

US gaming probe rocks top banks

The US Department of Justice has ordered the world's biggest investment banks, accountants and law firms to hand over all e-mails, telephone records and papers connected with internet gaming firms as part of an investigation into illegal online gambling in America.

HSBC, Dresdner Kleinwort, Credit Suisse and Deutsche Bank are known to be among the banks that have been issued with subpoenas – official requests for information – as part of a worldwide hunt to build a case against those who benefited from illegal online gambling.

Britain has been the fundraising centre for many internet gambling companies, with a number of international operators listing their shares in London.

Fortunes were made by the founders of internet gaming stocks, including Party Gaming, 888 and Betonsports, and advisers pocketed huge fees.

The Department of Justice first issued subpoenas in October, only days after George Bush sounded the death knell for America's USD 6 billion (GBP 3.2 billion) internet gambling industry by signing legislation banning all related transactions. But until now the investigation has been kept secret.

According to City sources, the subpoenas have continued to arrive over the past few weeks.

It is thought that some investors in online gambling companies, including Party Gaming and 888.com, have also been hit with requests for information.

One source said: "To say the situation is sensitive is the understatement of the decade. The problem is, even if you know you have done nothing wrong, you have no powers of resistance."

He added: "You can quickly go from being a bystander to a target, so even if you are bomb-proof, you have to assume you are subject to hostility."

The source went on: "The Department of Justice has taken a shotgun, not a rifle approach in relation to lots of gaming companies and has just asked everyone to hand over all the information they have."

The request could force banks and other advisers or former advisers to the gambling companies to hand over hundreds of thousands of e-mails and files to American investigators.

Another City source familiar with the circumstances said: "There is no doubt at all that this situation is escalating. This has definitely got legs."

Another source described it as one of the biggest "fishing expeditions" ever undertaken by the Department of Justice.

Vast riches were made by the founders of internet gambling companies, including Party Gaming and 888. Party Gaming floated with a value of GBP 5 billion in the summer of 2005, propelling it straight into the FTSE 100 index ahead of British household names such as British Airways and ICI. Its four founder shareholders – Anurag Dikshit, Vikrant Bhargava, Ruth Parasol and her husband, Russ DeLeon – took out GBP 797m and valued their remaining shares at about GBP 3.3 billion. Meanwhile, 888, which floated in September 2005 valued at GBP 590m, created another batch of dotcom millionaires, this time among the company's Israeli founders. Avi and Aharon Shaked received more than GBP 10m from selling a quarter of their 70% stake.

The probe by the Department of Justice will spark outrage in Britain, coming so soon after the extradition of the so-called NatWest Three to America.

“UK plc should be really worried about yet another encroachment of American investigators on to British territory. The City is clearly under threat,” said one British businessman who asked not to be named.

The subpoenas do not reveal whom the Department of Justice is targeting. But some believe the ultimate goal is to find information incriminating the founders of the online gambling firms.

The inquiry vindicates the City professionals who refused to act for internet gambling firms because of the uncertainty about its legality in America. Banks that have been subpoenaed have lined up lawyers to act for them.

None of the banks involved would comment on the subpoenas. The Department of Justice also said that its policy was not to comment about ongoing investigations.

HSBC advised 888, one of the most high-profile internet gambling companies, on its flotation. Credit Suisse advised the original shareholders of 888 on their strategic options before the flotation. Deutsche is co-broker to Party Gaming, while Dresdner advised on its public listing.