

How Does The Approved Trading System Work?

Gaming Machines Act 1992

Consumer and Business Services

Information to assist eligible persons who wish to submit offers to purchase or sell gaming machine entitlements to understand how a trading round works



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How Does A Trading Round Work?

Background

The process used to calculate which offers are successful and the purchase and sale price takes into consideration a number of complex factors including:

- how many sellers and buyers have submitted offers;
- the maximum price purchasers are willing to pay per entitlement;
- the minimum price that sellers are willing to receive per entitlement;
- whether entitlements are being sold by a profit organisation (Hotels and Casino) or a non-profit association (Clubs and Community Hotel); and
- that one in every four entitlements sold during a trading round will be either be taken out of circulation and cancelled or transferred to Club One.

Once the results of a trading round have been determined, each successful purchaser will pay the same purchase price (plus GST) for each entitlement and each successful seller will receive the same sale price (plus GST) for each entitlement, irrespective of the offer that was made.

As a result, the actual amount that successful purchasers will have to pay for a gaming machine entitlement will either be equal to or less than the amount offered. Further, the actual amount paid to successful sellers will either be equal to or more than the amount offered.

Some applicants may be unsuccessful in purchasing or selling entitlements, depending on the number of participants and the range of prices nominated by participants.

Disclaimer

While all reasonable care has been taken in preparing and compiling this document, it is intended to provide general information and guidance only, and does not constitute legal advice.

No warranty, express or implied, is given as to the completeness, correctness, accuracy, reliability or currency of the information contained in this document. This document may refer to legislation that has been amended or repealed, and/or Government policy that has subsequently changed.

If you are considering participating in a Trading Round you should inform yourself about the current applicable laws, policies and potential GST liability by seeking your own legal, financial and other advice before deciding whether to buy or sell gaming machine entitlements or making other related decisions.

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Step 1 Determine the order that entitlements will be purchased

To determine the order that entitlements will be purchased, each offer will be assigned a **priority number**, with the highest priority being assigned to the offer of the highest amount and the lowest priority being assigned to the offer of the lowest amount.

Put simply, this means that offers to purchase entitlements will be sorted from **highest to lowest** (Figure 1).

If there are multiple offers for the same amount, the order of priority will be determined by the drawing of lots*. If this is required, the drawing of lots will be overseen by a government scrutineer independent of CBS.

Figure 1

If for a given trading round there were 10 offers to PURCHASE entitlements comprising:

\$70,000	\$82,000	\$60,000	\$69,000	\$65,000
\$45,000	\$62,000	\$45,000	\$78,000	\$69,000

The order of priority would be determined as follows:

Offer Price	Priority	Offer Price	Priority
\$82,000	1	\$65,000	6
\$78,000	2	\$62,000	7
\$70,000	3	\$60,000	8
\$69,000*	4	\$45,000*	9
\$69,000*	5	\$45,000*	10

*The multiple offers for \$69,000 and \$45,000 will be assigned a priority number drawn by lots respectively.

Step 2 Adjust each offer to sell

The Approved Trading System has been designed so that every fourth entitlement sold during a trading round will either be taken out of circulation and cancelled or transferred to Club One. This means that the proceeds from purchasers for the purchase of three entitlements will actually pay for the sale of four entitlements.

To achieve this, each offer (being the lowest price that a seller will accept) will be multiplied by four and divided by three. This is known as the "Notional Selling Price" (the NSP).

Figure 2

The licensee of **Premises A** offers to sell five gaming machine entitlements and specifies \$15,500 as the lowest price which they will accept for **each** entitlement. The NSP for each entitlement will be calculated as:

\$15,500 multiplied by 4 divided by 3 = \$20,666

Figure 3

The licensee of **Premises B** offers to sell four gaming machine entitlements but specifies a different price for each entitlement (i.e. \$20,000, \$35,000, \$48,000 and \$60,000). The NSP for these entitlements will be calculated as:

\$20,000 multiplied by 4 divided by 3 = \$26,667

\$35,000 multiplied by 4 divided by 3 = \$46,667

\$48,000 multiplied by 4 divided by 3 = \$64,000

\$60,000 multiplied by 4 divided by 3 = \$80,000

Step 3
Determine the order that entitlements will be sold

To determine the order that entitlements will be sold, each offer will be assigned a **priority number**, with the highest priority being assigned to the offer with the lowest notional selling price and the lowest priority being assigned to the offer with the highest notional selling price.

Put simply, this means that offers to sell entitlements will be sorted from **lowest to highest** (Figure 4).

If there are multiple offers for the same amount, the order in which these entitlements will be sold will be determined by the drawing of lots*. If this is required, the drawing of lots will be overseen by a government scrutineer independent of CBS.

Figure 4

If for a given trading round there were 14 entitlements offered for sale, the order that these entitlements would be SOLD would be:

Offer Price	NSP (Step 2)	Priority
\$30,000*	\$40,000	1
\$30,000*	\$40,000	2
\$38,000	\$50,667	3
\$42,000*	\$56,000	4
\$42,000*	\$56,000	5
\$42,000*	\$56,000	6
\$45,000*	\$60,000	7
\$45,000*	\$60,000	8
\$49,000	\$65,333	9
\$50,000	\$66,667	10
\$60,000*	\$80,000	11
\$60,000*	\$80,000	12
\$80,000	\$106,667	13
\$85,000	\$113,333	14

Step 4
Adjust the selling priority of every fourth entitlement offered for sale

The regulations require that—

- every fourth gaming machine entitlement sold in the trading round by profit organisations (i.e. Hotels and Casino) will be cancelled; and
- every fourth gaming machine entitlement sold in the trading round by non-profit associations (i.e. Clubs and Community Hotels) will be transferred to Club One.

Figure 5

If a total of 100 offers to SELL were successful, made up of 72 from hotels and 28 from clubs—

- 18 entitlements will be cancelled (72 divided by 4);
- 7 entitlements will be transferred to Club One (28 divided by 4); and
- the remaining 75 entitlements will be transferred to successful purchasers.

To achieve this, the **priority number** assigned to each offer to sell (Figure 4) will be further adjusted so that there are two offers for every priority number that is a multiple of three.

Put simply, this means that the offer to sell which was originally assigned priority number 4 will become priority 3, original priority number 5 will become priority 4 and original priority number 6 will become priority 5 and so on.

Hence, the original priority numbers assigned to the offers to sell in figure 4 will be adjusted to match the pattern 1, 2, 3, 3, 4, 5, 6, 6, 7, 8, 9, 9, 10, 11, 12, 12 and so on. This is known as the "**Notional Priority**".

Even though this adjustment process will result in the same notional priority number being assigned to two offers to sell, the original assigned selling order (step 3) will be maintained (Figure 6).

Figure 6

If we assume that the 14 entitlements offered for sale in Figure 4 comprise the trading round, the original order of priority would be adjusted as follows:

Offer Price	NSP	Original Priority	Notional Priority
	(Step 2)	(Step 3)	(Step 4)
\$30,000	\$40,000	1	1
\$30,000	\$40,000	2	2
\$38,000	\$50,667	3	3
\$42,000	\$56,000	4	3
\$42,000	\$56,000	5	4
\$42,000	\$56,000	6	5
\$45,000	\$60,000	7	6
\$45,000	\$60,000	8	6
\$49,000	\$65,333	9	7
\$50,000	\$66,667	10	8
\$60,000	\$80,000	11	9
\$60,000	\$80,000	12	9
\$80,000	\$106,667	13	10
\$85,000	\$113,333	14	11

Original priority numbers 3 and 4, 7 and 8 and 11 and 12, would be assigned the notional priority numbers of 3, 6, and 9 respectively.

Step 5
Determine which entitlements are sold

The number of entitlements to be sold (if any) will be determined by the Commissioner on the day specified in the Trading Round Announcement Notice as the '**Trading Day**'.

A gaming machine entitlement will only be sold if—

(A) An offer to SELL an entitlement at an assigned “Notional Priority” has a “Notional Selling Price” which is equal to OR less than

(B) An offer to PURCHASE an entitlement of the SAME priority

The three scenarios on the following pages illustrate sample results of conducting a trading round.

- **Scenario 1** - A trading round where from 14 gaming machine entitlements offered for sale, only 8 entitlements are traded;
- **Scenario 2** - A trading round where all offers to buy and sell gaming machine entitlements are successful; and
- **Scenario 3** - A trading round where no offers to purchase or sell gaming machine entitlements are successful.

Scenario 1 - Partial Trade

This scenario shows a sample result if the trading round consisted of 10 offers to purchase entitlements (Figure 1) and 14 offers to sell entitlements (Figure 6).

Offers labelled as S1 to S8 (ranging from \$40,000 to \$60,000) from eligible persons wishing to sell entitlements would be successful (i.e. the notional selling price of each offer is **equal to or less** than the corresponding offer to purchase labelled as P1 to P6 ranging from \$82,000 to \$65,000).

Offers labelled as S4 and S8 were assigned a notional priority number of “3” and “6” respectively, and although the sellers will be paid for them, the entitlements will be transferred either to Club One or cancelled under the withholding rules (Step 4).

Scenario 1 – Partial Trade								
Offers To Purchase				Offers To Sell				
(Step 1)			(Step 4)	(Step 3)		(Step 2)		
Offer To Purchase	Priority Number	Trade Result	Notional Priority Number	Original Priority Number	Notional Selling Price	Offer To Sell		
P1	\$82,000	1	Offer S1 Sold	1	1	\$40,000	\$30,000	S1
P2	\$78,000	2	Offer S2 Sold	2	2	\$40,000	\$30,000	S2
P3	\$70,000	3	Offer S3 Sold	3	3	\$50,667	\$38,000	S3
			Offer S4 Sold (But Withheld)	3	4	\$56,000	\$42,000	S4
P4	\$69,000	4	Offer S5 Sold	4	5	\$56,000	\$42,000	S5
P5	\$69,000	5	Offer S6 Sold	5	6	\$56,000	\$42,000	S6
P6	\$65,000	6	Offer S7 Sold	6	7	\$60,000	\$45,000	S7
			Offer S8 Sold (But Withheld)	6	8	\$60,000	\$45,000	S8
P7	\$62,000	7	Not Successful	7	9	\$65,333	\$49,000	S9
P8	\$60,000	8	Not Successful	8	10	\$66,667	\$50,000	S10
P9	\$45,000	9	Not Successful	9	11	\$80,000	\$60,000	S11
			Not Successful	9	12	\$80,000	\$60,000	S12
P10	\$45,000	10	Not Successful	10	13	\$106,667	\$80,000	S13
			Not Successful	11	14	\$113,333	\$85,000	S14

Offers labelled as S9 to S14 do not qualify to be traded as the notional selling prices for these offers (ranging from \$65,333 to \$113,333) are greater than the corresponding offers to purchase (i.e. offers labelled P7 to P10 ranging from \$62,000 to \$45,000). The administration fees in respect to such unsuccessful offers will not be refunded.

Scenario 2 - All Offers Traded

This scenario shows a sample result if the trading round consisted of nine offers to purchase entitlements and 12 offers to sell entitlements where all entitlements are traded.

All offers to sell (labelled S1 to S12 ranging from \$26,667 to \$73,333), have a notional selling price **equal to or less** than the corresponding offers with the same priority number to purchase (labelled as P1 to P9 ranging from \$100,000 to \$75,000).

Scenario 2 – All Offers Traded								
Offers To Purchase			Offers To Sell					
(Step 1)			(Step 4)		(Step 3)		(Step 2)	
Offer To Purchase	Priority Number	Trade Result	Notional Priority Number	Original Priority Number	Notional Selling Price	Offer To Sell		
P1	\$100,000	1	Offer S1 Sold	1	1	\$26,667	\$20,000	S1
P2	\$85,000	2	Offer S2 Sold	2	2	\$26,667	\$20,000	S2
P3	\$80,000	3	Offer S3 Sold	3	3	\$33,333	\$25,000	S3
			Offer S4 Sold (But Withheld)	3	4	\$40,000	\$30,000	S4
P4	\$80,000	4	Offer S5 Sold	4	5	\$40,000	\$30,000	S5
P5	\$80,000	5	Offer S6 Sold	5	6	\$40,000	\$30,000	S6
P6	\$78,000	6	Offer S7 Sold	6	7	\$53,333	\$40,000	S7
			Offer S8 Sold (But Withheld)	6	8	\$53,333	\$40,000	S8
P7	\$78,000	7	Offer S9 Sold	7	9	\$56,000	\$42,000	S9
P8	\$75,000	8	Offer S10 Sold	8	10	\$60,000	\$45,000	S10
P9	\$75,000	9	Offer S11 Sold	9	11	\$66,667	\$50,000	S11
			Offer S12 Sold (But Withheld)	9	12	\$73,333	\$55,000	S12

As the Notional Selling Price **is less than or equal** to the equivalent offer to purchase, the entitlement can be traded

Scenario 3 - No Offers Traded

In the event that all of the offers to sell have a notional selling price **greater** than the corresponding offer to purchase, no offers will be successful and the trading round will be closed. The administration fees in respect to such unsuccessful offers will not be refunded.

Scenario 3 – No Offers Traded								
Offers To Purchase				Offers To Sell				
(Step 1)			(Step 4)	(Step 3)		(Step 2)		
Offer To Purchase	Priority Number	Trade Result	Notional Priority Number	Original Priority Number	Notional Selling Price	Offer To Sell		
P1	\$65,000	1	Not Successful	1	1	\$80,000	\$60,000	S1
P2	\$65,000	2	Not Successful	2	2	\$80,000	\$60,000	S2
P3	\$60,000	3	Not Successful	3	3	\$80,000	\$60,000	S3
			Not Successful	3	4	\$86,667	\$65,000	S4
P4	\$50,000	4	Not Successful	4	5	\$93,333	\$70,000	S5
P5	\$50,000	5	Not Successful	5	6	\$106,667	\$80,000	S6
P6	\$50,000	6	Not Successful	6	7	\$106,667	\$80,000	S7
			Not Successful	6	8	\$106,667	\$80,000	S8
P7	\$50,000	7	Not Successful	7	9	\$113,333	\$85,000	S9
P8	\$40,000	8	Not Successful					
P9	\$40,000	9	Not Successful					

As the Notional Selling Price is **greater** than the equivalent offer to purchase the entitlement cannot be traded

Step 6 Calculate the Purchaser Price

All persons who make successful offers to purchase entitlements will pay the same Purchaser Price (plus GST) for each entitlement, irrespective of the offer that was made.

The Purchaser Price for each entitlement will be calculated as:

Half of the sum of—

**(A) the lowest successful offer to PURCHASE
an entitlement;**

and

**(B) the notional selling price of the highest
successful offer to SELL an entitlement.**

This will mean that the actual amount paid by successful purchasers for an entitlement will either be **equal to or less** than the amount offered (Figure 7).

Figure 7

Using the offers shown in **Scenario 1**, the Purchaser Price for the trading round would be calculated as half of the sum of—

**(A) the lowest successful offer to purchase (i.e. Offer P6 @ \$65,000)
and**

(B) the highest successful notional selling price (i.e. Offer S8 @ \$60,000)

The Purchaser Price (ignoring GST) = \$62,500 (i.e. Sum of A and B then divided by 2)

While the amounts that successful purchasers were willing to pay in Scenario 1 (offers labelled as P1 to P6) ranged between **\$82,000 and \$65,000**, all successful purchasers would only be required to pay the Purchaser Price of **\$62,500** plus GST for each entitlement.

Step 7 Calculate the Vendor (Seller) Price

All persons who make successful offers to sell entitlements will be paid the same Vendor Price (plus GST) for each entitlement, irrespective of whether their entitlement is ultimately transferred to a purchaser or cancelled.

The Vendor Price for each entitlement will be calculated as $\frac{3}{4}$ of the amount of the Purchaser Price (Figure 8). This means that the actual amount paid to vendors will either be equal to or more than the amount offered.

Figure 8

Using the offers shown in **Scenario 1**, the Vendor Price for the trading round would be calculated as $\frac{3}{4}$ of the Purchaser Price—

Purchaser Price
(as calculated in Figure 7): **\$62,500**

Vendor Price (ignoring GST): **\$46,875**
(\$62,500 multiplied by 3 divided by 4)

While the minimum amount that successful vendors were prepared to accept for these offers in Scenario 1 (offers labelled as S1 to S8) ranged between **\$30,000 and \$45,000**, all successful vendors would have been paid the Vendor Price of **\$46,875** plus GST.

Why are the Purchaser Price and Vendor Price different?

As previously discussed, the approved trading system is designed so that every three entitlements purchased will pay for a fourth entitlement to either be cancelled or transferred to Club One.

Figure 9

If we ignore GST and use the amount of the Purchaser Price and Vendor Price calculated in Figure 7, for every 4 gaming machine entitlements traded—

Purchasers will pay **\$62,500** per entitlement (i.e. for every **three** successful offers to purchase, a total of **\$187,500**);

Vendors (i.e. sellers) will be paid **\$46,875** per entitlement (i.e. for every **four** successful offers to sell, a total of **\$187,500**).

*This means that the total amount of money paid by purchasers for **three** entitlements will be transferred to sellers as payment for **four** entitlements.*

The remaining one entitlement not transferred to a purchaser, will either be cancelled or transferred to Club One, depending on the tax status of the venue from which the entitlement originated.

Need further information?

Enquiries about the approved trading system can be made by contacting Consumer and Business Services by:

Telephone: 131 882

Email: gmetrade@sa.gov.au

Website: www.sa.gov.au/gmetrade