

Betting Big on Blockchain

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Blockchain and sports gambling seem to be a natural fit. Sports gambling has been at the forefront of the news cycle since the U.S. Supreme Court struck down a federal statute that banned states from authorizing sports gambling in *Murphy v. NCAA*. Since then, New Jersey, Delaware, Mississippi and West Virginia have passed laws allowing wagering on the results of certain sporting events. New York, Pennsylvania and Rhode Island are quickly moving towards the legalization of sports gambling and a number of other states are expected to follow.

Blockchain has already proven to be a reliable partner for online casino gambling. In the past few years, a fruitful relationship between online casino gambling platforms and blockchain technologies has developed. [Satoshi Dice](#), which first gained popularity in 2012, allows users to gamble their cryptocurrency through a blockchain-based, peer-to-peer dice prediction game. [Virtue Poker](#), a ConsenSys-backed, decentralized poker platform, uses blockchain to ensure that casino operators (the “house”) cannot tamper with the integrity of a wager. And [ZeroEdge](#) uses smart contracts and blockchain to eliminate the “house” fee that is typically passed on to gamblers.

Thus, given the opening for sports gambling, it is easy to imagine a relationship forming between sports betting and blockchain technologies. Blockchain may allow casino operators and other entities to reduce transaction fees, speed up payment processing, increase gambler anonymity and flag problematic transactions. Some sports betting entities, such as daily fantasy sports behemoth [FanDuel](#), have already begun exploring such opportunities.

However, even within states that have already legalized sports gambling, there are still a number of factors to consider for those aiming to utilize blockchain technologies within their sports betting platforms. Such considerations include, for example:

- **Licensing:** Companies using blockchain technologies will have to work with the licensed casino operators within each state. For example, in New Jersey, online sports betting may only be conducted by a licensed casino/racetrack. Each individual licensee is limited to working with three individually branded websites, each of which must obtain a separate license from the state. Thus, for blockchain to play a role, incumbent casino operators will likely need to understand blockchain and its functionality.
- **Federal Wire Act:** The Federal Wire Act effectively prohibits individuals from using the Internet to transmit sports wagers across state lines, even if the casino operator and the

bettor are in separate states that each individually allow sports betting. Such a limitation is in conflict with the distributed nature of blockchain networks. However, even if, as some commentators have [hypothesized](#), *Murphy* re-interpreted the Federal Wire Act to only prohibit interstate sports betting to the extent that sports betting is illegal under the state or local law of any of the transaction's participants, it remains unclear how this interpretation applies to actors such as node operators or validators on a blockchain network who may be located across any number of states or foreign jurisdictions.

- **Taxation:** While blockchain applications may be able to facilitate trust-minimized peer-to-peer sports betting, there would need to be proper safeguards in place to ensure that each sports bet is properly taxed. In New Jersey, the state charges 13% for online wagers run by casinos and 14.25% for online wagers run by racetracks. While blockchain may enable bettors to avoid the “house” fee, it cannot circumvent state taxation on sports betting. It will be interesting to see if taxing authorities encourage the use of blockchain, on the theory that they, as a “supernode” on the network, could have a window into all winnings. This could potentially result in more complete and efficient tax collections.
- **Anti-Money Laundering:** Currently, casino operators must comply with certain federal and state regulatory schemes that aim to prevent money laundering. Given that anti-money laundering laws will be a primary concern as legalized sports gambling proliferates, companies utilizing blockchain technologies must be able to comply with the Bank Secrecy Act and similar state anti-money laundering laws. However, it is also worth noting that blockchain technologies may be able to aid in preventing money laundering and other illicit financial transactions (*e.g.*, through real-time tracking of suspicious betting patterns).
- **Congress & Further Legislation:** The Supreme Court was clear that Congress may regulate sports gambling directly if it elects to do so. While the decentralized nature of blockchain technology is typically deemed to be one of its strengths, lawmakers may be wary of the lack of accountability that blockchain-based platforms may present. As a result, it is possible that Congress or individual states could enact additional legislation that impedes the proliferation of blockchain-based sports betting.