipparelli. So there are number of technical standards that have been put in place and tested to prevent that from happening.

Mrs. Watson Coleman. Thank you, Mr. Lipparelli.

My time is up. Thank you, Mr. Chairman.

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[2:20 p.m.]

Chairman Chaffetz. Thank you.

I now recognize the gentleman from South Carolina, Mr. Mulvaney.

Mr. Mulvaney. I thank the chairman.

Thank you, gentlemen, for participating.

Alan, thanks especially for coming up. It's always good to have folks from back home contribute to this process. And thank you for your service to this State.

Help me, because when I heard you were coming up I was excited, but I didn't expect you to be on this side of this issue. You've taken some positions that I support in other areas, from health care, to gay marriage, to EPA regulation. You've been taking the position against Federal control, which I wholeheartedly support.

And I read your testimony today, not the stuff that you were able to get to when you opened, but your testimony has got some really good lines in it. "The members of this committee should recognize that under our Constitution, particularly the 10th Amendment, the States have virtually exclusive authority over gambling." "Each State is entitled to decide for itself how or whether to regulate gambling or ban it all together. Congress

has always recognized the preeminent State interest in gambling regulation." I could go on. And then to have you come up and take a position here that sounds like you're for Federal control, I can't square those two things.

I've got this last quote, which says that, "The DOJ opinion strikes at the very heart of...It should not legalize gambling activities the States make illegal." I get that and I agree with that, the Federal Government should not legalize stuff that the States have made illegal.

But I'm waiting for the other half of that statement, Mr. Chairman, which is, should the Federal Government also make illegal that which other States have made legal? And there are three States who have done this.

So help me square these two things.

Mr. Wilson. First off, let me say this. I'm not up here -- I'm not going to speak for anyone else today -- I'm not up here to say that gambling should be made illegal. I think if New Jersey -- my wife is from New Jersey, I love your State -- New Jersey or other States want to have a robust gambling industry, they should be free to pursue that. The members in this room who want that should be allowed to have it.

Mr. Mulvaney. But if the bill passes, that's why she's here, she's afraid if the bill passes she loses the right to do that.

Mr. Wilson. What we are talking about is interstate commerce, which Congress has the authority to regulate under

Article I, Section 8. There is no dispute up here that Congress can write the Wire Act, that Congress can regulate online gambling because it is interstate in nature. That is not the dispute. If --

Mr. Mulvaney. Alan, let me stop you there, because I think that's right, and I'm hopefully moving to an area we can agree on, because I am wondering if there is not a better way do what we want to do in South Carolina, where it's not legal, but still allow New Jersey and Nevada to do what they want to do, which is to use technology instead of regulation. If we can figure out a way to make sure that only New Jersey residents gamble online, in licensed New Jersey enterprises, using technology, isn't that another way to accomplish what you want to accomplish?

Mr. Wilson. I believe that if online gambling, if it is allowed by the Federal Government, you're basically putting a virtually floating casino over every State or in every pocket of every teenager or young person who wants to be able to access it.

Mr. Mulvaney. I get that, but in your testimony what you say is that the reinterpretation essentially allows States to operate online casinos in States like Nevada, Delaware, New Jersey without any assurance that these online casinos are not being accessed in States like South Carolina. You also say that the original Wire Act, with respect to states' rights and prerogatives, should thus be restored so that casino gambling

does not operate over the Internet in the State which have outlawed it in their communities.

And what I am asking you is, isn't there perhaps another way to prevent kids in South Carolina from accessing gambling sites, legal gambling sites in New Jersey, Nevada or Delaware, other than Federal regulation?

Mr. Wilson. And I don't know that that way exists. I heard Ms. Coleman eloquently say that she believes as a matter of policy that verification can be enforced. I saw the little points up there on the map. I don't know if those were 18-year-olds or people crossed the river to gamble. The point is, is that if you make online gambling legal at the Federal level, then you have basically legalized it in States where they don't want gambling at all.

Mr. Mulvaney. Your objection to this is not that the information might happen to cross state lines in the process of going over the Internet. That's not the issue here, right? It's the process of having a person in South Carolina access something in Nevada, that's the interstate nexus for you here, correct?

Mr. Wilson. Correct.

Mr. Mulvaney. So if we could figure out a way to fix that, I would simply suggest if there's a way to fix it through technology that Mr. Lipparelli has mentioned, maybe that is an alternative and less intrusive way to deal with the issue.

And here is why I care. And I have all the respect for my

colleague from New Jersey. But unbeknownst to you and maybe the other folks on the committee, in fact maybe folks on the committee here, she's introduced a bill that has a lot of similarities to what Mr. Massie mentioned earlier, which is to ban Internet ammunition and gun sales through a similar requirement to what you've just been talking about here, by making people actually show up in person to show their ID. I can't remember the name of the bill -- the Stop Online Ammunition Sales Act of 2015. And that's one of my fears here, is that they are asking you to instead of being consistent in the state rights position, they come out and say, well, here is a place where we really do need Federal intervention so that people in South Carolina can't access legal Internet gambling in Nevada, and then use it to say, oh, by the way, it really is hard for New Jersey to enforce our State laws on gun control because you can just go online and buy one in South Carolina. And that's what I'm worried about, is that we're going to go through regulation and expand the role of the Federal Government as opposed to limit it.

So, anyway, with that, I yield back the balance of my time.

Sorry. Go ahead.

Mr. Wilson. May I respond real quick? And, Representative Mulvaney, I agree with you on many of your points. I would just add that one of the points regarding -- what was the last comment you made? It was --

Mr. Mulvaney. Gun control.

Mr. Wilson. The gun control. I absolutely would be against that. I just believe at the end of the day that online gambling is a very unique industry and that when you make online gambling proliferate across the country, it is very difficult for States like South Carolina to enforce its gambling laws. I believe under the 10th Amendment States should be able to outlaw Internet gambling, but those States that want gambling in there can certainly pass those laws that allow it to occur.

Mr. Mulvaney. Last question, Mr. Chairman, I promise.

Chairman Chaffetz. I need to go to -- no, I need to go to --

Mr. Mulvaney. Oh, come on, you took, like, 10 minutes.

Chairman Chaffetz. I know. I didn't ask any questions.

So we're going to go to Mr. Cummings from Maryland.

Mr. Cummings. Thank you very much, Mr. Chairman.

I'm listening to all this, and if I were a judge listening to this, the first question I would want to get to is the bottom line. And what I said in my opening statement, it's about money. Would you agree that if we were to outlaw online gambling, that the bricks-and-mortar people would make more money? Anybody disagree? I don't see any disagreement down there.

And I guess the reason why I'm getting to go that is because, I mean, you know, we in the Congress, we are -- most of us -- well, some of us, but I don't -- have the kind of money that the big players are playing with. And we have to try to figure -- we're trying to figure out how to deal with this dispute. But there

are some things that are coming through from what you're saying that I think we can kind of get down to the bottom line of this.

It sounds like the issue of illegal gambling, which I don't think -- I think all of us want to get rid of illegal gambling -- it's one thing, Mr. Campbell. And my question is, so you don't feel that you have the tools to deal with illegal gambling? Hold that for a second, hold that.

And then I want to come to you, Mr. Lipparelli. Let me ask, with you it sounds like what you're saying, if we can steer more gamblers, in other words, if we're going to -- if we can -- if the States can do the regulating, then a lot of the problems that Mr. Campbell talks about should be resolved because you used the term relational database.

What he's talking about is information, and you're saying we're getting the information that would actually allow him to do a more effective job. Am I missing something? Because this is what seems like out of everything that you all have said, to me, this whole thing boils down to what I just said. Help me.

Mr. Lipparelli. Mr. Cummings, the requirements that we put in place were exactly that. If we're going to allow online gaming, there will be player registrations, there will be complete tracking of activity, so that to the extent these sites were ever to be used or attempted to be compromised, the audit trail or the transparency trail is there for the regulators.

So the quick answer to your question is, yes, we want players

to move to and off of illegal gaming sites. That's often missed in this discussion, is these illegal sites are readily available to all the U.S. public. They were available prior to 2011 letter or the opinion that was authored. They were available.

And by the way, the reference of the chairman with respect to the substantial fines that were paid were paid by people who broke the law who were illegal. Those weren't legal regulated sites that paid those fines, those were people that were trafficking in our country, in our States, who ran to the steps of the Justice Department and said, "We want to get right and we're willing to pay to do that."

Mr. Cummings. So now, Mr. Campbell, can you answer my question? I gave you some time to think about it.

Mr. Campbell. Certainly, sir. As I mentioned earlier, we use a variety of statutes to go after individuals and organizations that are involved in illegal online gambling. And then of course we use statutes, such as those and others, then to target those criminal organizations that are using online gaming to support other types of more serious and nefarious criminal activity, like human trafficking, like narcotics trafficking, corruption, that type of thing. So we use a variety of tools in order to target that particular threat.

Mr. Cummings. Now, going back, in 2011, going back to a point you made, Mr. Lipparelli, the Department of Justice Office of Legal Counsel interpreted the Wire Act to prohibit only sports

betting, based on the text of the statute and the relevant legislative history and other materials.

After that opinion was issued, some States legalized Internet gambling within their borders and regulated it. Some have questioned that legal opinion.

Now, Mr. Wilson, DOJ cited two conflicting court decisions. One was the Federal Circuit Court of Appeals case known as in re: MasterCard, I know you're familiar, which held that, and I quote, "A plain reading of the statutory language clearly requires that the object of the gambling be a sporting event or a contest," end of quote. The contrary position was taken by a lower Federal court in U.S. v. Lombardo. Is that right? Is that correct?

Mr. Wilson. I haven't read that case.

Mr. Cummings. Okay, no problem. DOJ took the position of the higher court citing the legislative history and a natural reading of the statute.

Mr. Campbell, some of today's testimony has criticized the DOJ opinion for opening the door for Internet gambling in the States, but illegal unregulated Internet gambling existed in the States well before the 2011 opinion and continues to pose a risk of harm to citizens. Is that correct? Is that correct, Mr. Campbell?

Mr. Campbell. Well, I can't speak to exactly the circumstances before 2011, but, again, we use a variety of tools to target that threat as it exists and as we receive that

information.

Mr. Cummings. But, Mr. Lipparelli, can you answer that by prior to 2011?

Mr. Lipparelli. Mr. Cummings, I would answer that by saying the opinions that people form about the 2011 letter, I think it mischaracterized in such a way that before 2011 there was a Criminal Division letter in the form of a 1-page letter sent to two different States that drew a different conclusion. The 2011 analysis by the OLC was a, I think, 16-page, fairly substantial opinion that interpreted the Wire Act. The decision of the Justice Department prior to that came in the form of criminal justice interpretations that came in the form of a 1-page letter.

In our State, even though we had that opinion as a criminal interpretation by Mr. Chertoff at the time, we no more had a sense of whether that was the only potential interpretation of the Wire Act and whether that would prevent us as a State from doing what we thought could be done legally. And you see the impact of that. In 2011, that opinion changed.

So I would say that there was a 1-page letter that interpreted the Wire Act one way and now a 16-page opinion that interpreted it a different way. Both of those were interpretations of an underlying law that a lot of people struggle with.

Mr. Cummings. Thank you very much, Mr. Chairman. Thank you.

Chairman Chaffetz. Thank you.

Members are advised that we have a vote on the floor. There are 11 minutes left. It's the intention of the chair to recognize Mr. Hice of Georgia for 5 minutes and then go into recess. We'll resume with the Democrats going first after the two-vote series.

So, Mr. Hice, you're now recognized for 5 minutes.

Mr. Hice. Thank you, Mr. Chairman. And I want to thank you for holding this hearing today and for each of those who are joining us on the panel.

Before I begin my questions, I've got to make it perfectly clear that personally I am opposed to all gambling in every shape, form, or fashion, be it in person or online or whatever it may be. Having been a pastor for over 25 years, I've personally seen the destruction of various addictions, and gambling being among them.

So this type of hearing puts me somewhat in a quandary to begin with because I am opposed to gambling all together. And I fully agree with Georgia's Governor, Nathan Deal, who has publicly opposed the construction of a casino in metro Atlanta, and who I also know for a fact opposes any lottery offerings that resemble casino games.

So I'm opposed to gambling. With that being said, I'm also a supporter of the 10th Amendment and our Constitution and the right of States. The fact is the people of Georgia voted to have a lottery, and there's no question that the Georgia Lottery has contributed over a billion dollars to the HOPE Scholarship and

pre-K education since its inception in 1994. No one can deny the contribution to those programs.

And I also know that the Georgia Lottery has been in recent years exploring online sales and, in fact, they have contributed and invested a considerable amount of money to ensure that those sales that customers make are in accordance with both State and Federal law.

So all that being said, my first question is really to each of you and a brief answer. But if the technology exists to ensure that online sales are kept away from minors and kept within the State of Georgia alone, why does the Federal Government have a role to play? Or does it?

I'll just start, Mr. Campbell, with you.

Mr. Campbell. Right. So I'm not here to take a particular position in regard to all the aspects of your question, but just, again, to reiterate that the FBI enforces the laws as they exist and as we receive information about criminal activity. That's really our role.

Mr. Hice. Mr. Wilson.

Mr. Wilson. The Wire Act was originally ushered in through the Kennedy administration when then U.S. Attorney General Robert F. Kennedy was the Attorney General of the United States in an effort to help States.

There is no violation of State sovereignty or 10th Amendment because Congress has the authority under Article I, Section 8

to regulate interstate commerce. A brick-and-mortar building --

Mr. Hice. I'm talking about in the State of Georgia, not interstate. If the technology is there to stay within the State, what role does the Federal Government have? That's my question. And please be quick, I've got just a couple minutes left.

Mr. Wilson. If it crosses State lines, an Internet transaction, you have a role in that regard.

Mr. Hice. That is not my question.

Mr. Kleine.

Mr. Kleine. Well, the very essence of what we are talking about here is the Internet has such interstate complications. As a local prosecutor, that's what we're looking for, is help from the Federal Government, to say, "Hey, we can't handle this." And I'm not aware of any way, if I said -- if Nebraska said, "We want to ban the Internet," there's no way it's going to happen, people are going to have access to the Internet. So we're looking for help here.

Mr. Hice. Mr. Lipparelli, what would you say?

Mr. Lipparelli. The technology exists to keep it within the State border. So in your direct question, surely is that there wouldn't be a role in that sense. There may be business ideas down the line that may incorporate multistate activities, but the quick answer to your question is they wouldn't have a role.

Mr. Hice. Okay. Mr. Campbell, are you aware of any circumstances where the Georgia Lottery has failed to complete

with State or Federal law?

Mr. Campbell. As I sit here, I really do not have any information about the Georgia Lottery in general, sir.

Mr. Hice. Okay. Well, my time a wrapping up. But it just seems to me that the Federal Government should not be dictating to the States how they operate their State lotteries or casinos, State-sanctioned casinos, if those States have chosen to go that route. And, I mean, we have got to protect the 10th Amendment whether or not we like the gambling issue as a whole. And, frankly, if there is any legislation that infringes upon states' rights in that regard, I believe it flies right in the face of our Constitutions and the limited powers that the Constitution provides.

So with that, Mr. Chairman, I thank you, and I yield back.

Chairman Chaffetz. Impressive timing.

The committee is with 5 minutes, 30 seconds left of the vote, the committee will stand in recess. We will return no sooner than 3:10, but be flexible as regards to -- be a little flexible in terms of when the vote series is concluded. We'll stand in recess and we'll be back and continue from there.

[Recess.]

[3:15 p.m.]

Mr. Palmer. [Presiding.] The chair recognizes Mr. Lynch for 5 minutes.

Mr. Lynch. Thank you very much, Mr. Chairman.

I have enormous respect for the chairman and the sponsor of this measure. I think, however, that we have different expectations of the result of what would happen if this bill were to go forward.

In Massachusetts, I use our own example, we have an excellent, a smart, hard-working attorney general who handles this matter for us, along with our secretary of state. And, unfortunately, I think if the measure went forward as written, it would take our attorney general and the other 49 attorney generals off the field basically, off the battlefield, and they would no longer be helping in this effort, as well as the secretaries of state that carry responsibility in some States and our gambling commissions.

So by preemption it would take that whole State framework off the field. And to be honest with you, I would rather see a situation where we had cooperation between the FBI and our State gambling commissions, our attorneys general, and to use the combined resources of those offices to get at this problem.

I think the end result of this legislation would basically be to push the gambling offshore. And that's what we have right now and we can't reach it. And so I think it creates a more

difficult problem. Again, I would rather see the FBI's office working together with our State officials, State attorneys general to get at this problem, and I think that would bring a better result.

Also, I know that some States are working very hard on this. I know that my colleague Ms. Titus from Nevada has put a lot of work on this, she has got some good experience on it. And I would say within this committee, within the Congress she's probably an expert on this. So I think a good use of my time would be to yield what time I have remaining, at least these 3 minutes, to Ms. Titus of Nevada.

Ms. Titus. Well, thank you very much, Mr. Lynch. Thank you for those compliments and for yielding. And I thank the chairman for allowing me to sit in on this committee.

As I've heard the testimony I have been pretty astounded that Mr. Campbell could come representing the FBI to talk about the problems of regulated Internet gaming and not be able to cite a single case in which has been the problem or give us any statistics that indicate it is a problem.

And, Attorney General, how you can use the 10th Amendment argument to say that Federal regulation gives you more states' rights is kind of jabberwocky to me. And also I wonder, if you're so concerned about somebody in Nevada -- I mean, in South Carolina -- gambling on a site that's located in, regulated by, and limited to Nevada, what you're doing to protect those

teenagers with a cell phone in South Carolina from gambling illegally and overseas.

But I'd really like to have my time spent by Mr. Lipparelli sharing with us how our extensive background in regulation of gaming in bricks and mortar has helped us to develop regulation for online gaming and to answer some of the questions where people say, well, if you're in South Carolina you can gamble on a site that is located in Nevada, how when you cross the line to California those sites turn off, how we can regulate those sorts of things. Would you lay some of that out for the committee?

And I would be glad to welcome any members of the committee to come to Nevada for a tour and a visit and see how this really does work.

Mr. Lipparelli. Thank you, Ms. Titus, for the question.

All of the gaming regulation that has been passed throughout the United States essentially have four tiers. I think it is important to highlight those. It is the statutory framework, the regulatory framework, and most people understand those two tiers pretty well. What many people don't realize, that below those tiers are a series of technical standards. And then beyond the technical standards are the interpretations of those technical standards by staff.

So to represent that someone can anonymously play on a regulated Internet site is completely inaccurate. You have full-blown registration requirements that mandate people turn

over Social Security numbers, personal identification. And by the way, all of their activity, all of their wagers, all of their deposits, all of their withdrawals, all of their head-to-head matches are all recorded within the system. So to suggest that regulated sites can operate in anonymity or without transparency I believe is completely inaccurate.

So in the case of illegal operators, that's very possible, and that's been part of my testimony, is you have this dichotomy of the illegal people that probably are exploiting customers in South Carolina and I'm confident that they are exploiting customers in every State in the country.

In the case of Nevada and New Jersey, and New Jersey's probably a better example because they've adopted all forms of gaming, those same stringent technical standards and rules interpretations apply. So the technical people that are assigned to approve these systems, this is a privileged industry and you don't just get your product approved because you submit it. The burden is always on the applicant to prove that their system meets the technical standards. So there is no free pass when it comes to deploying these systems.

Ms. Titus. Thank you.

Thank you, Mr. Chairman.

Mr. Palmer. The chair recognizes the gentleman from North Carolina, Mr. Walker.

Mr. Walker. Thank you, Mr. Chairman.

I am conflicted to some sorts as far as gathering all the information today, being a big believer in the 10th Amendment and making sure that we continue to operate with the individual liberty that the States so guide us to do so, or the Founding Fathers guide us to do so.

I am concerned about some statistics that I'm running across. In the past in doing some work, maybe some of our poorer communities, if you will, even some of the minority communities, I was alarmed to find out that nearly 40 percent of all online gamblers make less than \$50,000. In fact, 14 percent makes less than \$25,000. Are you aware of those statistics, any of you gentleman, have you done -- or you're just now hearing it? Okay.

Fifty-four percent of all online gamblers are minorities, which obviously this should cause us some concern because many of these wonderful people live in some of these poorer communities.

So I struggle with this, and I've got a couple questions I want to get to, but I do want to lay something out in my time that's allotted to Mr. Lipparelli. Several news sources have noted Senator Harry Reid's attempt to place a provision in the omnibus in the spending bill that would bail Caesars casino out of bankruptcy. Others have also reported on Caesars' need for more States to authorize Internet gambling so that Caesars can get more players on its New Jersey site.

So my question, so with the modified interpretation of the

Wire Act, is this what we're talking about? I guess the bottom line question is, are we talking about helping bail out an unprofitable casino?

Mr. Lipparelli. Thank you for the question, Mr. Walker.

The interpretation of the Wire Act has been a question before 2011 and it remains a question now. That is one of the areas in all forms of gaming development where that question constantly is brought to the table. You have a situation now where you have old law that hasn't kept up with innovation. So the question of that I think is irrelevant to anything relating to any one company's ambitions, that that interpretation of the Wire Act is the same interpretation today as it was yesterday, as it was in 2009, as it was in 2001 when we passed our law.

Mr. Walker. You may be correct. Time will tell. I can't imagine that Senator Reid would try to do that into the omnibus, but we'll see how that works out.

Mr. Campbell, is there a Federal agency that has the resources and personnel necessary to place a patchwork of State Internet gambling regulatory regimes, protect States that do not do not permit Internet gambling, and permit the use of Internet casinos and lotteries for moneys that are laundered or other criminal activities? Any information that you could speak to that?

Mr. Campbell. Well, again, I think it would harken back to statements earlier about the importance of the Federal agencies,

including the FBI, working with State and local agencies to identify where this illegal activity is occurring and combining resources to do so. I think a couple of cases that demonstrate effectiveness in that area, the Legendz Sports case out of Oklahoma, which was a 10-year illegal gambling activity, over \$1 billion, victimizing Americans involved in sports betting. And then also the Full Tilt Poker Sports case as well, where there was a seizure of over \$500 million related to that as well. And of course there were international ties to those cases.

So I think it's important that regardless of the landscape, where the threat occurs, and where illegal activity is occurring, by whatever individuals or organizations, it needs to be a combined effort by many agencies to target that threat.

Mr. Walker. Okay. Let me follow up. In your earlier testimony, I believe you mentioned something about the FBI may have an investigation involving online gambling and terrorism. It piqued my interest. Would you mind unpacking a little bit more about that case to the committee, whatever you can share, and why the FBI may be looking into such matters?

Mr. Campbell. Right. And we can provide you some more specifics on that in future.

[The information follows:]

***** COMMITTEE INSERT *****

Mr. Campbell. But that was an investigation involving an individual that was providing monetary support, and one of the methods for that was money laundering through online gambling. And so in regard to that particular threat, as the FBI pursues investigations and we're targeting our top threats, which could be within terrorism or transnational organized crime, we look for whatever tools those bad guys essentially are utilizing that can help promote their criminal activity to hurt Americans. So it certainly is a priority for us.

Mr. Walker. I'd like to have more time, but my time has expired. Thank you, Mr. Chairman, I yield back.

Mr. Palmer. Thank you, Mr. Walker.

The chair now recognizes Mr. Lieu from California for 5 minutes.

Mr. Lieu. Thank you, Mr. Chairman.

Thank you, Mr. Wilson, Mr. Kleine, for your public service. Thank you for your testimony today. And I have no doubt you believe in your testimony, but I do need to point out that parts of your testimony were simply wrong when it comes to technology.

Mr. Kleine, you had testified essentially that any smartphone can be used for online gambling. That's virtually impossible to pinpoint location.

And, Mr. Wilson, you said essentially that any smartphone can you used as a virtual casino.

The notion that you can't pinpoint location is simply

incorrect. Just look at GPS next time on your smartphone, it will tell you where you are relatively accurately. And if you have lots of folks who are using these devices, they are going to be able to do it within their own State, but not outside the State in terms of online gambling.

When you look at the programs that these States have put in, they are relatively effective. So we have a video that we're going to show from one such geolocation company, it is called GeoComply. We're going to show it. It's about a minute and a half.

And as it's cuing up, I do want to know, the notion that you have ordinary South Carolina citizens who are somehow playing a Las Vegas online casino has no basis in reality or fact, and that's because they can't access that. Las Vegas and Nevada will block these things. So will New Jersey.

So we're going to show this one for GeoComply, which New Jersey uses. And if we want to run the video, that would be great.

[Video shown.]

Mr. Lieu. Thank you.

My colleague Mr. Mulvaney earlier today asked is there a less intrusive way to solve this problem. We just showed it to you. And there are ways to make sure that folks are not playing illegally.

Now, is it possible that a very smart hacker could spend countless hours trying to hack into one of these systems? Sure,

anything is possible. But then we have got much more to be worried about, about that hacker than if that person from South Carolina wants to play, for example, the Illinois State Lottery online.

And then let me ask some questions for Mr. Lipparelli. In Nevada, for someone to actually play online, they've got to give their name, their address, their driver's license, their bank account, and a whole host of our information, correct?

Mr. Lipparelli. That is correct, sir.

Mr. Lieu. But if they walk in a brick-and-mortar casino they can walk in, put \$5,000 on black on the roulette wheel, win, and then walk out without giving their name or address or driver's license, correct?

Mr. Lipparelli. They can do that, but the marketing department at the casino would more likely track them down and try to get that information from them.

Mr. Lieu. Right. So let's say they win a thousand. Now, based on what you said earlier, it seems like with online regulated gambling you have far more information on who it is, what their bank account is. So they, in fact, were not anonymous. In the same way we don't say online banking is anonymous, we don't say online stock trading is anonymous.

This is not anonymous, this is almost the exact opposite. You have so much information about these people who are online gambling that this is exactly what law enforcement wants. And I do want to suggest that what some of the witnesses are arguing

today are essentially that South Carolina should decide what the over 49 States should do, that is wrong, that violates the 10th Amendment.

And with that, I yield back.

Mr. Palmer. The chair now recognizes the gentleman from Wisconsin, Mr. Grothman.

Mr. Grothman. Sure. First for Mr. Campbell, just hypothetically. Do you think States should have the right to set the gambling policy within their own borders?

Mr. Campbell. I really can't speak to that. Again, we simply pursue our investigations based on existing Federal statutes. I would defer to our partners from the States in regard to that answer.

Mr. Grothman. Okay. Well, I'll ask you all. This is for any one of the four of you to step forward.

I think the problem we address is a lot of States want to limit gaming, and they want to limit gaming kind of for the reasons that Congressman Walker said. They feel that it's something that takes advantage of the poor, people who for whatever reason have a weakness, and results in messing up their lives financially.

Now, the last question pointed out there's all sorts of information being gathered. Do any of you have anything that you would like to add to my last comment? I mean, in your positions do you see people mucking up their lives because of Internet gaming? Do you have any anecdotal evidence or real evidence you

can tell me about? Any one of you four. Who is ever the most aggressive can go first.

Mr. Wilson. I don't know if I'm the most aggressive, but we have seen anecdotal evidence in South Carolina through a lot of the sweepstakes situations we've had. We obviously had video poker back in the '90s. Anecdotal evidence, children were left in cars who died because the mother was in there gambling for hours at a time.

I would like, if I may real quick, and I respect Mr. Lieu who give his little video presentation, I'm not here today and I confess I'm not prepared to litigate or debate whether or not what he put in that video is provable and defensible. But what I can say is, is that it is not a violation of the 10th Amendment when Congress has the authority to regulate online gambling under the Commerce Clause.

For 50 years the Wire Act, Wire Act enforcement and precedent has kept gambling out of the air and on the ground where States could better regulate it, whether they prohibit it or regulate it or support it. When the prohibition was removed unilateral by a lawyer at the Justice Department they put it up in the air as well on the ground where States can't regulate it as easily.

Removal of the online gambling provision of the Wire Act has eroded the States' ability to prohibit or regulate however they want the gambling in their States. And so my comment to that is, if we don't past RAWA and no one here codifies what was in

that legal memorandum, then that legal memo amended Federal law, they legislated from the Justice Department, and that is only something that this Congress can do.

Mr. Grothman. As a practical matter -- well, first of all, do any other folks have anything to say on my question? No, okay.

So I'll give you this question. As a practical matter, as this is left hanging out there, do you believe this is resulting in a significant increase in gaming in States whose public policy is probably to discourage that gaming?

Mr. Lipparelli. Well, sir, I can take a stab at that. The legalization of online gaming in Delaware, Nevada, and New Jersey, there's lots of debate about whether those are overlapping players or not. I would tell you that the growth in online gaming on illegal sites occurred without respect to any policy position taken by any government official. It grew out of just the natural evolution of technology being exposed to patrons.

So do I believe more people moved to mobile forms of gambling that were made available by illegal operators? I absolutely believe they did. That's why in our State and many of the people in our industry want to see that become what we traditionally support, which is forms of regulated industry that are subject to fair forms of taxation and oversight.

Mr. Grothman. Okay. I'll ask Mr. Kleine one final question.

You're here today, and I assume you're here today because

you have an interest in this topic. Anecdotally, in your State, has this loophole or new rule or whatever you want to call it, do you believe it has resulted in more gaming in Nebraska that wouldn't have happened otherwise?

Mr. Kleine. Yes. Anecdotally, I will say that certainly we have seen people who have problems with gambling generally, to your question earlier. But is there a greater propensity if people have access? Sure there is.

And to your point, to the Congressman's point about geolocation, that's with regard to regulated areas. We're still not talking about the illegal gambling sites that may be in another country or whatever that people have Internet access to it. And my understanding is this would give the FBI or the Justice Department the ability to go after those folks. We're still talking about the enforcement perspective about people who are doing illegal operations, and that's what we're looking to, is how do we enforce the law. And we need a law to be there to be able to be enforced. Do you see what I'm saying?

Mr. Grothman. Right. And apparently Nevada has the opinion that, you know, the more the better, as long as it's regulated. But in Nebraska, you as a State, you gambling is something that takes advantage of people's weaknesses, and you are familiar with examples of people's lives who have been --

Mr. Kleine. Sure. We don't have casino gambling in Nebraska. There is casino gambling in Iowa, which is right across

the Missouri River from Omaha. We have a multitude of cases, criminal cases that come out because of the issues that are caused when people go over and blow all their money in the casinos in Iowa.

Mr. Grothman. It is Iowa, what can you expect?

Mr. Kleine. Right.

Mr. Grothman. Okay, thanks.

Mr. Kleine. Sure.

Mr. Palmer. The gentleman's time has expired.

The chair now recognizes the gentlelady from the Virgin Islands, Ms. Plaskett.

Ms. Plaskett. Thank you, Mr. Chairman.

Thank you, Ranking Member.

And thank you gentlemen for testifying on this very important issue and attempting to give us some insight and clarification as to your interpretation of the import of online gambling and where in fact the line is clearly drawn.

So I have an interest in this because in 2001 the United States Virgin Islands passed the Internet Gaming and Internet Gambling Act, and over the past decade the Government of the Virgin Islands has really been handcuffed by incorrect interpretations, they believe, of the Wire Act. And I believe that if the act was allowed to be implemented and regulated properly, much needed revenue might be brought to many different States that have this law in its place.

So I was really interested in a much more historical look back on how this came about. I've worked at the Department of Justice, worked in the Deputy Attorney General's Office, and understand how long it takes for an opinion to come out of Legal Counsel, the department of Legal Counsel. So the idea that that was drafted and written and signed in middle of the night to me is somewhat a difficult stretch of my imagination knowing the inner workings of the Justice Department and how long it takes for an opinion to come out.

So I wanted to look at the interaction between the Justice Department and Congress over the many years in which before that opinion was drafted.

So, Mr. Kleine, I understand that in 2002 there was a case called in re: MasterCard in which the fifth circuit appellate court ruled that the Wire Act applied only to online sporting betting. Is that correct?

Mr. Kleine. That's my understanding.

Ms. Plaskett. Okay, that's your understanding. And that the fifth court made that decision, that would have been 9 years before the Department of Justice's legal opinion, correct?

Mr. Kleine. That's also my --

Ms. Plaskett. Okay. And since then, during that time, 2009, even before that Congress has weighed in pretty consistently on this issue, up until now, that there seems to be some question about it.

So, Mr. Wilson, were you aware that between 1996 and 2006 Congress passed a series of bills to update the Wire Act and made it clear that the act should not apply to online casino operators duly licensed by a State to offer casino games to people located in those States?

Mr. Wilson. Into which, I'm sorry, which States?

Ms. Plaskett. To any State. This was an act passed by Congress.

Mr. Wilson. No, I'm not.

Ms. Plaskett. Okay. Are you aware that Representative Goodlatte in the 106th, 107th, 108th, 109th Congress offered legislation on this matter, Senator Jon Kyl, Representative Leach as well?

Mr. Wilson. No.

Ms. Plaskett. Okay. And that even though none of these laws was enacted, the passage of those bills in both congressional houses gave clear evidence, I would think, that there is congressional intent on this matter.

So in 2006 Congress enacted the only law that deals directly with Internet gaming. Are all of the witnesses, are you familiar with the Unlawful Internet Gambling Enforcement Act, otherwise known as UIGEA? Are you all aware of that? I take that as a yes?

Mr. Wilson. Yes.

Ms. Plaskett. Okay. I don't want to go into lawyer mode. Okay. Thank you. So I'd ask that the record reflect that all

of the witness said that they're aware of that.

And I have a slide that I'd like to show.

[Slide.]

Ms. Plaskett. Here is what UIGEA said, that the term unlawful Internet gambling does not include placing, receiving, or otherwise transmitting a bet or wager where a bet or wager is initiated or received or otherwise made exclusively within a single State.

And then it goes on to say the bet or wager and the method by which the bet or wager is initiated and received or otherwise made is expressly authorized by and placed in accordance with the laws of such State.

And finally, and the law -- State law or regulations include age and location verification requirements reasonably designed to block access to minors and persons located out of such State, and appropriate data security standards to prevent unauthorized access by any person whose age and current location has not been verified in accordance with such State laws or regulations.

Mr. Lipparelli, is that the correct pronunciation of your name, sir?

Mr. Lipparelli. Yes, it is.

Ms. Plaskett. Okay. I'm pretty sensitive to that myself. Is it clear to you from the reading of this law that Congress never intended to ban States from authorizing and regulating online gambling within their own borders?

Mr. Lipparelli. The language debated in and around UIGEA was intense, and I believe you're correct that that was the intent.

Ms. Plaskett. The final intent and what the language of the law itself says.

Mr. Lipparelli. Yes.

Ms. Plaskett. And so, Mr. Lipparelli, did the State of Nevada consider this language in drafting its regulations?

Mr. Lipparelli. It did. And I would remind the committee that we actually passed our State law back in 2001, so the adoption of UIGEA actually was part of what informed our regulatory structure. The regulations are controlled by our Nevada Gaming Commission. So clearly they, at the advice of our attorney general, considered the elements within UIGEA when we adopted our regulations.

Ms. Plaskett. So this legislation, which was passed, incidentally, in a Republican-controlled Congress and signed into law by President Bush, that the Department -- it was -- were you aware this was -- this precise language of UIGEA is what the Department of Justice Office of Legal Counsel utilized in determining that it was needed to update DOJ's position to conform with Congress and with the courts?

Mr. Lipparelli. I believe that's correct.

Ms. Plaskett. Okay. I think that I have in fact run out of time, but I will ask that the record remain open that I could put the rest of my testimony into the record.

Mr. Palmer. Without objection.

[The information follows:]

***** COMMITTEE INSERT *****

Ms. Plaskett. Thank you.

Mr. Palmer. The chair recognizes the gentleman from Colorado, Mr. Buck.

Mr. Buck. Thank you, Mr. Chairman.

Mr. Campbell, are there other statutes that the Federal Government could use to prosecute the unregulated illegal online gambling?

Mr. Campbell. Yes, that is correct. We use the Illegal Gambling Business Act, the Travel Act, various money laundering statutes, bank fraud, mail fraud, wire fraud, among others, in order to target that type of threat, and of course organizations and individuals involved in that activity.

Mr. Buck. And what's the purpose of the Wire Act being used in this way then?

Mr. Campbell. I can only refer to the opinion itself and the Department's interpretation of the statute.

Mr. Buck. Is there evidence of any regulated entities using the gambling opportunities for money laundering?

Mr. Campbell. I'm sorry, the regulated --

Mr. Buck. The online gambling.

Mr. Campbell. Well, there is evidence of criminals utilizing those forums potentially for money laundering activity.

Mr. Buck. Have you prosecuted any cases? Has the Department of Justice brought any cases based on that theory?

Mr. Campbell. I would have to refer to them and maybe provide

some other information related to that.

[The information follows:]

***** COMMITTEE INSERT *****

Mr. Campbell. I'm not -- as I sit here, I can't define specific cases involving the money laundering aspect.

Mr. Buck. And are there cases that criminals have used brick-and-mortar casinos to launder money?

Mr. Campbell. Again, I'd have to refer back to provide you information regarding that.

Mr. Buck. Well, I can answer that one for you. I prosecuted some of those. So it has happened at brick-and-mortar casinos. Why would you need this statute then? Why couldn't you use other statutes to prosecute these cases if you can in other -- in the brick-and-mortar situation?

Mr. Campbell. Well, certainly we are utilizing these various statutes, that's correct, in regard to any criminal activity, illegal activity relating to gaming. That is correct.

Mr. Buck. Mr. Wilson, do you worry that if the Federal Government goes down this path that the Federal Government could also go down the path of legalizing gambling in all States?

Mr. Wilson. I mean, I suppose I haven't put much thought into them legalizing gambling. That's always been the policy of them, to leave that solely within the purview of the States. That's always been the policy of the Congress, is give great deference to the States in how to regulate gambling. I don't see that changing, but --

Mr. Buck. Well, you're seeing it change now. I mean, we're having a hearing based on --

Mr. Wilson. I'm seeing an erosion, yes, sir.

Mr. Buck. Okay. I yield back my time, Mr. Chairman.

Chairman Chaffetz. Will the gentleman yield?

Mr. Buck. Yes.

Chairman Chaffetz. Just to answer the question, I would like to ask unanimous consent to enter into the record a Washington Post article. It is a little bit older, but it says: "Three worked the Web to help terrorists." One line from the sentence: "Authorities also say the men laundered money from stolen credit card accounts through more than a dozen online gaming sites."

I ask unanimous consent to enter that into the record.

Mr. Palmer. So ordered.

[The information follows:]

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Mr. Palmer. The chair now recognizes the gentlelady from New York, Mrs. Maloney.

Mrs. Maloney. I thank the chair for calling the committee and for all of the panelists on this important issue for being here today and testifying.

I would really like to focus on the law enforcement aspect of this. And the National Fraternal Order of Police submitted a letter to the committee expressing their law enforcement perspective on regulating online gambling. And I would like unanimous consent to place their letter in the record.

[The information follows:]

***** COMMITTEE INSERT *****

Mrs. Maloney. And I'd like to quote from the letter. It says, quote: "It is imperative that States be able to reserve the right to create a strong regulatory framework to allow law enforcement to successfully protect consumers and to drive illegal operators out of the marketplace."

So, Mr. Lipparelli, as you have experience in this area, would you agree that a strong regulatory framework for online gambling would support law enforcement efforts, consumer protections, and drive illegal operators out of the business and the marketplace?

Mr. Lipparelli. Clearly, I believe that should be the priority of both State and Federal law enforcement. This was an issue prior to our State's legalization and regulation of online gambling, and it only became more apparent once there was economic interests quote/unquote, in the game, where they, themselves, were able to analyze the impact of those operating illegally without paying taxes and registering customers without any form of serious confirmation. So, clearly, the answer to that is yes.

Mrs. Maloney. Okay. Mr. Campbell, I'm guessing or assuming that a strong regulatory framework aids the FBI's efforts if investigating a player or transaction related to a regulated online gambling operation or platform.

Mr. Campbell. Well, certainly both statutory law and regulation can have an effect in regard to ensuring operators continue their operations within the law. That is true.

Mrs. Maloney. And, Mr. Lipparelli, some States have concerns about the difficulty and cost of regulating online gambling within their State borders. Can you please share some insight from your experience in Nevada drafting the State regulations for oversight?

Mr. Lipparelli. I can certainly speak to our experience in Nevada. I was chairman at the time we adopted these regulations. And at that moment in time we added no new resources in terms of human capital to our agency. We did it within the confines of our existing staffing levels.

It's an important question. There was, I believe, some cyber resources added in our just-passed legislative session. I think the better question with regard to that relates to empowering law enforcement potentially in other ways to potentially go after the illegal operators. There are State laws on the books today that clearly delineate those as illegal activities, so there are tools in place already. But if there is a desire to enhance that capability, you won't get any disagreement from me.

Mrs. Maloney. Okay. And how were you able to design a regulatory structure that was easy to implement the various oversight and enforcement aspects and manage the costs?

Mr. Lipparelli. I don't want to represent in any way that it was easy. I would concur. I would also suggest that my colleagues in New Jersey at the time would probably also not call

it easy. Any regulation of any new technology presents questions, concerns by the incumbent players. But this has been the hallmark of gaming regulation since the late '70s. In the 1950s that foundation was laid. But beginning in the 1970s and after, when technology really started to affect our business, each and every time we've taken evolutionary steps -- for example, slot machines used to be mechanical devices, then they became proprietary software written only by the people who supplied that. Today most of it is PC technology. That's an example of the evolution of the technology.

Each one of those presents risks and uncertainties. But in each case I think the gaming regulators rose to the occasion, created the right technical standards. And often we overcorrect and then back off.

So I wouldn't characterize any of the work that my colleagues have done over the years as easy, but they have great experience in doing it.

Mrs. Maloney. Well, do you think that Nevada's experience and Nevada's regulatory standards could be used as an example for other States?

Mr. Lipparelli. Well, clearly, I made those comments in my prepared remarks. If compliance is the goal -- and if you talk to any regulator, that's always their desire, right, we want our regulated people to comply with the rules and the regulations -- any time you diverge, having wildly different

standards from State to State, that creates potential conflicts and issues.

So to the degree that regulators cooperate, which they often do, the industry, the players, the State, everyone benefits from that. Wildly different standards can create issues. But generally speaking, many States, Nevada, New Jersey, Pennsylvania, Mississippi, have all been very cooperative, and the independent test labs also contribute to that base of knowledge that says, what's the most efficient way to regulate, what can create the outcome?

And we're constantly at that effort. It never goes away. Every time a new piece of technology comes along, it presents new challenges. And I think the industry, to its credit, deserves praise for the fact that you don't see widespread scandal in our industry. I think that's something to be proud of.

RPTR YORK

EDTR CRYSTAL

[3:54 p.m.]

Mrs. Maloney. I would agree with you.

My time has expired. Thank you very much.

Mr. Palmer. I now recognize myself for 5 minutes.

One of my concerns is the harm that Internet gambling will cause, particularly for adolescents. There's numerous studies that indicate there's much higher rates of harm for adolescents. There's a much higher prevalence of disorders among adolescents as a result of gambling. Adolescent gambling is linked to deviant behavior. A few years ago, the National Academy of Pediatrics published a research paper and said that there's a pandemic of gambling addiction, not an epidemic, but a pandemic of gambling addiction among adolescents. And you talk about being able to control access across State lines.

One of the things that I would like to explore here is what is the legal liability that parents might have for their children if they've gotten addicted to gambling or if they've spent enormous amounts of money gambling?

Mr. Wilson.

Mr. Wilson. I would argue that would be fact specific. I mean, we have laws in South Carolina, contributing to the delinquency of a minor, and obviously that would be fact specific

as to what the parent was doing in relation to the child and were they putting them in that position, were they encouraging it. It's very fact specific. But, yes, it could actually exist in South Carolina where there could be some criminal liability on part of the parent.

Mr. Palmer. How about civil liability?

Mr. Wilson. I would argue -- I'm not a civil attorney, but, yes, I think you could have civil liability.

Mr. Palmer. And there's examples of this already. The FTC won a \$325 million settlement from Apple because the company billed consumers for millions of dollars in charges incurred by their children who were using mobile apps without their parents' consent. And one of my concerns is there's nothing to prevent a nonparent, even a nonfamily member, to give a minor access, you know, log on to an Internet casino on the phone, give them the phone, or for them to get access to an adult's logon information.

And, you know, when you're talking about South Carolina didn't want it in South Carolina but North Carolina did, is it the State's responsibility, North Carolina, to control that? Again, is that going to be something that just has to be litigated in civil cases or is there a criminal issue here?

Mr. Wilson.

Mr. Wilson. I'm trying to understand the question, Mr. Chairman.

Mr. Palmer. What are the limits? You know, how does one State protect itself from another State that has introduced something that is clearly hazardous to people?

Mr. Wilson. It is very difficult, and it is undefinable. I don't think, if I had the balance of your time, I would eat that up and a lot more. I don't know how I could define that. But it would be extremely difficult to guard against that between interstate laws and policies.

Mr. Palmer. Let me ask you this, then, General Campbell. Should online gambling proliferate in the U.S., as it is expected to as a result of the OLC opinion, do you believe the burden of enforcing the newly established laws -- and this is Mr. Campbell, I'm sorry -- and regulations in multiple States will be a drain on your current resources?

Mr. Campbell. We're still targeting the most significant threats. So, regardless, we're going to commit the resources that we have available against those top threats and where appropriate, partner with our -- with other State authorities.

Mr. Palmer. Do you -- or you, General Wilson -- believe that the Department of Justice took into consideration the right of American families to keep online casinos out of their homes and off their children's cell phones and tablets and laptops?

Mr. Wilson. I do not believe they did. No, sir.

Mr. Palmer. Would you like to comment on that, Mr. Campbell?

Mr. Campbell. Again, I would simply refer to the opinion itself and what's available there as far as the processes that went into the development of the opinion.

Mr. Palmer. Should the government be in the business of facilitating such an activity?

I have been involved in this from a think tank perspective for years and studying this and looking at what happened in South Carolina when you had the proliferation of electronic gambling, video gambling. There were more places to gamble in South Carolina than there were in Nevada. It got to the point that the manufacturing association, the South Carolina Chamber of Commerce joined with religious groups to get it out of their State. It got to the point that it was hurting economic development because companies didn't want to come in.

And that's one of my concerns about this, is proliferation of this and how it's going to impact not only families, but the ability to do business, the workplace environment. Those are some serious concerns that I think need to be taken into consideration as we go forward here.

My time has expired. Would you like to respond, General Wilson?

Mr. Wilson. Mr. Chairman, I didn't have the opportunity earlier. Representative Plaskett was mentioning UIGEA, and I did not want -- she ran out of time and another Member started talking, and I was respectful of the balance of their time.

I want to just put on the record that she was mentioning UIGEA may conflict with the Wire Act in allowing interstate gambling. I wanted to just go ahead and put on the record that the provision that she was referring to in UIGEA is intrastate. It's a technical amendment put in UIGEA that would allow retail lottery terminals or gambling terminals to communicate with a processing center somewhere within the same State. It wasn't an interstate gambling provision, it was intrastate. So it doesn't conflict with the Wire Act. That was all.

Mr. Palmer. Thank you, General Wilson.

The chair now recognizes the gentleman from Missouri, Mr. Clay.

Mr. Clay. Thank you, Mr. Chair. And, Mr. Chair, I'd like to ask unanimous consent to enter 31 letters for the record supporting States' rights to regulate online gambling.

Chairman Chaffetz. [Presiding.] Without objection, so ordered.

[The information follows:]

***** COMMITTEE INSERT *****

Mr. Clay. Thank you, Mr. Chair.

Mr. Chair, along the same lines of questioning as Mr. Palmer, and this is a panel-wide question, starting with Mr. Campbell, is there a foolproof method developed by the States or anyone else to prevent minors from online gambling? Is there an app? Is there a method that has been proven by a State or the Federal Government that can detect the age of the participant at the online gambling site?

And I'll start with you, Mr. Campbell.

Mr. Campbell. At this time, I'm not aware of any particular technology that can specifically do that.

Mr. Clay. Okay.

Mr. Wilson.

Mr. Wilson. No, sir, I'm unaware of any technology. And I could probably bring an expert in here to contradict others.

Mr. Clay. Sure.

Mr. Kleine, are you aware of anything?

Mr. Kleine. I'm not aware of any.

Mr. Clay. Mr. Lipparelli.

Mr. Lipparelli. I have an affliction, having been in the industry for 20 years. The goal of gaming regulation is always to set the bar appropriately high. I don't think there's -- I haven't met that coder yet that can write perfect software. I wish I could. It would have solved a lot of headaches for me in the past.

But generally speaking, operators with respect to regulated online space have set the bar unusually high. If the ambition of a gambler is to access a site and they're going to go through the panoply of requirements of a legal regulated site, they'll probably get to the second or third entry point in the site and move on back to their illegal site.

So the quick answer to your question is there are outlets for those kinds of people to play today. Those are the illegal operators. The legal operators put in a panoply of requirements, and there's no guarantee that a minor could ever access a site, but generally speaking, the standards are quite high.

Mr. Clay. Now, you and I have heard the horror story of a minor getting ahold of maybe a parent's credit card and running up thousands of dollars' worth of debt on these sites. And it's too late by the time the parent finds out about it. So, I mean, that happens, that actually happens. And it gives me pause and makes me wonder, do the States have a handle on the regulation of this type of online gaming?

Mr. Lipparelli. Well, this is where I go into my -- usually my commentary about that risk exists in all consumer businesses to the extent you're transacting, and gaming is really no different. The only argument I would make is that in the case of gaming, typically the standards that we require are significantly greater than what you would see in any consumer transaction out there. You can buy all kinds of things online

and it doesn't require any of the kinds of protections that our industry have put in place.

Mr. Clay. Sure. But it's easy for you to detect a person's age in a brick-and-mortar facility, which is how gambling originally got started in this country.

Mr. Lipparelli. And there are prosecutions each and every year in the various States that allow brick and mortar for minors violating that law.

Mr. Clay. For sure. But I'd just be curious as to how many prosecutions occur in the online aspect of gambling.

Mr. Lipparelli. I know that the colleagues that I have talked to have told me that, and it was my concern when we adopted our regulations, in the conversations I've had with them as recently within the last 30 days, they do not cite that as an issue that's causing them distress. They have not been warned. They have not been told of horror stories of that kind of thing happening. So I can only go by what their personal experiences are that they relayed to me.

Mr. Clay. Okay. Any other panelists have any anecdotal evidence of --

Mr. Wilson. This is very anecdotal, Representative. My 7-year-old is fond of hacking my iTunes account and downloading video games. I don't know what would stop him if he had a penchant for gambling on my iPhone if I had an app on there. So that's more anecdotal than anything.

Mr. Clay. And probably with these new fantasy football leagues and all of that, I'm sure that young people getting excited about participating in that forum too.

Let me -- yeah. Yeah. I'll yield back, Mr. Chairman.

Chairman Chaffetz. I thank the gentleman.

It is the intention of the chair to recognize Mr. Carter and then represent myself and then we'll adjourn. Members are advised that there is less than 13 minutes in an extensively long vote series. And we'll go that direction.

Mr. Carter, you're now recognized for 5 minutes.

Mr. Carter. Thank you, Mr. Chairman.

And thank you for being here. This a great panel. Certainly an important subject. Certainly all of us are interested in it.

Mr. Campbell, let me start with you. Can you just briefly describe a casino-grade geolocation system to me?

Mr. Campbell. No, I do not have information about that. I cannot provide information on that.

Mr. Carter. On the casino-grade geolocation system?

Mr. Campbell. No, I am not familiar with that system.

Mr. Carter. Okay. Okay. Well, let me ask you, are you aware that the Georgia Lottery Corporation conducts third-party penetration testing of their geolocation and age-verification solutions? And this is very important to me. I know it's somewhat specific to my State, but the Georgia Lottery has been very successful, and by statute all of those proceeds from that

go to education. So we're looking at potentially losing \$10 million in revenue directly to education. So that's why it's of concern to me.

Mr. Campbell. Certainly. No, I am not familiar with the Georgia Lottery or its processes.

Mr. Carter. Okay.

Senator, let me ask you. If we were able to control -- if we were able to control where online lottery sales can be done and the age of the person who purchases those tickets online, if we're able to control that, then how is it the Federal Government's problem? Why should the Federal Government be getting involved in it?

Mr. Lipparelli. I'm not sure I'm totally tracking the question. But the States that establish their statutes, regulations, and technical standards, I have found over 20 years of experience, those local requirements, those local technical standards usually address the resident issues that crop up with those regulatory agencies. So in the case of an online lottery business, there will be particular requirements that may not be what you see in a traditional casino environment. So if there are specific elements related to lottery, I'm sure the lottery players in that game will contribute to very detailed debates on what should and shouldn't be included.

In the case of lotteries specifically, it's no different than what we saw with our online accounts. The one difference

that they may decide to adopt is some of the registration requirements that we required in our State. That may not be the case, but that is one example that could bring greater transparency. But those tools are available, and they're get better and better each day.

Mr. Carter. So the tools to be able to identify where the ticket is bought, where it's originating from, and the age, the verification of the age of the person who's purchasing it?

Mr. Lipparelli. I don't see the difference between any purchase transaction and any gaming transaction. It all comes in the form of complete tracking. So that I think those are very similar.

As it relates to age verification, those will be continued challenges. There's more and more technology coming onboard. But you probably shouldn't be able to register in the first place for an online transaction unless you've provided your identifiers, your personal account information, your access to whatever card you're using to transact.

Again, building that wall as high as you can so that to the extent that a parent is going to then turn over that account information is no different than a parent being irresponsible in any other consumer transaction.

Mr. Carter. Okay. Well, gentlemen, my concern is this, okay? I don't want to lose \$10 million in revenue to education. I mean, it's very, very important to us in the State of Georgia.

It's worked well. And we feel like we're able to control where that ticket originates from, where that purchase originates from. We feel like we're able to control -- to verify the age of the purchaser.

So why come to Washington, D.C. and for me to say, "No, I'm not going to allow you to do it," if we're able to control that?

Mr. Kleine.

Mr. Kleine. What you're talking about is intrastate, I think. And what we're talking, I think, for the most part is interstate issues with regard to gambling.

Mr. Carter. Well, let me get clarification then. Do you have any problem with intrastate?

Mr. Kleine. I don't have a problem if Georgia has a lottery and they run it intrastate and they regulate it intrastate. Nebraska has a lottery also that we have intrastate and we get the money and it goes to education. But I don't think -- that's not what I guess I'm talking about here.

Mr. Carter. Okay. Okay. I just want to make.

Mr. Wilson.

Mr. Wilson. We have a lottery too, Representative, and I absolutely have no problem with that. This is absolutely within the borders of each individual State. We're talking about cross State borders online gambling.

Mr. Carter. Fair enough. I just want to make sure because, quite honestly, I have concerns about that as well. But, again,

for the third time, I just don't want to interrupt something that is working so well in our State and that we feel like we have under control. So I just want to get clarification on that, okay?

Mr. Chairman, that's all I had, and I'll yield back. Thank you.

Chairman Chaffetz. Well, I thank the gentleman, and now recognize myself for 5 minutes.

And the reason we're here is because the Office of Legal Counsel issued an opinion reinterpreting what had been in the books for more than 50 years. That's one of the issues that we're here for.

There are some that believe -- and the other point I'd make is there are an untold number of gambling sites offshore. If you really want to gamble right now you can go online and do it. It's against the law. But what the administration is talking about, what's showing up in this OLC opinion, which is one person's opinion, gives some to think that they have legal rights and reasons to bypass the States at the Federal level and be able to offer their gambling sites in States across the country.

Now, that poses a problem for a lot of States, States that have legalized gambling, States like myself who have no gaming and don't want to have any gaming. And I think it's naive at best to think that you can put a wall on the Internet and just say: Hey, this is just -- you know, we're not going to be able to penetrate this. You can't.

With gaming there are lots of issues other than just location. Location is a big one. It's a core part of it. But it also has to do with your age. It has to do with your intoxication. It has to do with a whole host of things that can be addressed with somebody in person at a physical facility.

And if an individual wants to -- if an individual State wants to move this direction, then look at the Federal law. But I think we would both agree, certainly with the gentleman from Georgia, that you don't just unilaterally change the law with one OLC opinion. And the concern that's being expressed here from a variety of different States is that this is a problem.

There's a reason why the second highest, as best I can tell, revenue to the Department of Treasury through the Department of Justice on fees and fines is because of gaming issues. Now, a lot of that has to come with PokerStars and some of those settlements that skewed the numbers exceptionally high. But it is a problem. And we've had numerous attorneys general, numerous governors saying: You can't do that to our State.

If somebody wants to come in and pass a piece of legislation and change the way we're going to do this, than introduce a bill and pass it. But what we're seeing now is the proliferation that is going to cause untold problems.

Mr. Lipparelli, I want to make sure that I'm just crystal clear. You're very nice, very competent. You represent your own personal views. You're not here representing the Nevada Senate,

correct?

Mr. Lipparelli. That is correct. That's why I made that statement --

Chairman Chaffetz. You're not here --

Mr. Lipparelli. -- at the beginning of my testimony.

Chairman Chaffetz. You're not here representing the gaming board in Nevada?

Mr. Lipparelli. That is correct.

Chairman Chaffetz. And it's very interesting to me, at least with the piece of legislation that I sponsored, the wide array of support on both sides of the aisle. On the one hand, in the Senate you've had support from Dianne Feinstein and Mike Lee, from Senator Graham to Kelly Ayotte to -- I mean, you've got a whole host of people. Myself and Tulsi Gabbard in the House. You've got people from really the full political spectrum here that are saying: This is a problem, we do need a bit of a timeout.

But, Mr. Lipparelli, let me go back to your -- I'm not sure I'm following your logic here. You are arguing, you have said, quote "We can all agree that a world with 50 State-specific standards would be a nightmare," correct?

Mr. Lipparelli. I made that reference with respect to the technical standards.

Chairman Chaffetz. So do you want a national gaming board? Is that what you're asking for?

Mr. Lipparelli. No. It comes down to the possible versus

the desired state. The desired state --

Chairman Chaffetz. So are you advocating that you should be able to do gaming -- that the residents of Nevada should be able to gamble on the Georgia State Lottery?

Mr. Lipparelli. No, I'm not at all.

Chairman Chaffetz. Why not?

Mr. Lipparelli. That's controlled by Georgia law and Nevada law.

Chairman Chaffetz. But why wouldn't the resident of Las Vegas be able to gamble on the Georgia Lottery site? Why wouldn't you advocate for that?

Mr. Lipparelli. Well, the State law applies if -- to your -- I would agree with you. If there is a national acceptance or if there is a willingness. And we've actually been in these chambers before looking at the prospect of interstate online gaming. There were a lot of potential arguments for why that didn't pass and, you know, what were some of the impediments that got that going.

But today in Nevada they define their gaming law, Georgia would define whatever forms of entertainment or gaming they want to define, and it doesn't necessarily hold that as a result of that we should just have a national policy that says everybody can gamble on each other's various State law's back.

Chairman Chaffetz. So you're okay with online gaming as long as it's on an online gaming site within your State under

your regulations?

Mr. Lipparelli. Right. Or if there's a willingness among various States to cooperate and enter into common contests. I wouldn't object to that if those States desired to do so.

Chairman Chaffetz. So if you teamed up, you know, because the majority, right, 47 of the States they don't have this, they're not participating in it, you're okay with compacts that would then regulate this.

Mr. Lipparelli. I am.

Chairman Chaffetz. And then you could essentially create national gambling. You think that that's an avenue to go. And who would regulate that?

Mr. Lipparelli. The question about compacts has been addressed, at least in its first iteration, with the connections between New Jersey, Delaware, and Nevada. I was a part of that process before I left the Gaming Control Board, and the prospect that States could come together similar like they come together in the form of lottery, set common standards that seem to be addressing the common issues between those States.

Chairman Chaffetz. And, Mr. Campbell, how are you going to enforce an expansion of gaming online? How many resources -- he was asked earlier how many resources you can allocate to this. But if somebody in Nevada has a problem with the State in Delaware, who's going to enforce that?

Mr. Campbell. Well, again, as we go about our intelligence

and information gathering, we assess for the most serious threats that we would target that could be related to online gaming from support to terrorism or transnational organized crime and so forth. And then, again, as we do always, that's how we would dedicate our resources and potentially incorporate the State and local authorities in that effort as well.

Chairman Chaffetz. Mr. Lipparelli, you have been quoted as saying that New Jersey should not be permitting PokerStars to return to the U.S. market. Why did you take that position?

Mr. Lipparelli. I don't think I ever took that specific position. The position that I took vis-à-vis PokerStars and other companies like them who had entered the U.S. marketplace in violation of State laws, including my own in Nevada, was they should stand for suitability just like every other applicant. If they can survive that scrutiny and they can have an appropriate answer, it's for each one of these regulatory boards to decide whether that's a suitable method of operation, that if they were here before and settled their differences with the Justice Department to the tune of hundreds of millions of dollars, I think every gaming commission chairman or every board member that authorizes licenses should take that into consideration.

Chairman Chaffetz. You said, quote, "Essentially trading" -- you said -- your quote regarding PokerStars, your quote: "Essentially trading their credibility away. You might as well not have a licensing process," end quote. So you've

changed your position since then?

Mr. Lipparelli. I take exception to the term "PokerStars." What I made in that comment was if the bar would be set so low by licensing boards to ignore the kinds of activities that PokerStars was engaged in, then, yes, I think there is a real question as to the validity of licensing if that kind of activity is allowed.

Chairman Chaffetz. Fair enough. Okay.

I have gone past my time. We have zero time on the clock with 300 people who have not yet voted on the Cole amendment on the floor.

I want to thank you all for being here. You offer an interesting perspective, the local region, the State perspective, the Federal law enforcement issues. I do appreciate all of you being here.

This is an important topic. It's something that is permeating the United States. It's on a lot of people's minds. There are various pieces of legislation in both directions out there. And I do appreciate your participation. It was a good hearing today.

At this point, the committee stands adjourned.

[Whereupon, at 4:20 p.m., the committee was adjourned.]