

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
First Regular Session

COMMITTEE REPORT NO. 815

Submitted by the **COMMITTEE ON GAMES AND AMUSEMENTS**
on **22 MAR 2011**

Re : **House Bill No. 3536**
Recommending its approval without amendments

Sponsors: **Representatives Amado S. Bagatsing and Hermilando I. Mandanas**

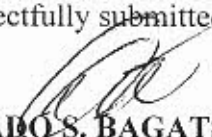
Mr. Speaker:

The **Committee on Games and Amusements**, to which was referred **House Bill No. 3536**, introduced by Representatives Amado S. Bagatsing and Hermilando I. Mandanas, entitled:

**"AN ACT
AMENDING PRESIDENTIAL DECREE NO. 1869, AS AMENDED,
CONSOLIDATING AND AMENDING PRESIDENTIAL DECREE NOS.
1067-A, 1067-B, 1067-C, 1399 AND 1632, RELATIVE TO THE
FRANCHISE AND POWERS OF THE PHILIPPINE AMUSEMENT AND
GAMING CORPORATION (PAGCOR), SUBJECTING PAGCOR TO
THE AUDIT JURISDICTION OF THE COMMISSION ON AUDIT"**

has considered the same and has the honor to report it back to the House of Representatives with the recommendation that **House Bill No. 3536** be approved without amendment, with Representatives Amado S. Bagatsing, Hermilando L. Mandanas, as authors thereof.

Respectfully submitted,


AMADO S. BAGATSING
Chairman
Committee on Games and Amusements

The Honorable Speaker
House of Representatives
Quezon City
fn: cr3536 15th congress

CO-AUTHORSHIP ON
HOUSE BILL NO. 3536

AN ACT AMENDING PRESIDENTIAL DECREE NO. 1869, AS AMENDED, CONSOLIDATING AND AMENDING PRESIDENTIAL DECREE NOS. 1067-A, 1067-B, 1067-C, 1399 AND 1632, RELATIVE TO THE FRANCHISE AND POWERS OF THE PHILIPPINE AMUSEMENT AND GAMING CORPORATION (PAGCOR), SUBJECTING PAGCOR TO THE AUDIT JURISDICTION OF THE COMMISSION ON AUDIT"

HON. AMADO S. BAGATSING

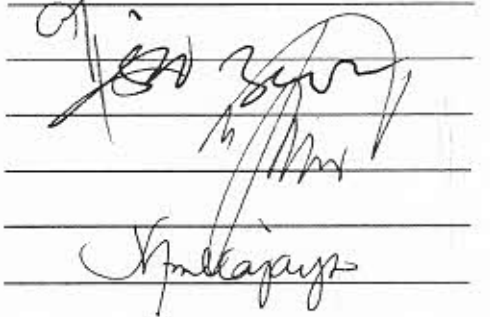
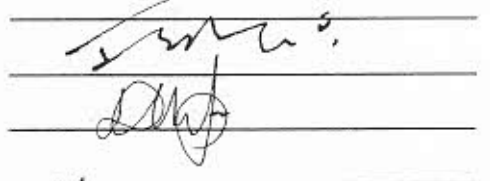
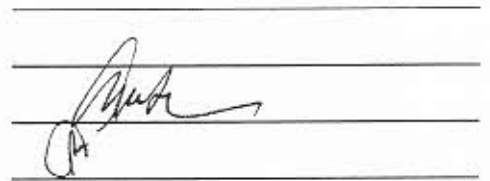
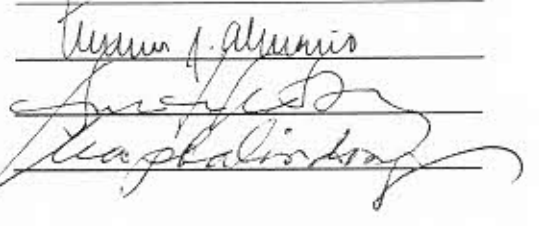
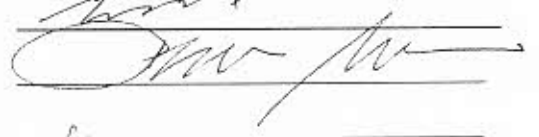
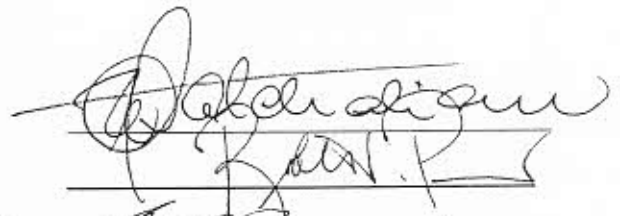
Chairman

Vice-Chairmen:

1. HON. REXLON T. GATCHALIAN
2. HON. ROBERTO V. PUNO
3. HON. ELEANDRO JESUS F. MADRONA
4. HON. FLORENCIO C. GARAY
5. HON. NIEL C. TUPAS, JR.
6. HON. THELMA Z. ALMARIO
7. HON. ANTONIO M. DIAZ
8. HON. PANGALIAN M. BALINDONG

Members:

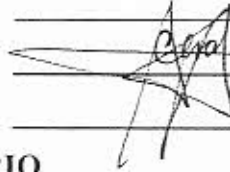
1. HON. DARYL GRACE J. ABAYON
2. HON. GIORGIDI B. AGGABAO
3. HON. MANUEL S. AGYAO
4. HON. ANTONIO C. ALVAREZ
5. HON. MARIA ZENAIDA B. ANGPING
6. HON. RODOLFO W. ANTONINO
7. HON. JOSE S. AQUINO II
8. HON. DIOSDADO M. ARROYO
9. HON. IGNACIO T. ARROYO
10. HON. ELPIDO F. BARZAGA, JR.
11. HON. MARIA JOCELYN V. BERNOS
12. HON. AL FRANCIS C. BICHARA
13. HON. ANNA YORK P. BONDOC
14. HON. MARY MITZI L. CAJAYON

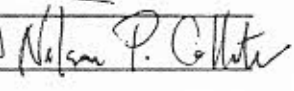


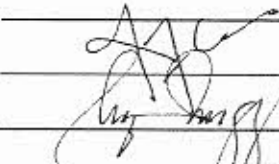
CO-AUTHORSHIP ON
HOUSE BILL NO. 3536

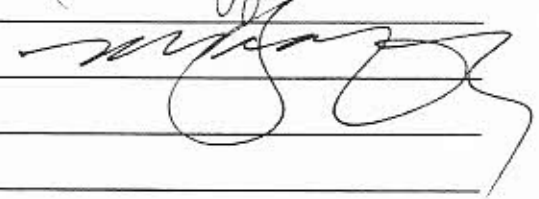
AN ACT AMENDING PRESIDENTIAL DECREE NO. 1869, AS AMENDED, CONSOLIDATING AND AMENDING PRESIDENTIAL DECREE NOS. 1067-A, 1067-B, 1067-C, 1399 AND 1632, RELATIVE TO THE FRANCHISE AND POWERS OF THE PHILIPPINE AMUSEMENT AND GAMING CORPORATION (PAGCOR), SUBJECTING PAGCOR TO THE AUDIT JURISDICTION OF THE COMMISSION ON AUDIT"

15. HON. IMELDA G. CALIXTO-RUBIANO
16. HON. ARNEL M. CERAFIGA
17. HON. NELSON P. COLLANTES
18. HON. ANTONIO RAFAEL G. DEL ROSARIO
19. HON. JOEL ROY R. DUAVIT
20. HON. RAMON H. DURANO VI
21. HON. NAPOLEON S. DY
22. HON. JOSEPH VICTOR G. EJERCITO
23. HON. YEVGENY VINCENTE B. EMANO
24. HON. ROGELIO J. ESPINA
25. HON. BEN P. EVARDONE
26. HON. ERICO BASILIO A. FABIAN
27. HON. MYLENE J. GARCIA-ALBANO
28. HON. ARNULFO F. GO
29. HON. LUCY T. GOMEZ
30. HON. EDUARDO R. GULLAS
31. HON. NUR G. JAAFAR
32. HON. ANTONIO T. KHO
33. HON. ROSENDO S. LABADLABAD
34. HON. ANTONIO F. LAGDAMEO, JR.
35. HON. CARMELO F. LAZATIN
36. HON. CARLO V. LOPEZ
37. HON. ROY M. LOYOLA
38. HON. MARIA MILAGROS H.
MAGSAYSAY





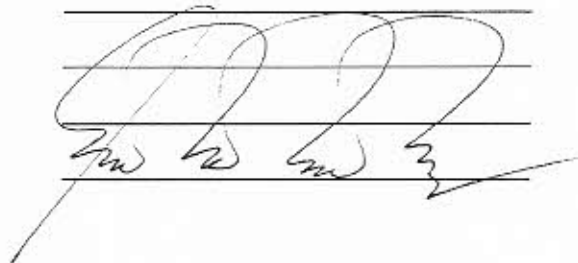
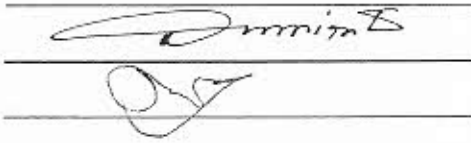
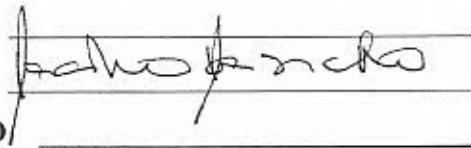
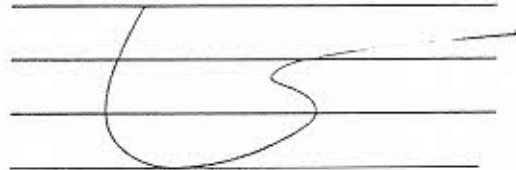




CO-AUTHORSHIP ON
HOUSE BILL NO. 3536

AN ACT AMENDING PRESIDENTIAL DECREE NO. 1869, AS AMENDED, CONSOLIDATING AND AMENDING PRESIDENTIAL DECREE NOS. 1067-A, 1067-B, 1067-C, 1399 AND 1632, RELATIVE TO THE FRANCHISE AND POWERS OF THE PHILIPPINE AMUSEMENT AND GAMING CORPORATION (PAGCOR), SUBJECTING PAGCOR TO THE AUDIT JURISDICTION OF THE COMMISSION ON AUDIT"

39. HON. ERINEO S. MALIKSI
40. HON. FRANCISCO T. MATUGAS
41. HON. NEIL BENEDICT A. MONTEJO
42. HON. LORETO LEO S. OCAMPOS
43. HON. EDWIN DL. OLIVAREZ
44. HON. PEDRO M. PANCHO
45. HON. IMELDA QUIBRANZA-DIMAPORO
46. HON. ARTURO O. RADAZA
47. HON. LANI M. REVILLA
48. HON. CESAR V. SARMIENTO
49. HON. MEL SENEN S. SARMIENTO
50. HON. MA. VICTORIA R. SY-ALVARADO
51. HON. MILAGROSA T. TAN
52. HON. REYNALDO V. UMALI
53. HON. ISIDRO T. UNGAB
54. HON. RENATO J. UNICO JR.
55. HON. BERNARDO M. VERGARA



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

FIFTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 3536

Introduced by: **HONORABLES AMADO S. BAGATSING**
AND HERMILANDO I. MANDANAS

EXPLANATORY NOTE

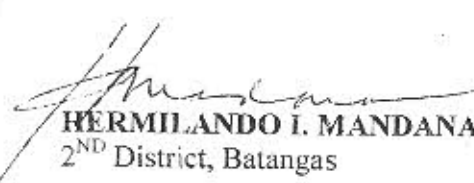
Presidential Decree No. 1869 which consolidated Presidential Decree Nos. 1067-A, 1067-C, 1399 and 1632, relative to the franchise and powers of the Philippine Amusement and Gaming Corporation (PAGCOR), was enacted on July 11, 1983 to enable the then Marcos Government to regulate and centralize thru an appropriate institution all games of chance authorized by existing franchise or permitted by law.

In this same decree, PAGCOR was given greater flexibility in its operation by limiting governmental audit only to the determination of the five percent (5%) franchise tax and the government's share of fifty percent (50%).

When President Cory Aquino took over the reins of government in 1986, PAGCOR was placed under full audit by the Commission on Audit through COA Resolution 86-13, which declared Section 15 of PD 1869 relative to the franchise and powers of PAGCOR, to be without force and effect insofar as the audit thereof is concerned.

This measure is not questioning whether COA is performing its audit function of PAGCOR but rather there is need to amend the law to conform with the Constitution. The COA circular cannot amend the existing law, which is PD 1869. If the proper amendment to the law is not done the Supreme Court may declare the law unconstitutional.

It is therefore urgently requested that this bill be approved by this Chamber.


HERMILANDO I. MANDANAS
2ND District, Batangas


AMADO S. BAGATSING
5TH District, Manila

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 3536

Introduced by: **HONORABLES AMADO S. BAGATSING AND
HERMILANDO I. MANDANAS**

AN ACT
AMENDING PRESIDENTIAL DECREE NO. 1869, AS AMENDED,
CONSOLIDATING AND AMENDING PRESIDENTIAL DECREE NOS. 1067-A,
1067-B, 1067-C, 1399 AND 1632, RELATIVE TO THE FRANCHISE AND POWERS
OF THE PHILIPPINE AMUSEMENT AND GAMING CORPORATION (PAGCOR),
SUBJECTING PAGCOR TO THE AUDIT JURISDICTION OF THE COMMISSION
ON AUDIT

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

1 **SECTION 1.** Section 15 of Presidential Decree No. 1869 is hereby amended to read
2 as follows:

3 “Section 15. Auditor – The Commission on Audit [or any government agency
4 that the office of the President may designate] shall appoint a representative who shall be the
5 Auditor of the Corporation and such personnel as may be necessary to assist said
6 representative in the performance of his duties. The salaries of the Auditor or representative
7 and his staff shall be fixed by the Chairman of the Commission on Audit. [or designated
8 government agency, with the advice of the Board, and said salaries and other expenses shall
9 be paid by the Corporation. The funds of the Corporation to be covered by the audit shall be
10 limited to the 5% franchise tax and the 50% of the gross earnings pertaining to the
11 government as its share .] **FUNDS AND TRANSACTIONS, INCLUDING REVENUES,**
12 **INCOME AND EXPENDITURES, OF THE CORPORATION, SHALL BE AUDITED**
13 **PURSUANT TO EXISTING LAWS AND REGULATIONS.”**

14 **SEC. 2.** All laws, decrees, executive orders, instructions, rules and regulations or
15 parts thereof inconsistent with the provisions of this Act are hereby repealed or modified
16 accordingly.

1 SEC. 3. This Act shall take effect thirty (30) days after its approval and after its
2 publication in the *Official Gazette* or in two (2) national newspapers of general circulation.

3 Approved,

MINUTES OF THE MEETING OF THE COMMITTEE ON GAMES AND AMUSEMENTS HELD ON FEBRUARY 14, 2011, 1:30 PM AT CONFERENCE ROOMS 9 AND 10, RAMON V. MITRA BLDG. HOUSE OF REPRESENTATIVES, QUEZON CITY.

I. CALL TO ORDER/ROLL CALL

The Chair, Hon. Amado S. Bagatsing called the meeting to order at 1:49 p.m. Upon motion of Hon. Giorgidi Aggabao, duly seconded, the calling of the roll was dispensed with.

II. APPROVAL OF THE MINUTES OF THE PREVIOUS MEETING OF THE COMMITTEE HELD ON JANUARY 31, 2011.

Upon motion of Hon. Giorgidi Aggabao, duly seconded, the reading of the minutes of the previous meeting held last January 31, 2011, was dispensed with and was considered approved.

RESOURCE PERSONS:

1. Atty. Jorge A. Sarmiento - Pagcor President & Chief Operating Officer
2. Henry Reyes - Pagcor Asst. Vice Pres. for Community Relations
3. Atty. Jose Ferdinand Rojas III - PCSO General Manager
4. Atty. Mabel Mamba - PCSO Director
5. Atty. Aquil Tamano - GAB Commissioner
6. Atty. Benjamin Samson - Dept. of Justice, Asst. Prosecutor
7. Atty. Manuel Fernandez - OGCC, Asst. Gov't Corporate Counsel
8. Sec. Jose Marie. Ponce - CEZA Administrator
9. Mr. Nilo Aldeguer - CEZA Senior Deputy Administrator
10. Mr. Joffrey Cabalsa - CEZA Deputy Administrator
11. Mr. Dennis Valdes - PhilWeb President
12. Chief Superintendent Francisco Villaroman - PNP Regional Director, Region II
13. Chief Superintendent Gil Lebin - PNP Provincial Director Region VI
12. Chief Inspector Manuel de Vera - PNP RLSO 2, PRO 2
13. Atty. Angelo Nino Santos - Meridien Vista Gaming Corporation Representative

III. INITIAL DELIBERATION OF HB NO. 3536 " An Act Amending Presidential Decree No. 1869, as Amended, Consolidating and Amending Presidential Decree Nos. 1067-A, 1067-B, 1067-C, 1399 and 1632, Relative to the Franchise and Powers of the Philippine Amusement and Gaming Corporation (PAGCOR), Subjecting Pagcor to the Audit Jurisdiction of the Commission on Audit" authored by Hon. Amado Bagatsing and Hon. Hermilando Mandanas

The Chair reiterated that this measure was refiled by him considering that this was passed by this Committee and was approved on third Reading by this House during the 14th Congress but was left pending in the Senate. He added that under the new House Rules of this Congress once a measure has been approved on 3rd Reading during the previous Congress, this bill is refiled and with one meeting, the Committee can approve the bill immediately and be reported out to the plenary.

The Chair recognized Hon. Antonino who moved that the Committee approve the bill. He manifested that he intended to file a motion to put PAGCOR under COA audit. The Chair then asked the comment of PAGCOR and Atty. Jorge Sarmiento replied that they do not object to the bill but fully support this measure. He further clarified that PAGCOR has been under COA audit since the time of President Cory until now. He explained that before this, they were audited only on the government share, however, in 1987, during the time of Senator Guingona who was then COA Chair, COA exercised their audit power over the whole of PAGCOR, in consonance with the Constitution.

Explaining his bill, the Chair remarked that under its charter, PAGCOR had a private component but after the EDSA Revolution, a COA circular was issued to put the entire PAGCOR under COA audit. He added that this bill was filed to put the record straight.

The Chair then advised the body that there is a motion to approve this bill and hearing no objection, the motion was approved. He then instructed the Committee Secretary to prepare the committee report to be sent to the Committee on Rules.

IV. CONTINUATION OF THE DELIBERATION ON HB NO. 447 " Resolution Directing the Committee on Games and Amusements of the House of Representatives to Investigate, in Aid of Legislation, the Number games operations, i.e., Virtual, Jai-Alai, Video, Karera, etc, of Meridien Vista Gaming, Inc., and its Beneficial Owner, Mr. Charlie "Atong" Ang, Leading to the Loss of PCSO STL Revenues in its Area of Operations " by Hon. Napoleon Dy and Hon. Giorgidi Aggabao

The Chair recognized Hon. Aggabao who informed the body that the parliamentary status of the bill is that Atty. Santos was trying to represent the officials of Meridien but he was not recognized by the members of the Committee and hearing the lack of resource persons, the meeting was adjourned.

The Chair then mentioned that Atty. Santos submitted a letter of authority from the the president of Meridien.

Hon. Aggabao asked if the official of Meridien have been invited as agreed in the last meeting. He mentioned that it is the practice in other committees that counsel of persons subject of an investigation may not speak at the hearing.

When the Chair asked if Mr. Atong Ang is an owner of Meridien, Atty Santos clarified that he represents only the corporate personality of Meridien. He said that Atong Ang is not an owner and his name does not appear in any of the documents of Meridien.

The Chair remarked that this information is material to this investigation. However, there are other matters that need clarification.

When asked if Atong Ang is a consultant of the Meridien, Atty Santos said that as far as he knows, Atong Ang was a consultant before the opening of Meridien,

At this point, the Chair asked Atty. Santos of Meridien if he knows a certain Mr. Aitor Totoricaguena to which Atty. Santos replied that this person is the president of Meridien who is a Spanish national and who is now in Spain to attend to personal matters.

For the information of the body, the Chair said that he received a letter from Mr. Totoricaguena and in the last paragraph of his letter, the President of Meridien said it is not proper for him to comment on this resolution as this is still the subject matter of a pending case; making comments of the same during the pendency of the case might affect or prejudice the outcome of the case.

Hon. Aggabao said that this is the quandary of the committee. This is a legislative inquiry, a probe into certain factual allegations and therefore it is important that those witnesses appearing before this committee should have first hand knowledge about those facts we want elicited. He said, with all due respect to Atty. Santos, everything that he would be telling us here would be hearsay at best. Unless the top officials appear, he said this committee will not be able to get to the bottom of this. He said he would be constrained to request for the second time that the principal officials of Meridien appear before this inquiry.

The Chair remarked that he agrees with Hon. Aggabao and although this case is pending in the courts, this committee is investigating in aid of legislation. The Chair also said that he feels that in the case of CEZA and Meridien, they have transgressed the powers of Congress saying that he heard that the jai-alai operates even outside of CEZA, so what would prevent anyone who wants to go into gaming from doing the same.

The Chair added that because of the Committee on Games and Amusements meeting last January 31, *sabongsabong.com.ph* opted to postpone the opening of their operations in the Philippines and in lieu thereof, they decided to go on air internationally.

With the permission of Hon. Aggabao, the Chair expressed his sentiment that even if the officials of Meridien are not present, the committee can direct questions to the other resource persons who are present.

Hon. Antonino asked the Meridien representative if he could provide this committee the Articles of Incorporation papers and the General Information Sheet filed with the Securities and Exchange Commission. Hon. Aggabao requested that these papers be submitted within five days.

At this point, Atty. Tamano volunteered that he has a copy of these documents and he submitted the same to the committee.

Hon. Magsaysay asked why CEZA issued a cease and desist order for Meridien to operate within CEZA. The basis for this, as per CEZA, is the legal opinion of OGCC stating we do not have a clear mandate pertaining to the operation of jai-alai rendered by then Atty. Agra and that there should be an expressed provision in our franchise to operate within or outside of CEZA.

That is why CEZA said they would like to go to court to seek clarification whether they have the authority to issue license for jai-alai inside CEZA and outside of their jurisdiction. This happened because when they sought the first legal opinion, OGCC said that they have the franchise within CEZA and outside CEZA. However, in their second opinion, OGCC withdrew it. He said that is why CEZA issued a Cease and Desist Order, then, Meridien filed a suit against them, and it is now pending in the court.

The representative of CEZA stated that under Section VI of their charter, they can license, directly or indirectly, tourism activities including games, amusements and creation of sports facilities such as horseracing, dog racing, gambling casinos, golf courses and others. CEZA also said there is no mention of jai-alai, although they were not sure if it falls under tourism activities or games or amusements.

When Hon. Magsaysay asked why they allowed Meridien to operate outside of their jurisdiction, CEZA said it is because of the first opinion of the OGCC and besides, CEZA said these were just betting stations, mostly international.

In answer to the query of the Chair as to why CEZA issued a Cease and Desist Order, CEZA said the OGCC legal opinion stated that CEZA does not have the authority to issue jai-alai licenses inside or outside of CEZA. CEZA said Meridien gives licenses to pelotaris thru CEZA. They explained that when CEZA issued a Cease and Desist Order, there was no jai-alai operation yet. It was only when Meridien secured an injunction from the court that they continued operation until the actual playing.

The Chair asked what the Games and Amusements Board (GAB) have done since jai-alai is under their jurisdiction. Commissioner Tamano replied that when they assumed last December, GAB formed an adhoc committee for jai-alai operations. They requested their anti-gambling unit to do surveillance. GAB said they submitted their report to this committee last January 31 wherein they mentioned that there was an on-going jai-alai operations. Because of this report, GAB issued a Show Cause Order to all the off-fronton outlets operating in Metro Manila based on Republic Act 954 and Executive Order 141 which gives power to GAB to regulate jai-alai. GAB also said that they have received a letter from Meridien which says that GAB has no power to regulate them.

The Chair declared that now GAB should issue a Cease and Desist Order to CEZA because the players are not licensed by GAB, the rules and regulations are not approved by GAB, betting is not monitored by GAB so who is protecting the betting public.

Hon. Umali asked if these jai-alai frontons are extensions of Meridien in Manila. GAB said that when they sent Show Cause Order to these off-frontons, it was Meridien who answered them, which shows that Meridien is actually the one operating them.

The Chair then recognized the representative from OGCC who narrated that, originally, the case was filed in the Regional Trial Court of Aparri, Cagayan but they lost the case, however they elevated it to the Court of Appeals. He said further that the lower court allowed Meridien to continue with its jai-alai operations. When they

appealed in 2009 the Court of Appeals affirmed the lower court's decision. OGCC made a Motion for Reconsideration but it was denied last January 6, 2011. After that OGCC said they filed for 30 days extension of time so they could file a Petition for Certiorari before the Supreme Court. OGCC said the last day to file is on February 21st. The Chair asked OGCC how come they lost the case in the Court of Appeals. OGCC explained that it was the fault of the lawyer who previously handled the case who, upon receipt, did not file a Motion of Reconsideration nor a Notice of Appeal within the 15 day statutory period.

The Chair said that he has information that the same lawyer did not even wait for the decision to be sent by mail but was on hand to personally get a copy of it. OGCC confirmed that the lawyer went to the court himself which is not usually done. That lawyer was administratively charged for Serious Dishonesty, Grave Misconduct, Gross Negligence of Duty and Conduct Prejudicial to the Service. No disbarment was filed but he was dismissed effective January 31, 2011.

Hon. Aggabao asked if OGCC was unable to file an appeal within the reglamentary period, what was then the basis for their appeal in the Court of Appeals. OGCC said in the RTC, they filed a Relief from Judgment for the abuse of discretion of the lower court. OGCC said they believe that all is not lost.

Hon Aggabao said he can foresee that there will be no clear adjudication of the merits but that this case will drag on, and on a question of procedure and not on fact if CEZA has the authority to grant license to Meridien. He said that there will be no resolution on the substantive issue on whether CEZA can lawfully issue a license to Meridien.

OGCC cited the resolution of the Court of Appeals denying the Motion for Reconsideration wherein it says "under the RA 7922, petitioner CEZA has the power to either operate a sports and/or gaming facilities or similar amusements or issue a license to a deserving entity. A game is both a pastime and a play for a stake. Jai-alai is an internationally known sport albeit a betting game. Clearly petitioner CEZA has the power to issue a license to respondent Meridien for the holding and operation of jai-alai. No additional legislative franchise categorically granting said authority to respondent Meridien is therefore necessary. Consequently, considering that the said license to operate which was issued to respondent Meridien has yet to expire, the license continues to be valid and subsisting".

Hon. Garin asked who was the judge and OGCC replied that it was RTC judge Oscar Zaldivar; and from the Court of Appeals, the justices who signed the decision were Justices Noel Tijam, Marlene Gonzales Sison and Danton Bueser.

The Chair pointed out that the courts never mentioned anytime about the operation of jai-alai outside of CEZA; and the OGCC confirmed that their 2nd legal opinion said that Meridien is not allowed to operate jai-alai inside and outside of CEZA.

For the record, CEZA stressed that after the 2nd legal opinion, they have not allowed Meridien to set up betting stations outside of CEZA.

Hon. Aggabao said that there is a strong suggestion for GAB to issue an injunction against Meridien and what is their time-table with regard to this. GAB said that they

have issued a Show Cause Order and the hearing was supposed to be today but since this committee has a meeting, they have deferred it to next week, February 21. However, the Chair asked why just a Show Cause Order when the authority of GAB has been by-passed. Hon. Antonino said not to take lightly the decision of the Court of Appeals as it is a serious one. He said that the Court of Appeals said that CEZA could issue licenses without legislating imprimatur. He pointed out that this would be a precedent for all export processing zones, that CEZA can issue licenses, whether inside or outside is unclear. He pointed out that congress is placed out of the picture so GAB is also out of the picture. He suggested that this committee carefully study this matter.

Hon. Antonino pointed out that in the documents submitted, how come 2 Spanish citizens were issued par value of P4M and there is a Filipino, Mr. Eleazar Reyes, who has subscribed shares of P15,000.00 and the foreigners have P10,000.00. However, in the Paid-Up Capital of the GIS, the paid-up capital portion of the P15,000.00 shares by the Filipinos is P75,000.00. Whereas in the foreigners P10,000.00 shares, the paid-up capital is P9M. He asked how come two foreigners contribute 98% of the paid-up capital. He said there seems an irregularity in these documents which are submitted to the SEC. If this is true, then this could be a basis for CEZA to withdraw or cancel its license. He said it is clear that based on these documents the organization of this corporation is not legal.

CEZA said he agreed with Hon. Antonino and he will ask his lawyers to study this, but for a while, CEZA thought the papers were SEC registered. Cong. Antonino requested GAB to issue a Cease and Desist Order against Meridien as this would strengthen their case. Hon. Antonino then asked that CEZA furnish the committee with that study within this week.

Based on the discussion, Hon. Magsaysay said that CEZA apparently did not exercise due diligence in issuing a license to Meridien and that CEZA seems to be poorly managed if they granted a license to a locator without checking the documents.

Hon. Garin agreed with Hon. Magsaysay and asked who has oversight powers over CEZA. If it is congress, then it is incumbent upon us to review the authority given to CEZA even with the good intent of the previous congresses in the creation of CEZA, authorities like this has been subject to abuse. She said if there is a need, CEZA could be dissolved.

Hon. Magsaysay said that in the Subic Bay Freeport Zone, there is no need for a 60/40% ownership as long as it is inside the zone. CEZA also confirmed the same.

Hon. Aggabao requested that the officials of Meridien be present in the next meeting. At this juncture, the Chair terminated the discussion to give way to the deliberation of another measure.

III. INITIAL DELIBERATION ON HOUSE RESOLUTION NO. 585 "URGING THE COMMITTEE ON GAMES AND AMUSEMENTS TO CONDUCT AN INQUIRY, IN AID OF LEGISLATION, ON THE CONTRACT OF THE PHILIPPINE AMUSEMENT AND GAMING CORPORATION WITH PHILWEB CORP. FOR BEING ALLEGEDLY DISADVANTAGEOUS TO THE GOVERNMENT" by Hon. Rufus Rodriguez and Hon. Maximo Rodriguez, Jr.

Hon. Rufus Rodriguez stated that the intellectual property rights agreement was signed last June 1, 2006. The Software License Agreement said that the fee to be given is 2.5%. After one month, this was increased to 10%. He pointed out the issues:

1. PhilWeb does not own the software. Upon checking, the owner of the software is Real Time Gaming (RTG) Holdings. Therefore, PhilWeb, who is receiving 10% is a middleman and has no propriety rights over the software with which it is being paid. And furthermore, the increase in the fee is contrary to what is stated in Sec 7A of the Agreement of June 1 which states that "no modifications shall be valid unless made in writing and is duly signed by the authorized representatives of both parties;" and
2. the amendment was made only last September 13, 2007 after the agreement was installed.

Mr. Dennis Valdez of PhilWeb said that they are more than just the alleged middleman between Pagcor and RTG. He explained that the internet casino operation of Pagcor is unique in that it is a café based operation. PhilWeb said that most internet gaming can be played from the home. Pagcor's gaming can be played only in cafes. Most internet gaming software is designed for home. RTG software is designed for pure internet use. As is, PhilWeb said Pagcor cannot use RTG for its gaming operations. Thus, in addition, the software "MiddleWare" was written by PhilWeb to conform to the design specifications and ensure that the RTG software communicates properly with the computer software of Pagcor which is already in place.

Furthermore, PhilWeb said the PEG software cashiering system, which we know today as our "Lunchpad" is a proprietary software developed by PhilWeb for use in Pagcor's internet casino operations. PhilWeb said they have an Information Technology and Software Department with 49 employees, which has the capability to write internet software similar to the ones by RTG. In June 2006, the Board of Directors of Pagcor decided to use RTG and so PhilWeb has to abide by this decision. Hence, PhilWeb said the COA's findings is baseless.

Furthermore, PhilWeb said in addition to the positioning of the proprietary software system required to run the PEG's operation, they provide Pagcor with web hosting services and management services which encompass the entire spectrum of services needed to run Pagcor. They said that PhilWeb is run at no expense to Pagcor.

Pagcor said they have renegotiated the terms and conditions of the old IPMLA and effective January 1, 2011, Pagcor said they have aligned closely to the audit report of COA. Pagcor informed the body that they have reduced the software fee from 10% to 5%.effective January 1, 2011. Pagcor said they have negotiated that the 2% casino winnings allocated as operator's incentives, PhilWeb agreed that they will no

longer be deducted from Pagcor share. This also includes capital advances fee which is .5166 of casino winnings, which was also removed.

As per Pagcor, the operator's incentives fees of 2% of casino winnings and capital advanced fees which were under PhilWeb's control before are no longer under the new IPLMA shared expenses PhilWeb will have to shoulder them and not Pagcor.

Also, pursuant to the COA audit observations that the old sharing between PhilWeb and Pagcor is based on net receipts, it is now based on gross revenue.

Under the agreement, PhilWeb shall continue its marketing activities including advertising and promotions and Pagcor shall continue to have regulatory control over PEGs and their operations.

Pagcor said that the impact of this renegotiation is that there is an increase of P112M share for Pagcor to the P1.1B share of Pagcor from 2010.

Hon. Rufus Rodriguez said Pagcor will be in the losing end because winner payout is 97%, therefore of the P17B sales, Pagcor was able to get P139M only. He said that the COA audit report recommends that there should be a change of management of PhilWeb as Pagcor is left with "crumbs".

The Chair asked who is holding the source code. Pagcor said it is PhilWeb. The Chair said he heard that the winners of the internet games are usually the relatives of the employees of PhilWeb or RTG. PhilWeb claimed that is not true as the employees are not allowed to play.

Hon. Magsaysay asked how does Pagcor monitor the sales of PhilWeb. Pagcor said they have computers wherein they can see every sales and pay out to winners.

At this point, the Chair requested Pagcor to submit their position paper on this measure and the list and location of the 161 internet gaming outlets and the corresponding sales and the franchise holders of each.

With regard to the increase of the software fee, Hon. Rufus Rodriguez asked what was the basis for the increase from 2.5% to 10%. Pagcor said this contract was signed before the new management. Before that, Kismet Gaming Corporation was the one in contract with PhilWeb. Then one month after RTG signed up, the fee went up to 10%. Pagcor said they will submit to the committee the explanation they made to COA to explain this.

Hon. Padilla asked when will House Resolution 447 be scheduled. The Chair said it will be sometime in March before adjournment. He also asked for the contract and or documents between CEZA and Meridien. He also requested if he can invite some resource persons from Nueva Vizcaya, with proper coordination of the Chair and the committee secretary.

Hon. Rufus requested the following to be submitted next meeting:

1. the Agreement (IPLMA)

2. the financial statements showing the total revenues from 2006 to 2010 with the breakdown of how much are the management fees of 14%, 25% web hosting fee, 10% software licensing fee .5166% capital advances fee, 2% allocation populators incentives fee, and how much was received by Pagcor and PhilWeb.

The Chair then directed the committee secretary to ask Pagcor and PhilWeb to submit these documents. He also asked Pagcor and PhilWeb to submit the same.

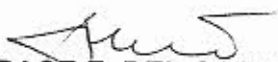
Hon. Magsaysay asked when her resolution concerning Pagcor will be scheduled for hearing. The Chair said sometime in March.

Hon Rufus Rodriguez asked when the ocular inspection of these internet games will be scheduled. Pagcor and the Chair said they will consult and will inform the body.

IV. ADJOURNMENT

Upon motion of Hon. Rodriguez, duly seconded, the meeting adjourned at 4:05pm.

I hereby certify to the correctness of the above statements.


GRACE E. DEL CASTILLO
Committee Secretary

Prepared by:


MARIA ELMA C. LOPEZ
Supervising Legislative Staff Officer II

ATTESTED BY:


HON AMADO S. BAGATSING
Chairman
Committee on Games and Amusement

FACT SHEET

HOUSE BILL NO. 3536

(As Approved by the Committee on Feb. 14, 2011)

AMENDMENT TO PD 1869, SUBJECTING PAGCOR TO THE AUDIT JURISDICTION OF THE COMMISSION ON AUDIT

Introduced by: The Honorable Representatives Bagatsing and Mandanas

Committee Referral: **Committee on Games and Amusements**

Committee Chairperson: **Honorable Amado S. Bagatsing**

OBJECTIVE:

- To make all transactions of the Philippine Amusement and Gaming Corporation (PAGCOR) transparent by subjecting them to COA audit which will eventually erase doubts relative to the actual revenue to be remitted to the government.

KEY PROVISION:

- Amends Section 15 of Presidential Decree No. 1869 to allow the Commission on Audit to appoint a representative who shall be the auditor of the Corporation and that all funds and transactions including revenues, income and expenditures of the PAGCOR, shall be covered by the audit jurisdiction of the Commission on Audit.

RELATED LAWS:

- Presidential Decree No. 1869 Charter of the PAGCOR
- Republic Act No. 9487 Extending the Franchise of PAGCOR