GETTING GAMING REGULATION RIGHT

Recommendations for Redrafting the Gambling Regulatory Authorty Bill

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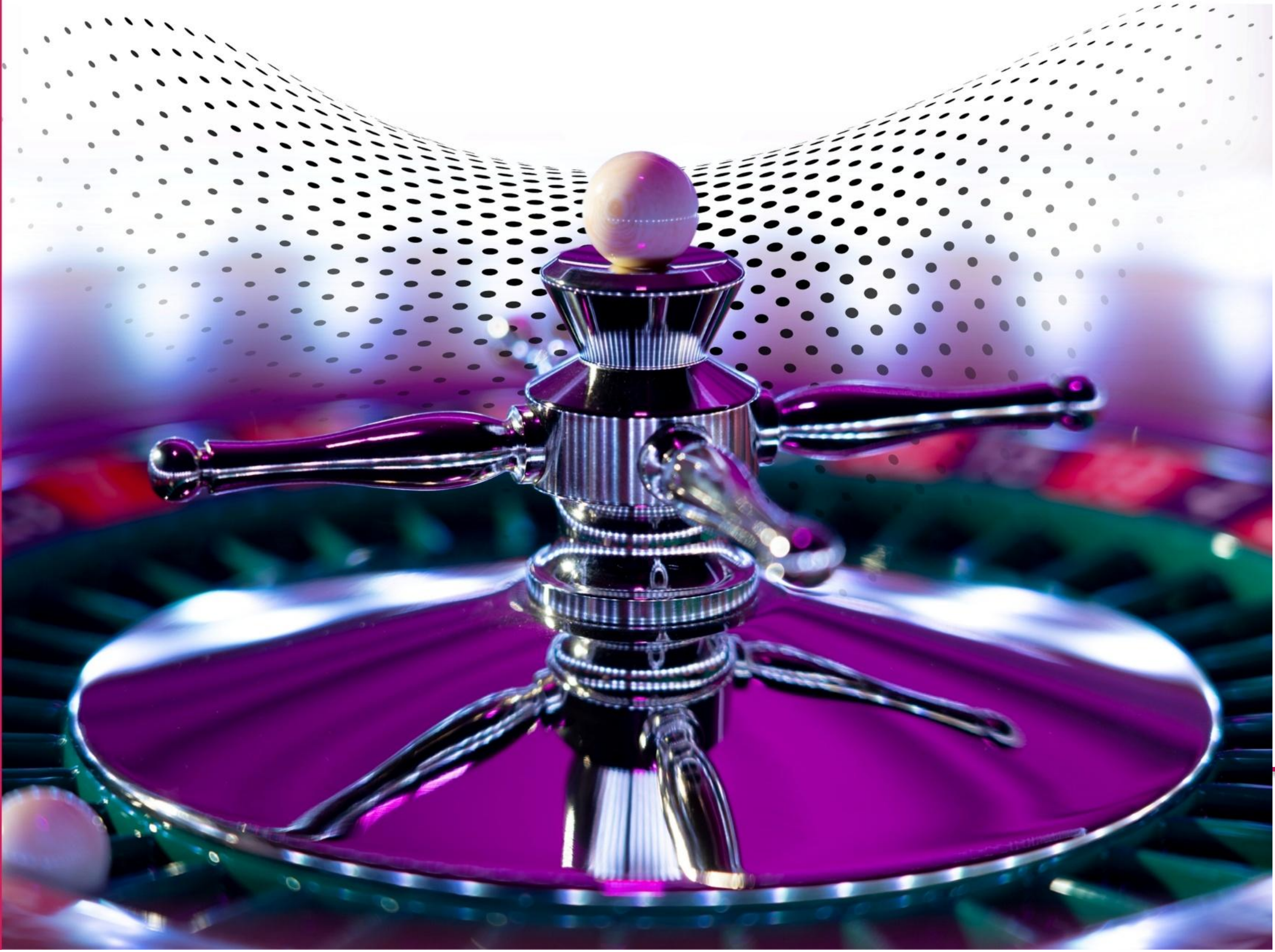
Advocata Institute | June 2025



Getting Gaming Regulation Right:

Recommendations for Redrafting the Gambling Regulatory Authority Bill

1. Executive Summary

Casinos have operated in Sri Lanka since the liberalisation of the economy in 1977, which facilitated the importation of gaming equipment. However, they have done so in the absence of a regulatory framework. In fact, a robust regulatory framework for casinos—and other gaming industries such as betting and lotteries, whose existence in the island predates the casino industry—has long been overdue. The draft bill on the establishment of a Gambling Regulatory Authority, published in May 2025, is therefore a welcome move by the government of Sri Lanka.

The need for a robust regulatory framework arises due several salient factors that are unique to the gaming industry:

1. **Regulation of entry and exit:** All licensed casinos and betting centres in Sri Lanka are owned by a handful of companies based on monopolistic and arbitrary licenses that have been issued in non-transparent, non-competitive, and non-regular processes—leading to questions about the financial, ethical, and strategic soundness of their operations.

2. **Mitigation of negative externalities:** Gaming is associated with negative externalities, which, if not adequately mitigated through cost integration, could lead to the accumulation of large private profits while exacerbating socially undesirable outcomes.

3. **Assurance of market integrity:** Given the historical propensity of the gaming industry worldwide towards criminal activities such as money laundering, tax fraud, and other vices, the stamp of approval of a legitimate regulator enhances the appearance of integrity of the gaming industry within its jurisdiction—drawing well-intentioned patrons and investors alike.

4. **Protection of consumer rights:** A regulator is also necessary to safeguard consumers from both odds manipulation as well as the ill-consequences of gambling addiction

In our view, the Gambling Regulatory Authority, as designed in the draft bill, falls substantially short of achieving these goals. It is therefore our recommendation that the presently published Gambling Regulatory Authority Bill be withdrawn, redrafted, and reintroduced in Parliament—in a process that includes the consultation of both international expertise and the general public—with particular attention paid to the deficiencies in the present draft, as outlined in this briefing paper. Some such deficiencies, described in more detail in Section 4, are briefly outlined below.

Deficiency	**Current Provisions**	**Suggested Provisions**
1. Overbearance by the Minister of Finance harms agency independence	Minister has unchecked power to appoint the appointed members of the board	Require the approval of the Minister's nominations to the board by the Constitutional Council
	The Minister appoints the Director General of the Authority	Require that the Director-General be appointed by the board following a competitive process
	Excessive regulation-making power in the hands of the Minister	Grant more rules-making power to the Authority as in the SEC Act, No 19 of 2021, so that the Authority may decide on the regulations itself
	The Minister may issue binding directives to the Authority	
	The Authority is primarily funded through budgetary allocations	The Minister should not have the power to issue binding directives to the

		Authority The Authority shall either receive a portion of the license fees, or charge its own regulation fees from the operators
2. Tourism sector has no say in the regulation of the gaming industry	No ex-officio representative from the tourism sector is appointed to the board Hospitality is not considered a qualification to be appointed to the board	An executive from the SLTDA to be appointed as an ex-officio member of the board Hospitality should be included as a qualification for appointment to the board
3. Continued exemption of the lottery industry from regulation	The National and Development Lotteries Boards are exempted from regulation by the Authority	The Lotteries Boards should be brought under the regulatory oversight of the Authority
4. Inadequate attention to online gambling	No provisions on the registration of patrons of online gambling platforms No provisions on the regulation of online gambling platforms operated from overseas	Provisions should be introduced to regulate against the negative externalities of online gambling and to register patrons of online gambling platforms The Authority should be given the power to regulate access to online gambling platforms operated from overseas
5. Minimal authority in revenue collection	The bill does not give the Authority concrete powers	The Authority should be given the power to devise

	in the collection of tax revenues	a robust mechanism for the tracing of the revenues of gaming operators The Authority should be entrusted with the responsibility of working towards the effective implementation of taxation based on gross gaming revenues
6. Inadequate penalties for violators	Most offenses carry a maximum fine of mere LKR 100,000 and/or imprisonment of up to two years	Both monetary and carceral penalties for violation of gaming regulations should be increased to match international norms, so as to create a real deterrent against wrongdoing

2. Introduction to the Gaming Industry of Sri Lanka

A 'wager' is a risk taken on something, such as a sum of money, based on the uncertain outcome of an event[1]. To 'gamble' is to place a wager of such nature on an uncertain outcome, based purely on luck rather than knowledge or skill[2]. On the other hand, a 'bet' is a wager placed not based solely on luck, but also based on strategic research and prior knowledge[3]. 'Gaming' is the engagement in an activity of gambling or betting that is sanctioned by the government[4]. By this definition, in Sri Lanka, where casinos, betting houses, and lotteries all operate under state-sanctioning, the larger gaming industry comprises the casino, betting, and lottery industries.

There are currently four casinos—Bally's, Bellagio, Casino Marina, and Stardust—being operated in Sri Lanka, while a fifth—the casino at the City of Dreams integrated resort—is set to begin operations in the third quarter of 2025. Plans are in the works to bring in investors to operate casinos at Colombo Port City and the Lotus Tower as well.[5] The betting industry is dominated by two large players—Sporting Times and Sporting Star—who operate betting centres in various locations around the island. The lottery industry, on the other hand, is fully state-run under the duopoly of the government-owned National Lotteries Board and Development Lotteries Board.

[1] Merriam-Webster (2024). "Wager." *Merriam-Webster.com*, https://www.merriam-webster.com/dictionary/wager.
[2] Woods, Ronald B. and Nalani Butler (2020). *Social Issues in Sport*, Human Kinetics.
[3] Litman, Paul (2021). "Gambling vs. Betting: What is Really the Difference?" *Jerusalem Post*, https://www.jpost.com/special-content/article-689791.
[4] Connecticut Department of Consumer Protection (2021). "What is the Difference Between Gambling and Gaming?" Government of the State of Connecticut, https://portal.ct.gov/gaming/knowledge-base/articles/gambling-vs-gaming#:~:text=Gaming%20is%20when%20you%20participate,which%20remains%20a%20criminal%20activity.
[5] https://www.sundayobserver.lk/2023/12/10/business/11570/lotus-tower-to-open-casino-in-march/

3. The Need for the Regulation of the Gaming Industry

The gaming industry, particularly casinos, remains illegal in many countries around the world, given its taboo status in many cultures and religions[6]. From the viewpoint of economic theory, the negative externalities of gambling may justify these bans on gambling[7]. A negative externality is a third-party effect of an economic activity that makes the high levels of supply of the economic activity less socially desirable. Pathological gambling by those addicted to gaming, the plethora of criminal activities that the gaming industry has traditionally been associated with, and the cultural influences of gambling are all reasonable deterrents to ascribing legal status to the casino industry in many countries[8].

Blanket bans on gambling, however, have proven ineffective at preventing the operation and patronisation of gaming establishments given the natural human proclivity towards high-risk and high-reward behaviours[9]. This natural inclination, alongside the addictive nature of gambling, means that the gaming industry has inevitably entered the fold of the informal economy in countries where the industry has not been legally recognised[10]. The inability of government entities to put a halt to gaming activities through blanket bans should not come as a surprise. There are many historical examples of the failure of blanket bans to be effective regulators of economic activities entailing

[6] Thompson, Willian N. (2012). "Why They Say "No" (Casi-"No"): Countries That Reject Legalised Casino Gambling." UNLV Gaming Law Journal, 2(195), 195-230.
[7] Fiedler, Ingo (2015). "A Behavioural and Health Economic Analysis of Gambling." Presentation for ARJEL and ODJ, University of Hamburg Institute of Law and Economics Division of Gambling.
[8] Fiedler, Ingo (2015). "A Behavioural and Health Economic Analysis of Gambling." Presentation for ARJEL and ODJ, University of Hamburg Institute of Law and Economics Division of Gambling.
[9] Betting and Gaming Council (2022). "New Research Reveals Shocking Size of Black Market Gambling Across Europe." *Betting and Gaming Council*, https://bettingandgamingcouncil.com/news/new-research-reveals.
[10] Betting and Gaming Council (2022). "New Research Reveals Shocking Size of Black Market Gambling Across Europe." *Betting and Gaming Council*, https://bettingandgamingcouncil.com/news/new-research-reveals.

negative externalities: the prohibition period in the United States, and the failure of price controls and quota systems in recent times in Sri Lanka, to name a few examples. Regulation, on the other hand, is an alternative strategy that a government may pursue to address market failure—such as the negative externalities of the gaming industry—while still allowing the failed market to operate in a corrected state[11]. With regulation, a government may allow an industry to exist, but impose stringent restrictions on how the industry operates and who participates in it.

The existence of a well-regulated gaming industry is desirable for other reasons as well. The gaming industry, particularly casinos, have shown to have substantial economic multiplier effects[12]. The multiplier effect of casinos partly manifests in the form of an export multiplier, by facilitating the inflow of foreign exchange into the local economy[13]. Furthermore, by bringing in more investments and consumers to the local economies, the gaming industry generally helps expand the sales of local firms. The increased business profits from the higher sales volume may then be reinvested in the local economy, leading to higher levels of employment, capital gains, and tax revenues for local and national governments.[14] In addition, integrated resorts—which are multifunctional hotel resorts that provide both gaming and non-gaming services to their patrons—could lead to further expansion of economic activity by bringing in additional demand into the industry. *The Hotel Investments Handbook* segments the demand for gaming into four broad categories—local demand, tour and travel demand, leisure demand, and convention demand—last three of which are of particular relevance to the integrated resort model[15].

In tourist economies, the gaming industry, particularly casinos, can also serve as an important generator of fiscal revenues.[16] However, not all forms of gaming

[11] For more details on the economics of regulation, see: Baldwin, Robert, Martin Cave, and Martin Lodge (2010). *The Oxford Handbook of Regulation*, Oxford University Press.
[12] Adam Rose and Associates (1998). "The Regional Economic Impacts of Casino Gambling: Assessment of the Literature and Establishment of a Research Agenda." National Gambling Impact Study Commission.
[13] Metaxas, Theodore and Sotiris Folinas (2021). "Gambling Tourism and Economic Development: Some Lessons from Macao." *Journal of Economics, Finance and Management Studies*, 4(3), 156-165.
[14] National Gambling Impact Study Commission (1999). *National Gambling Impact Study Commission Final Report*, United States Government Publishing Office.
[15] Rushmore, Stephen (2002). *Hotel Investments Handbook*, HVS International.
[16] Inside Asian Gaming (2024). "Macau Government Reaps Gaming Tax of US$ 8.1 Billion in 2023." *Inside Asian Gaming*, https://www.asgam.com/index.php/2024/03/03/macau-government-reaps-gaming-tax-of-us8-1-billion-in-2023/.

are equally prudent revenue generators. While the casino industry is a highly progressive form of revenue generation given the generally higher wealth status of those who patronise casinos, the lottery industry is universally recognised as a regressive form of revenue generation, given that lottery buyers generally tend to be low-income.[17] The existence of a well-regulated casino industry in a country could therefore supplement state fiscal revenues in a progressive manner. Moreover, given the susceptibility of the gaming industry to ill reputation based on financial and other crimes, a well-regulated environment which serves as a symbol of integrity is essential to attract well-meaning investors to the industry. Only investors with integrity are able to attract consumer confidence in the gaming industry as well, particularly with respect to casual gamblers, which is crucial for the materialisation of the economic multiplier effects and fiscal revenues from the industry.

The draft bill on the establishment of a gambling regulatory authority, dated May 23, 2025, is therefore a welcome move by the Government of Sri Lanka. Before delving into its merits and demerits, however, it is important to understand from a theoretical perspective what exact purpose regulation serves in the gaming industry. *The Oxford Handbook of Regulation* identifies four broad areas covered by regulation—economic regulation, social regulation, competition and merger laws, and the legal system—all of which are applicable to the gaming industry[18]. Under economic regulation are “the overtly economic issues affecting firm performance, industry structure, pricing, investment, output and so on,” which are very important questions to be answered by the regulators in the context of the gaming industry[19]. To begin with, the regulator needs to answer the question of whether the industry is to be placed under the domain of the private or the public sector, or designed in the form of public-private partnerships. The regulator then needs to formulate a framework dictating the terms of the investments that can offer, which will ultimately decide the performance of gaming companies, their pricing, and output. Additionally, an important aspect of economic regulations is the tax laws

[17] Blalock, Garrick, David R. Just, and Daniel H. Simon (2007). *American Journal of Economics and Sociology*, 66(3), 545-570.
[18] Baldwin, Robert, Martin Cave, and Martin Lodge (2010). *The Oxford Handbook of Regulation*, Oxford University Press.
[19]Baldwin, Robert, Martin Cave, and Martin Lodge (2010). *The Oxford Handbook of Regulation*, Oxford University Press.

applicable to the gaming industry. These laws are particularly important given the high potential for evasion and avoidance in the gaming industry.

In the context of the gaming industry, such economic regulation shall necessarily be formulated based on the framework of social regulation pursued by the regulator, given the excessive prevalence of negative externalities in the gaming industry. The regulator should first determine its approach to countering the negative externalities of gaming—such as its psychological effect on human beings, association with crime and other illegal and unethical activities and financial implications for the local communities—via social regulation, and then formulate economic regulation that aligns with the spirit of the social regulation.

The regulator shall moreover formulate competition and merger laws applicable to the gaming industry to prevent the concentration of excessive market power in the hands of gaming operators in a manner that is detrimental to the objectives of economic and social regulation. Under these laws, the regulator shall determine the appropriate levels of barriers to entry, mergers, and acquisitions so that the optimal level of competition is maintained in the industry, without allowing too much or too little competition among operators. These laws are not only necessary to protect consumer rights and operator rights against abusive practices by operators with substantial market shares and weed out criminal activity such as money laundering among operators, but also to ensure that the configuration of the industry is sustainable from a business and strategy perspective as well.

Lastly, the legal system within which casinos operate provides a backdrop to the legitimacy and the effectiveness of the regulations applicable to the gaming industry[20]. The legal system should ideally provide for a means of ascribing legitimacy to gaming operations, based on a licensing system or another similar mechanism. Furthermore, the legal system should authorise a regulatory body with the power to oversee the operations of the industry, to ensure that the economic, social and other regulations applicable to the

[20] Baldwin, Robert, Martin Cave, and Martin Lodge (2010). *The Oxford Handbook of Regulation*, Oxford University Press.

industry are actually followed. Furthermore, the legal system should ensure clarity regarding all direct and peripheral laws applicable to the gaming industry, and which bodies are entrusted with the enforcement of these laws in the context of the gaming industry. A well-established legal framework is an essential component of safeguarding the industry from negative externalities against itself, by maintaining the trust of both investors and consumers in the legitimacy of the operations of the industry.

4. Draft Bill on the Gaming Regulatory Authority

I. Summary of the Bill

The following summarises the main provisions of the draft bill on the establishment of a gaming regulatory authority in Sri Lanka. The bill, which, if enacted as an Act of Parliament, would repeal all existing Acts on the gaming industry of Sri Lanka except the Gaming and Betting Levy Act, the National Lotteries Board Act, and the Development Lotteries Board Act, only applies to the casino and betting industries of Sri Lanka. The Authority consists of a Board of Management comprising four ex-officio members—Secretary to the Ministry of Finance, Commissioner General of the Inland Revenue Department, head of the Financial Intelligence Unit, and the Inspector General of Police or his nominee—and three qualified members appointed by the Minister of Finance who are eligible to serve a maximum of three three-year terms. The Chairperson of the board is to be appointed by the Minister of Finance from among these appointed members.

The bill recognises the following to be the primary duties and functions of the Authority: regulate and monitor of gambling and other related operations, prevent illegal gambling operations and other unlawful activities related to gambling, combat money laundering in the industry, maintain the financial accounts of the Authority and its online presence, and perform other activities that may aid in the attainment of the stipulated objectives of the bill. The power to make regulations for the gaming industry as required and authorised by this bill is vested in the Minister. The bill also vests the Minister with the power to appoint the Director-General of the Authority with approval of the board, who functions as the Chief Executive Officer of the Authority. All activities of the Authority are to be executed by the Director-General under the binding guidance of the Board. The bill further requires that the Authority complies with any directions given by the Minister on the execution of its activities.

The bill mandates the possession of a license to operate any establishment where commercial gambling activity takes place, as defined in the bill and subject to amendment by the Minister. It lays out the eligibility criteria, again subject to the discretion of the Minister, and the administrative process to be followed in obtaining a license. The bill also stipulates that operators need to obtain a separate license to operate online gambling platforms. Licensed operators are required to abide by all regulations laws and regulations relevant to the gambling industry, as well as maintain minimum standards related to security, hygiene and other related matters in order to maintain the license. The bill also requires all developers, distributors, and operators of gambling software, operators of offshore gambling activities, as well as junket operators to also obtain separate licenses to conduct their gambling-related business activities. The bill creates a fund for the gambling authority, which is authorised to hold money that is passed to it by the Parliament, money that the authority collects as administrative fees as it carries out its functions, and money that is accrued in the fund.

All violations of the provisions set out in the bill for the operation of commercial gambling, except the unlicensed operation of commercial gambling, carry a maximum fine of one hundred thousand rupees and/or a maximum imprisonment of two years. The unlicensed operation of commercial gambling carries a maximum fine of ten million rupees and/or a maximum imprisonment of two years.

II. Deficiencies of the Bill

The publishing of the draft bill on the gaming regulatory authority itself is a landmark achievement, given the urgent need for a gaming regulator in Sri Lanka. However, the bill, as drafted, contains various deficiencies which could hinder the effective attainment of its stated objectives. The primary deficiencies of the bill in its present form are:

1. *Ministerial overbearance harms independence*

The bill vests overwhelming power in the hands of the Minister of Finance to regulate the gaming industry of Sri Lanka, effectively rendering the Gambling Regulatory Authority an executor of the will of the Minister, instead of the independent regulatory body which it is supposed to be. To illustrate, under this draft bill, the Minister has the following powers unmoderated by checks and balances (unless otherwise noted):

- The appointment of the three appointed board members of the gaming regulatory authority, without consultation with or approval by any other authority
- The appointment of the Chairperson of the board from among the appointed board members
- The appointment of the Director-General with upon consultation with the board
- The making of regulations for the gaming industry to be enforced by the authority
- The issuance of directives to the Authority, which the Authority is required to follow
- The stipulation of the types of gambling authorised to be conducted commercially
- The stipulation of the minimum capital to be held by a company to be eligible for a gaming license
- The stipulation of the remuneration and conditions of service of any experts recruited by the authority to make recommendations on

monetary penalties to operators who are in violation of the provisions of the bill

Furthermore, the Authority would seemingly rely primarily on money allocated to it by the Parliament to fund its operations, and as such, would mostly be at the behest of the Minister for its financial sustenance. In contrast, for instance, the Gambling Regulatory Authority of Singapore, while also relying on budgetary allocations, receives significant income from the licensing fees—which the authority uses to conduct its regulatory activities related to the gaming industry of Singapore. In the Sri Lankan context, the Public Utilities Commission of Sri Lanka (PUCSL) and the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) are examples of regulatory agencies that are funded entirely through regulatory fees. Given that the draft bill only allows the Gambling Regulatory Authority of Sri Lanka to levy service fees on the operators, and the licensing fees that it would collect are to be forwarded to the Treasury, its financial fortunes are mostly tied to how much the government prioritises gaming regulation in its budgetary allocations. As such, the Gambling Regulatory Authority, by design, is not an independent regulator, but merely an arm of the Ministry of Finance that enforces the policies of the Minister of Finance—leaving the Authority vulnerable to influence, malpractice and corruption.

2. *Tourism Sector Overlooked*

The close relationship between the gaming industry and the tourism industry needs no special emphasis. As such, any regulatory control of the gaming industry of Sri Lanka has the potential to substantially impact the tourism industry of Sri Lanka. It is thus imperative that the tourism industry is given a say in the regulation of the gaming industry. The draft bill recognises the need for such influence on the part of other key stakeholders of the industry—such as the Inland Revenue Department, the Financial Intelligence Unit, and the Police—and appoints ex-officio members representing those interests to the board. However, the draft bill does not give the tourism industry such representation in the board. Hospitality is also conspicuously missing as an area of expertise that the appointed members of the board may hold, despite the relevance of such expertise to the regulation of the gaming industry.

3. Continued Unregulation of the Lottery Industry

The draft bill exempts the National Lotteries Board and the Development Lotteries Board from regulation under the Gambling Regulatory Authority, despite lotteries being a form of gambling. As such, the lottery industry would remain unregulated despite various concerns related to financial mismanagement and consumer rights violations in the state-run Lotteries Boards.[21] This is in contrast to the Gambling Regulatory Authority of Singapore, the Gaming Inspection and Coordination Bureau of Macau, and the Betting and Lotteries Commission of Hong Kong—the authorised gaming regulators in each of their respective jurisdictions—all of whom regulate lotteries alongside other forms of gambling.

4. Inadequate Attention to Online Gambling

The draft bill includes important provisions on regulating online gambling, such as the mandating of separate licenses to operate online gambling portals. However, the bill does not go far enough in addressing major concerns related to online gambling in Sri Lanka.

While the patronisation of physical gambling establishments, particularly casinos, is not necessarily high among the local population, there is recent evidence that online gambling is making inroads among the local population, particularly the youth.[22] Not only does the patronisation of online gambling platforms, most of which are operated from overseas, imply a loss of tax revenues to the government of Sri Lanka, but also foreshadows a crisis of addiction and other related issues among the younger generations of Sri Lanka.

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[21] Ariyaratne, Sudaraka (2024). "The Low-Hanging Gamble: A Comprehensive Policy Framework for the Gaming Industry of Sri Lanka." Advocata Institute.
[22] Sirimanna, Bandula (2024). "Online Casinos Attract Hundreds of Sri Lankan Youtha." *Sunday Times*, https://www.sundaytimes.lk/240804/business-times/online-casinos-attract-hundreds-of-sri-lankan-youths-565675.html.

Given these concerns related to online gambling, the government of Singapore limits access to just the operators that are regulated by the government of Singapore, and prohibits financial institutions from approving payments made to any online gambling platform that is not regulated in Singapore. The Gambling Control Act of 2020 lays out a comprehensive criteria, including in-person background checks, for individuals to sign up as patrons of online gambling platforms, and imposes heavy penalties on individuals found to be in violation of these requirements. The Act also includes provisions for the regulation of emerging technologies such as loot boxes, online gaming, and hybrid gambling models. The draft bill for the Gambling Regulatory Authority of Sri Lanka, in stark contrast, lacks such detailed provisions on the regulation of online gambling.

5. *Minimal Authority in Revenue Collection*

An important concern related to the present setup of the gaming industry of Sri Lanka is the vast potential it offers for the evasion and avoidance of taxes. The cash-based nature of the gaming industry of Sri Lanka, as well as the many transactions that take place overseas in the sale of casino packages, afford many opportunities to operators to underreport their tax obligations. Furthermore, even the taxes that are due on the self-reported revenues of casinos are not settled in a timely manner by the existing gaming operators.[23] These facts make it clear that with its present authority and administrative as well as financial capacity, the Inland Revenue Department of Sri Lanka is not adequately equipped to collect revenues from the gaming industry.

The lack of direct provisions in the draft bill, therefore, to enhance revenue collection from the gaming industry is a significant missed opportunity. Although the bill recognises revenue collection as an intended objective of the Act, the bill fails to outline the specific powers held by the Gambling Regulatory Authority to effectively aid in the collection of revenues from the industry by the Inland Revenue Department. While the bill does not overrule the Gaming and

[23] Chan, Viviana (2025). "Sri Lanka Urged to Accelerate Casino Regulatory Authority Establishment." *Asia Gaming Brief*, https://agbrief.com/news/sri-lanka/11/03/2025/sri-lanka-urged-to-accelerate-casino-regulatory-authority-establishment/.

Betting Levy Act in its present form, it also does not necessarily improve the ability of the Inland Revenue Department to collect revenues that the government is due from the gaming industry of Sri Lanka.

6. *Inadequate Penalties for Violations*

As aforementioned, the bill imposes a maximum fine of ten million rupees and/or a maximum imprisonment of two years for running an unlicensed gambling operation—which provides a reasonable deterrent to engaging in such activity. However, for every other offense under the draft bill, the penalty is a maximum fine of one hundred thousand rupees and/or up to two years in imprisonment. These penalties, particularly the fine of up to one hundred thousand rupees, are arguably inadequate to effectively discourage violations of the Act, particularly by licensed operators. The penalties in Singapore, for instance, for comparable offenses are much higher. Notably, even with such penalties, multiple instances of violations are reported every year.[24] As such, it is unlikely that the weaker penalties under Sri Lanka's draft bill would be much of a deterrent at all for potential offenders.

7. *Other Miscellaneous Deficiencies*

The following deficiencies in the proposed bill on the gaming regulatory authority are also worthy of note:

- The gaming regulatory authority does not have the power to regulate competition and market size through imposing limits on the number of operators, i.e. limiting the number of licenses issued at a time. Given the evidence on the inverse relationship between the number of gaming operators and industry growth due to the benefits of enhanced economies of scale resulting from a smaller number of operators, it is

[24] Gambling Regulatory Authority of Singapore (2025). "Enforcement Actions." *Gambling Regulatory Authority of Singapore*, https://www.gra.gov.sg/newsroom/enforcement-actions?utm_source=chatgpt.com.

important that the Authority has the discretion to control and manage competition in the gaming market.[25]

- Another competition-related concern is the lack of provisions in the bill for tying capacity limits to the licenses issued, on the number of tables and machines that each gaming establishment is authorised to have. The lack of such provisions weaken the ability of the Authority to perform its strategic oversight in the event of mergers, leaving the market vulnerable to manipulation. In contrast, the gaming regulators of Singapore, Macau, and Las Vegas, for example, are authorised to stipulate such capacity limits in the licenses that they issue.

- The draft bill does not address an important issue presently faced by the Inland Revenue Department when collecting revenues, which is the operation of two separate casinos at the same building by the same operator, to cater to international and local patrons separately. The bill needs clearer provisions on whether a single license could allow for such segmentation of patrons in the form of two separate casinos.

- The bill also does not contain any provisions for the licensing of dealers and other employees at gaming establishments, which is mandatory under the gaming regulations of Singapore and Las Vegas. The gaming regulator in Macau, on the other hand, practises regulatory oversight on the employees of casinos in its jurisdiction by publishing detailed guidelines on the hiring of employees so as to avoid conflicts of interest and susceptibility to other forms of corruption and fraud. The absence of such provisions in the draft bill leaves the gaming industry of Sri Lanka vulnerable to corruption.

- The bill specifies that any transaction related to gambling may be made at a main cash desk set up by the gambling operator in currency, debit or credit. However, the bill is not clear as to whether payments made to

[25] Gu, Zheng (2013). "Economies of Scale in the Gaming Industry: An Analysis of Casino Operations on the Las Vegas Strip and in Atlantic City." *Journal of Hospitality Financial Management*, 1, 1-15.

junket operators also fall under this provision, and if not, what the provisions for tracing such revenues are.

- The bill requires that the gambling regulatory authority be informed of any changes to the corporate control of a gambling establishment within one month of such change taking place. A lapse of one month could afford too much leeway for ineligible persons and/or companies to benefit from the industry before such corporate changes are approved by the regulatory authority.

- The bill allows for the cancellation of a license issued to a gaming operator in the event the continued operation of the gaming establishment could have "an adverse impact on the public." However, the bill is not clear on what negative externalities it considered would constitute an "adverse impact", which could lead to inadequate interpretation of the phrase in enforcement.

- The bill lacks provisions authorising the Authority to levy entry fees on patrons to deter gambling addiction. If such entry fees are retained by the Authority, they could not only be used to fund the Authority's activities, but also to fund programmes aimed at alleviating the negative externalities of gambling.

III. Recommendations

In light of these deficiencies of the draft bill in its present form, the Advocata Institute recommends the following amendments:

1. All individuals nominated by the Minister of Finance as appointed members of the Gambling Regulatory Authority should be approved by the Constitutional Council.

2. The Director-General of the Authority should be appointed by the board following a competitive process, so that continuity is ensured despite

changes in administration. How the Director-General of the PUCSL is appointed may serve as a model in this regard.

3. The Chairman or the Director General of the Sri Lanka Tourism Development Authority (SLTDA)—or another representative of the tourism industry with similar standing—should be an ex-officio member of the Board of Management of the Gambling Regulatory Authority.

4. The Minister of Finance should not have sweeping authority to make regulations for the gaming industry, including the types of permitted games and the eligibility criteria for operators. Instead, the Gaming Regulatory Authority should be granted the rule-making power to make its own regulations, based on the expertise of the members of its board and in consultation with the Minister. The rule-making powers of the Securities and Exchange Commission under the Securities and Exchange Commission Act, No. 19 of 2021, may serve as a guide in this matter.

5. The Gambling Regulatory Authority should be free from binding directives and any other forms of influence by the Minister of Finance or any other government authority in its daily operations.

6. A pre-determined portion of the license fee for all gambling operators should be retained by the Gambling Regulatory Authority for its expenses related to regulation. Or else, the Gambling Regulatory Authority should charge a separate regulation fee from all operators at the time of issuing licenses.

7. The Gambling Regulatory Authority should be given the power such that, if it so wishes, it may tie each license to capacity constraints, i.e. limits on the number of tables and machines on-site at each establishment.

8. All operators holding a gaming licence should be required to abide by the disclosure and governance guidelines of the Colombo Stock Exchange (CSE).

9. Each employee hired by a licensed gaming operator should be required to hold a license issued by the Gambling Regulatory Authority, and the Authority should be given the rule-making power to specify an eligibility criteria for employees at gaming establishments, particularly dealers. The Singapore law—which includes an authorised job description, minimum age requirements, competence certifications, as well as background checks on the criminal and financial records of prospective employees—may be used as a model in devising an eligibility criteria for employee licences.

10. The two lottery operators, the National Lotteries Board and the Development Lotteries Board, should be brought under the oversight of the Gambling Regulatory Authority with no exemptions that are not granted to other gaming operators.

11. The bill should entrust the Gambling Regulatory Authority with the responsibility of designing a separate set of rules aimed uniquely at countering the negative externalities of online gambling, including the potential regulation of online gambling platforms operated from overseas.

12. The Gambling Regulatory Authority should devise a robust regulatory framework for the tracing of revenues earned by gaming operators, and until such time as a robust tracing mechanism is devised, all gaming operators should be taxed based on their capacity reflecting potential revenue (eg: the number of tables and games offered, etc.) as in the Dominican Republic. Although outside the scope of the draft bill, once a robust framework for the tracing of revenues is devised, all gaming operators should be taxed based on their gross gaming revenues, and not on their profits, as is widely practised in other gaming jurisdictions. The gross gaming revenue is the preferred base for taxation in the international industry norms because of the practicality and ease of measuring and auditing gross revenues in an industry that is prone to the

accounting manipulation of profits and the high volatility of gaming profits.

13. Both the monetary and carceral penalties for those found to be in violation of the provisions of the draft bill should be increased to penalties similar to those in other jurisdictions such as Singapore and Macau for similar offenses.

14. The Gambling Regulatory Authority should have the power to strategically manage competition in the gaming market by determining the optimal number of operators to be awarded licenses in the casino, betting, and lottery categories.

15. If an operator practises market segmentation between consumer groups at a gambling operation that takes place at the same venue and thus effectively runs the operation as multiple establishments located in the same venue, each segmented operation should obtain its own license from the Gambling Regulatory Authority, and be treated as separate entities for both regulatory and tax purposes.

16. The bill should require all licensed junket operators to hold a bank account registered in Sri Lanka, which is used for all transactions related to the junket operator's activities related to gambling operations in Sri Lanka.

17. Any changes in the corporate control of a licensed gambling operator should be approved by the Gambling Regulatory Authority before such changes are made.

18. The bill should define what it means by the phrase "adverse impact on the public", which is grounds for the termination of the license of an operator under the existing draft.

19. The bill should authorise the Authority to levy entry fees on patrons as a deterrent to gambling addiction, the proceeds from which the Authority may use to fund its operations and/or implement programmes aimed at alleviating the negative externalities of gambling.

5. Conclusion

The draft bill on the Gambling Regulatory Authority is a crucial piece of legislation that would establish a regulator for oversight of the gaming industry of Sri Lanka. The urgent establishment of a gaming regulator is of paramount importance, particularly with the impending opening of the casino at the City of Dreams integrated resort. However, the well-justified haste to bring in a gaming regulator should not be an excuse to pass a proxy law that gives the Minister of Finance unchecked power in the regulation of the gaming industry. Not only would such a regulatory body be ineffective at oversight, but it would also be vulnerable to influence, corruption, and malpractice—defeating the purpose of establishing a regulatory body of this nature in the first place.

Hence, the draft bill on the Gaming Regulatory Authority requires substantial redrafting as aforementioned. It is thus our recommendation that the government withdraws the presently published draft bill, and—with the assistance of the external expertise of those involved in crafting similar laws in other jurisdictions—introduces a new bill that corrects the substantial deficiencies in the Gambling Regulatory Authority that has presently been proposed. International expertise may particularly be necessary in finding remedies to various issues such as the siphoning off of revenues through junket operations, the unique problems posed by online gambling, and the complications related to the licensing of floor personnel at gaming establishments.

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Advocata Institute | June 2025