



Regulatory News

Sports Scandals, Fantasy League Trials Seen Boosting Demand For Finance Compliance Pros

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The sports industry's recession-proof, media-fueled growth over the past two decades into one of the world's largest industries is hardly a secret, though many of its workings have been cloaked in privacy since many of its most-coveted franchises are fiefdoms of the mega-rich.

But the taint of scandal and hype of online fantasy betting has opened the gates as never before to public scrutiny and demand is growing for compliance professionals who can referee bad behavior before regulators arrive with penalty flags in their back pockets.

"Regulation has grown tremendously, and the scandals are adding to it," said Matt Mitten, director of the National Sports Law Institute at Marquette University Law School. "It's the fourth or fifth largest global industry, and an entity that's that big needs compliance. As they say about law, 'When money is to be made, legal issues surge in its wake.'"

Big law firms have already lined up to handle the legal work created by sports scandals such as the FIFA corruption scandal, less consequential tempests of the "deflategate" variety and a long string of court cases over whether to ban or tame sports wagers on the Internet.

The next wave of compliance hiring

The next wave of hiring is likely to hit compliance professionals who can put new regulation into sports entities' playbooks and manage a risky business built on bouncing balls and athletes' egos.

The flow of big money into sports reflects the featured role that the live-action events plays in supplying 24/7 broadcast entertainment, while networks struggle to find viewers for predictably staged TV programming. The success of sports is being replayed in new media, where the fantasy owners manage teams over the Internet for the chance to make real money. It's also turning out to be one of the best potential places for compliance officers to go.

"If I were a young person starting out I would definitely consider compliance in online fantasy a good career path, and especially for someone who is entrepreneurial and willing to go through some tumultuous times," said Kyle Taylor, an attorney at the law firm of Warshaw Burstein, LLP, who has represented firms in the fantasy league.

Beyond the big scandals

The absurd drama over inflated footballs might not have the serious corruption alleged to have overtaken international "round-shaped" football of FIFA. But what both have in common is the number of legal heavyweights lined up to do battle.

The appeal for lawyers is both intellectual and financial; the deflategate case involving NFL quarterback Tom Brady is set to resume in federal court in Manhattan before a judge known for hearing precedent-setting constitutional challenges. The FIFA scandal, meanwhile, will dig into the foundations of an allegedly corruption-riddled sports body to consider whether the sport can govern itself. The legality of online betting, meanwhile, is being waged in courtrooms and statehouses around the country.

When the high-profile cases become settled law, the result is likely to be an expanded set of rules that need in-house referees to enforce new rules, and a compliance strategy to manage the endless revisions and check lists that must be followed in a regulated world. Failure to follow the rules could risk further sanctions or reputational harm. Fans want their sports well officiated, and scandals linger. Baseball continues to be haunted by the specter of a baseball World Series championship fixed by gamblers a century ago by the infamous Black Sox. State-financed sports facilities, meanwhile, are coming under scrutiny as the regulators take a closer look at municipal bond financing for signs of conflict of interest and disclosure lapses.

Sports compliance in early stage

"The regulatory side has grown tremendously," said Mitten. "A lot of our graduates are going into sports compliance and it is a great field. There is very significant interest in sports law and it is a very broad area for new regulation, because there really is very little law that is sports specific."

Fantasy leagues, FIFA and deflategate are just the most visible of signs that demand for regulatory risk professionals is rising. The intersection of government regulation and sports business is seen in the college arena, where every state university sports program has built compliance teams, Mitten said.

For risk and compliance officials in the securities industry, the strongest pull could come from the sports betting field, the sports sector that most closely resembles the workings of financial market.

Job description for fantasy league CCO

"There are a host of regulatory issues that would keep a hypothetical compliance officer very busy that involve handling money, AML, and cash transfers," said Taylor. "They will be monitoring legal developments on a state by state basis. Things are changing every day. It's a tumultuous time."

The job description for online recruiters seeking to fill compliance chief roles at a fantasy league would sound very similar to that of a Wall Street firm.

Manage billions of dollars as the intermediary for wagers, as Wall Street does for traders.

Investigate charges of alleged insider trading by employees.

Track sophisticated algorithmic bettors who might manipulate counterparties with spoofing or other strategies.

Monitor online money movements on betting systems for signs of money laundering.

Review advertising claims for promissory claims, just as brokerage promotional material is sent through compliance.

Guard against online cyber security breaches.

Monitor performance of betting platforms, just as exchanges and trading operations stress test their systems.

Assure data quality for regulatory and compliance reports.

Stay abreast of legal changes and conform to reporting regulations.

The similarities between fantasy betting and financial firms have not been missed by investment bankers. They have led funding rounds in putting about \$1 billion into the space over the past two years, as venture capitalists and sports business owners seek to participate in the upside potential of sports betting, which already amounts to \$95 billion on football alone, according to research firm GamblingCompliance. Industry figures show that 40 million Americans play in fantasy leagues.

Looming legal threat

To be sure, the drama is building concerning the legal future of the fantasy leagues, which faces its most serious threat in New York after Attorney General Eric T. Schneiderman issued cease and desist order to shut daily fantasy sports sites DraftKings and FanDuel in the state. A stay of the order was granted in US federal court pending a final ruling later this year. The Texas state attorney general launched a similar action in his state on Tuesday. Texas and New York account for 15 percent of total fantasy revenue.

State-by-state regulatory quilt

Other states have passed laws to allow regulated fantasy sports to go ahead, or are in the process of doing so. The state of California appears set to take this route, after a bill overwhelmingly passed a state assembly committee hearing, and the passage of the bill would open up the largest state to a legalization process in which compliance would become a key component.

"It will be regulated on a state by state basis, and there will need to be a lot of questions answered on licensing and transparency - but with the amount of money at stake it's hard to see every state passing this up," Taylor said. "It's not a question of whether, but when it will happen."

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