THE CODE COMPLIANCE PANEL OF PHONEPAYPLUS TRIBUNAL DECISION

Thursday 13 October 2011
TRIBUNAL SITTING No. 87 / CASE 1
CASE REFERENCE: 01932

Network Operator: All Mobile Network Operators

Service Provider: Zong S.A.

Information Providers: Tapjoy Incorporated ("Tapjoy") and Facebook Incorporated

("Facebook")

THIS CASE WAS BROUGHT AGAINST THE SERVICE PROVIDER UNDER PARAGRAPH 8.5 OF THE CODE

BACKGROUND

On 22 March 2011, the Executive received a complaint from the Internet Advisor for the Children's Charities' Coalition for Internet Safety (the "CHIS"), who had been contacted by a concerned parent of a 13-year-old who had been 'gambling' on the online game Texas Hold'em Poker (now called "Zynga Poker"). Forwarding the parent's complaint to PhonepayPlus, the CHIS raised its own concerns in relation to children accessing this game, the service content and the ability to purchase credits/chips by reverse-billed SMS with relative ease.

1. How the service operated according to the Executive

Game play

Zynga Poker was a social game developed by Zynga Incorporated ("**Zynga**") as an application for the social networking website Facebook, as well as for Android, iPhone, MySpace, Tagged and Yahoo!. The game allowed players to simulate playing poker in a social gaming environment, whereby users entered a casino lobby and could play at any table or join friends for a game, with their chip ranking displayed on a leaderboard (Appendix A).

Purchase of Zynga Poker chips

The Zynga Poker game was initially 'free to play' as new players were provided with a supply of free in-game chips. Once the free chips had been used, users who played Zynga Poker within Facebook had the ability to purchase additional chips using one of a number of premium rate and non-premium rate payment options. The premium rate options included two reverse-billed SMS payment mechanisms, one of which was provided by the Service Provider. Additional chips could not be purchased on any of the other social network websites which hosted the Zynga Poker game.

Until 1 July 2011, users who chose to pay for additional chips using one Service Provider's payment mechanism could either purchase chips via:

• Tapjoy – a third party that provided Zynga with access to payment options for the direct purchase of in-game chips (the "**Tapjoy Method**") (Appendix B); or

 Facebook – by purchasing virtual currency credits which could be converted into chips for the Zynga Poker game or used for other Facebook games (the "Virtual Currency Method") (Appendix C).

From 1 July 2011, the Tapjoy Method ceased to be available, with the result that additional Zynga Poker chips could only be purchased using the Virtual Currency Method.

The Executive noted that, in-game, Zynga Poker chips were expressed as a monetary value in US\$. For example, a user with US\$2,000.00 worth of chips would have no knowledge of the number of chips this would be worth. However, when purchasing additional chips using the Virtual Currency Method, users would be required to purchase Facebook credits (in GBP), which were then converted into chips (expressed as US\$) for the Zynga Poker game.

In order to purchase additional chips using the Service Provider's payment system for either the Tapjoy Method (until 1July 2011) or the Virtual Currency Method, users would carry out the following steps:

- Select the number of Facebook credits or chips they wished to purchase;
- Enter their mobile number into the data capture field;
- Receive a mobile terminating ("**MT**") text message which asked users to text "**Y**" within a mobile originating ("**MO**") message to confirm purchase; and
- Receive chargeable MT(s), the number being dependent on the amount of 'chips' or credits purchased. Each transaction contained a unique code which could be used to identify the particular transaction.

The Executive noted that the Service Provider was a spin-off from the Swiss company, Echovox S.A., and was created as a separate entity from Echovox in March 2010. As a result, the contractual relationship for all premium SMS services with all UK networks had transferred from Echovox to the Service Provider.

Purchase of in-game virtual gifts

In addition to playing the Zynga Poker game itself, users were able to purchase various virtual gifts from the 'Gift Shop', which included items such as cigarettes, drugs ('maui wowie'), cheap dates and go-go dancers, or take up team challenges, such as 'Gun Slingers' (Appendix D).

The Executive's overall observations

The Executive noted that the type of content as demonstrated by the in-game virtual gifts, together with the overall nature of the game as a form of virtual gambling and the ability to purchase additional chips using the Service Provider's payment method, appeared to suggest that this service ought to have been primarily aimed at, and attractive to, an adult audience.

Contrary to this, the Executive noted that full access to the service was given to anyone aged 13 or over. Zynga's Terms of Service stated:

"If you are between the ages of 13 and 17, you represent that your legal guardian has reviewed and agreed to these terms".

The Facebook terms and conditions stipulated that all account holders must be 13 years old or above. This allowed exposure of this service to users who were under 16 years of age,

which the Executive asserted would fall within the definition of 'Children' under paragraph 7.5.1 of the PhonepayPlus Code of Practice (11th Edition, Amended April 2008) (the "**Code**").

2. How the service operated according to the Service Provider

According to the Service Provider, its terms and conditions stipulated the following:

"You must be a least 13 years old to use this service. If you are 13 or older but are under the age of 18, you should review these terms and conditions with your parent or guardian to make sure that you and your parent or guardian understand these terms and conditions and that your parent or guardian consents to your use of the Service under these terms and conditions."

The Service Provider also submitted that Zynga launched Texas Hold'em Poker in September 2007.

3. The Investigation

On 22 March 2011, the Executive received one complaint from the Internet Advisor for the CHIS who contacted PhonepayPlus requesting that it investigate the matter in further detail.

The Executive's initial concerns related to issues regarding the inadequate controls to prevent children from accessing and participating with an adult audience service in relation to the content, and the ease and ability to purchase additional credits/chips in increments of £3, £5 and £10 using either the Tapjoy Method or the Virtual Currency Method.

The Executive believed that this service contravened the Code and raised the following potential breaches:

- Paragraph 5.4.1(a) Misleading; and
- Paragraph 5.12 Inappropriate promotion.

4. Standard Procedure

The Executive conducted this matter as a standard procedure investigation in accordance with paragraph 8.5 of the Code.

On 6 April 2011, the Executive sent a letter to the Service Provider asking for a series of questions and other corroborating information to be forwarded to substantiate the claims being made by the complainant, in accordance with paragraph 8.3.3 of the Code. A response was submitted by the Service Provider on 14 April 2011.

On 1 August 2011, the Executive sent a breach letter to the Service Provider. On 12 August 2011, the Service Provider sent a formal response.

SUBMISSIONS AND CONCLUSIONS

ALLEGED BREACH ONE FAIRNESS (MISLEADING) (Paragraph 5.4.1a)

"Services and promotional material must not:...a. mislead, or be likely to mislead, in any way".

1. The Executive submitted that the Zynga Poker game was played using chips which were represented in the game as US\$. This meant that a player with 1,000 chips would have US\$1,000.00. Users wishing to purchase additional chips by using the Service Provider's payment method could do so by using either the Tapjoy Method (until 1 July 2011) or the Virtual Currency Method.

The Executive noted that, when purchasing additional chips using the Virtual Currency Method, users had no idea as to how many chips they would receive at the time of their purchase of Facebook credits. This was demonstrated in the screenshots captured by the Executive during monitoring which showed that, while the GBP-to-credits ratio was fully transparent, there was no simultaneous display of the equivalent number of chips that would be made available once the Facebook credits had been purchased.

The Executive submitted that the only way to determine the number of chips obtained via the Virtual Currency Method was to re-enter the Zynga Poker game following purchase of Facebook credits. The Zynga Poker game would then automatically display a newly updated total for chips (expressed in US\$) on the leaderboard.

The Executive further submitted that there was a conversion rate for the Facebook credits which was not disclosed to consumers at any point. The conversion rate also varied from time to time and was dependent upon on the type of promotion carried out by the game developer, Zynga. In its letter to the Executive dated 14 April 2011, the Service Provider disclosed the conversion rate of Facebook credits-to-chips that was applicable at that time.

The Executive analysed this conversion rate and compared it with the cost of chips when using the Tapjoy Method. The Executive submitted that it had identified significant differences in the number of chips a user would receive when purchasing between the two methods. The conversion ratios and comparisons between the two payment methods were as described below:

The Virtual Currency Method

The cost of Facebook credits was as follows:

- 16 credits for £1;
- 162 credits for £10; and
- 244 credits for £15.

Following the conversion from credits to chips, the consumer would receive the following number of chips directly to their Zynga Poker account:

- 100,000 chips for 16 credits;
- 2,803,846 chips for 162 credits; and
- 4,223,076 chips for 244 credits.

The Tapjoy Method

Consumers purchasing chips using the Tapjoy Method could do so in the following values:

- 580,500 Chips for £3;
- 1,021,500 Chips for £5; and
- 2,187,000 Chips for £10.

The Executive noted that a consumer making a £3 purchase via the Tapjoy Method would receive 580,500 chips; however, the same consumer making the equivalent £3 purchase via the Virtual Currency Method (3 x £1 purchases), would receive just 300,000 chips. Conversely, a consumer making a £10 purchase via the Tapjoy Method would receive 2,187,000 chips; however, the same consumer making the equivalent £10 purchase via the Virtual Currency Method would receive 2,803,846 chips.

The Executive asserted that, as consumers were not presented with the different Facebook credits-to-chips conversion rates when purchasing chips using the Virtual Currency Method, users were, depending on the source and date of promotion, and the amount spent by each user, at a significant disadvantage to those who purchased credits using the Tapjoy Method. The Executive submitted that this was inherently misleading for those consumers who chose to use the Virtual Currency Method, and was likely to mislead other users who did not have visibility of the Tapjoy Method.

In light of the above, the Executive submitted that a breach of paragraph 5.4.1(a) of the Code had occurred.

- 2. The Service Provider's response was to note that, while chips for playing the game were purchased using real money, there was no monetary value for the chips in the Zynga Poker game and these chips could not be exchanged for cash and then withdrawn (as was the case for real gambling). Prior to completing any purchase, users were always shown:
 - The price they would pay;
 - The currency in which they would be charged; and
 - The amount of chips they would receive.

The Service Provider agreed that, during the date on which the alleged breach occurred, there were issues with the conversion mechanisms used in the Zynga Poker game due to the supply chain between Zynga, Tapjoy and Facebook; however, the Service Provider asserted that these were not breaches of the Code, nor were they the responsibility of the Service Provider as they pertained directly to commercial arrangements directly between Facebook and Zynga for which the Service Provider had no authority.

The Service Provider submitted that, due to the commercial conditions and lower revenue shares associated with transactions via premium SMS, it was, and remained, common practice for providers such as Tapjoy to add surcharges when transacting using premium SMS. The Service Provider wrongly stated that the rates charged for purchasing Zynga Poker chips through the Tapjoy Method were more expensive than directly through Facebook, but this did not harm its overall submission that, in all cases, the amount being charged and the amount of chips were clearly communicated. The Service Provider additionally submitted that an explicit opt-in and authorisation were clearly obtained, as detailed in the screenshots and text message logs that had

already been provided by the Executive in its breach letter to the Service Provider dated 1 August 2011.

The Service Provider also confirmed that, as of 1 July 2011, the Tapjoy Method had been removed from the supply chain on Facebook for the Zynga Poker game, and all transactions for the game were from this date processed directly through Facebook without Tapjoy as an intermediary.

The Service Provider's view was that any user was free to review the purchase amounts available through any of the available methods of payment, and make their choice of purchase mechanism prior to completing a purchase. The Service Provider asserted that the difference in rates was clearly available and there was no attempt to mislead the consumer as to their free choice of how they wished to buy their chips. The user could simply click on the different purchase mechanism from the available menu and collectively see the number of chips, the price and the number of credits. Screenshots which illustrated this process were provided in the Service Provider's letter to the Executive dated 12 August 2011 (Appendix D).

The Service Provider further submitted that a reason for any differences in prices between the Service Provider's method and any non-premium rate payment mechanism was that the £1.38 price point did not exist within premium rate, with the result that the price within the reverse-SMS mobile phone option would have to be rounded up to the nearest available price point, which was £1.50.

By referring to screenshots within its response dated 12 August 2011, the Service Provider therefore asserted that the price and the number of credits was clearly displayed and communicated to the user on subsequent steps and there could be no confusion as to how much they could be charged. The user was also sent a text message indicating the exact price:

"Reply with Y to complete the purchase. You will be billed £1.50. Need help? Call 0843 2189 420"

In addition to the options depicted by the Service Provider in its letter of response dated 12 August 2011, a clickable on-screen icon would lead the user directly to a pay-by-mobile option that was optimised with available mobile price points. The price a user paid, the number of chips and the number of Facebook 'credits' was also clearly displayed. All payment options and prices could be clearly viewed by the consumer prior to making any payment whatsoever.

The Service Provider submitted that the specific amount of chips and the purchase price were always displayed and had to be confirmed by the consumer before authorising any transaction to take place.

In relation to Facebook credits, the Service Provider was of the view that these could be purchased using many mechanisms, including pre-paid cards which were available in retail shops by users of any age.

The Service Provider confirmed that it had for a long time been advocating for simplification of the payment chain concerning the purchase of Zynga Poker game chips. As of 1 July 2011, Facebook changed the system so that the only mechanism that could be used for the purchase of Zynga Poker chips was via the Virtual Currency Method. The Service Provider's reverse-SMS billing payment mechanism therefore

remained as a way of purchasing chips using the Virtual Currency Method and, from 1 July 2011, it was no longer possible to purchase them using the Tapjoy Method.

3. The Tribunal considered the evidence and concluded that, although there were, from time to time, changes to the conversion rate for Facebook chips-to-credits which were dependent upon the promotion used by Zynga and the payment option selected by the user, this was not relevant for the purposes of determining whether users had been misled. The Tribunal concluded that changing prices were a common aspect of commercial activity, to which consumers were accustomed. The Tribunal further concluded that, based on the evidence provided by the Executive, consumers were fully informed of the price of the chips when using the Tapjoy Method and were, in turn, fully informed of the price of the Facebook credits when using the Virtual Currency Method.

In light of the above considerations, the Tribunal concluded that the only outstanding question, as to whether consumers were misled or likely to be misled, was whether there was subsequently any lack of transparency concerning the onward rate of conversion for Facebook credits-to-chips when using the Virtual Currency Method.

While the Tribunal had been presented with screenshots that fully illustrated the process of purchasing Facebook credits using the Virtual Currency Method, the Tribunal did not have sight of screenshots which fully illustrated the Executive's experience of converting Facebook credits into Zynga Poker chips. In absence of such evidence, the Tribunal was unable to follow the Executive's submission that consumers would have no idea of how many chips they would receive at the time of their purchase. The Tribunal was further unable to concur with the Executive's view that users who purchased Zynga Poker chips via the Virtual Currency Method were in any way disadvantaged over users who purchased the same chips via the Tapjoy Method. The Tribunal concluded that there was, therefore, insufficient evidence to dispute the authenticity of the screenshots provided by the Service Provider in its letter dated 12 August 2011.

In addition, there was no other evidence, by way of complaints or other information, that consumers were in fact misled.

Taking all of the circumstances into account, the Tribunal concluded that it was not satisfied that consumers were misled, or likely to be misled. The Tribunal accordingly concluded that the Service Provider was not in breach of Paragraph 5.4.1(a) of the Code.

Decision: NOT UPHELD

ALLEGED BREACH TWO INAPPROPRIATE PROMOTION (Paragraph 5.12)

"Service providers must use all reasonable endeavours to ensure that promotional material does not reach those for whom it, or the service which it promotes, is likely to be regarded by them as being offensive or harmful. Service providers must use all reasonable endeavours to ensure that their services are not promoted in an inappropriate way".

1. The Executive submitted that the nature and content of the Zynga Poker game was aimed at, and would be particularly attractive to, an adult audience. However, it was accessible to Facebook users where it could be accessed by its entire audience, which

included anyone from the age of 13, without controls in place to prevent children from using the service.

The Executive was of the opinion that some parents would object to their children being exposed to an online poker game. This was the same view expressed by both the parent of the 13-year-old who was caught 'gambling' while playing the Zynga Poker game and the Internet Advisor for the CHIS.

The Executive believed that parents would further object to their children playing a poker game which contained references to, and allowed the purchase of, virtual gifts, such as drugs, tobacco, and go-go dancers. This was clearly content of a nature that would likely be deemed by parents as offensive or harmful at the most, or inappropriate at the least, for children.

Furthermore, this service also allowed the purchase of Facebook credits using the Virtual Currency Method, in increments of £3, £5 and £10. The Executive monitored the service and found that a 13-year-old Facebook account holder was easily able to purchase £10 worth of Facebook credits in one single purchase.

The Service Provider had stated in its letter dated 14 April 2011 that its own terms and conditions allowed access to all users aged 13 or above, if they and their parent or guardian had read and understood the terms and conditions, and that a parent or guardian had consented to them accessing the service.

Internal monitoring by the Executive identified that, by selecting the Service Provider's payment method, users were directed straight to the payment options which initiated the payment process, and did not provide users with the terms and conditions during this transaction. The Executive found these terms and conditions separately at http://zong.com/help/terms, a web address which was not provided to users before or during the transaction.

Furthermore, Zynga's own Terms of Service required those aged between 13 and 17 years of age to "represent" that their legal guardian had reviewed and agreed to the terms and conditions. The Executive submitted that this was wording which could be deemed to be unclear to some of that age group. The Executive believed that this was aggravated by the fact that locating the terms and conditions of Zynga required the consumer to accept the game, scroll down to the 'Terms of Service', locate 'Term 1.5' and read to the end of the first paragraph. The Executive further submitted that the initial link to the Zynga Inc 'Terms of Service' was at the bottom of the web page and in small print.

The Executive asserted that allowing a service designed for an adult audience to be accessible to children was inappropriate. The Executive further asserted that the Service Provider was likely to have had technical capability to put controls in place to prevent children from accessing the service, but none were implemented. On this basis, the Executive submitted that the Service Provider did not use all reasonable endeavours to ensure that the service was not promoted in an inappropriate way.

In light of the above, the Executive submitted that a breach of paragraph 5.12 of the Code had occurred.

2. The Service Provider responded to the alleged breach by stating that the promotion of this service by Zynga was within the current legal framework and generally accepted practices in the UK. The service was not a gambling or gaming service, and it was impossible to convert any winnings into real cash – the game was a virtual and social game and not real gambling.

With regard to the in-game virtual goods, the Service Provider asserted that these were similar to many other symbolic, but non-age restricted, virtual and physical items (for example: chocolate cigarettes, chocolate coins, water squirt guns, Barbie dolls and sports figure trading cards), which may or may not have been considered appropriate or inappropriate by different parents. The Service Provider further asserted that the service contained no nudity, sexually graphic content, extreme violence or promotion or access to physical consumption of illegal or adult substances that warranted age verification systems. The Service Provider asserted that, on this basis, it had completed its due diligence and was not in breach of paragraph 5.12 of the Code. The Service Provider submitted screenshots of the virtual items for sale in its letter to the Executive dated 12 August 2011 (Appendix F).

The Service Provider accepted that some elements of the Zynga Poker game might have been subject to individual parental and consumer discretion, but it further argued that the service had been live for over five years and this was the first related PhonepayPlus filing of which the Service Provider was aware. Further, the Service Provider stated that the Zynga Poker game had been played by millions of users in the UK since the related service had started. It therefore appeared that a majority of millions of consumers did not share the views raised by the complainant.

3. The Tribunal considered the evidence and, having taken into account the Service Provider's arguments, the Tribunal concluded that the service was potentially harmful to children who would have access to the Zynga Poker game through Facebook. The Tribunal noted that the Zynga Poker game was not 'gambling', as it did not fall under the definitions of either 'gaming' or a 'game of chance' under section 6 of the Gambling Act 2005, although the Tribunal did conclude that the Zynga Poker game resembled gambling and had many of the features of gambling. In addition, having further regard to the in-game virtual goods, which were in the Tribunal's view unsuitable for children, the Tribunal determined that the content was clearly of an adult nature. Taking all of these circumstances into account, the Tribunal considered that the service was likely to be harmful to children.

The Tribunal considered the definition of promotion under paragraph 11.3.27 of the Code: "...anything where the intent or effect is, either directly or indirectly, to encourage the use of premium rate services, and the term promotional material shall be construed accordingly," and found that the promotional material in this case was the screen that would appear to users when accessing the game on Facebook. This depicted a poker table, and included an invitation to purchase chips, as well as icons indicating the virtual in-game goods which were available for purchase. The Tribunal also considered that further promotions were contained within the payment mechanism screens online.

The Tribunal therefore concluded that the Service Provider had taken no steps, and hence no reasonable endeavours had been made, to prevent children (13-15 year olds) from gaining access to material that promoted the premium rate element of the

service. The Tribunal further concluded that no age restriction measures had been implemented with respect to the Service Provider's payment system for either the Tapjoy Method or the Virtual Currency Method and, accordingly, the Service Provider had undertaken no steps to ensure that its service had not been promoted in an inappropriate way. The Tribunal was not satisfied that the Service Provider had used all reasonable endeavours to ensure the promotion or service did not reach those for whom it could be considered harmful.

Decision: UPHELD

SANCTIONS

The Tribunal's initial assessment was that, overall, the breach was **minor**.

The Tribunal considered the following aggravating factors:

- The behaviour of the Service Provider was reckless because it failed to put in place controls to prevent children from accessing the service. The Service Provider's commercial decision to allow access to such users was based on Facebook's own target audience; and
- Children were allowed unlimited access to a service designed for an adult audience and this was harmful to this particular age group.

The Tribunal considered the following mitigating factors:

- The Service Provider co-operated with the Executive;
- The Service Provider offered refunds to users; and
- The nature of this case was unique given that the Service Provider was not the provider of the Zynga Poker game, but merely facilitated the premium rate service element of the service, which formed only a very minor part of the wider social gaming experience.

The revenue in relation to the service fell within the very high range of Band 1 (£500,000.00+).

Having taken into account the aggravating and mitigating factors, the Tribunal concluded that the seriousness of the case should be regarded overall as **minor**.

Having regard to all the circumstances of the case, the Tribunal decided to impose the following sanctions:

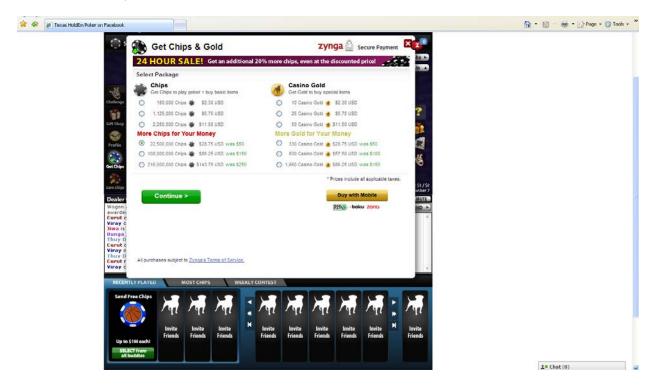
- A Formal Reprimand; and
- A direction to the Service Provider to remedy the breach by implementing an age restriction measure on the Service Provider's reverse-SMS payment system. The Tribunal further recommended that the Service Provider should communicate its obligations under paragraph 5.12 of the Code to all parties with whom it had a contractual relationship with respect to this service, with a view to discussing alternative ways of promoting the service.

Appendix A - Casino Table Screenshot

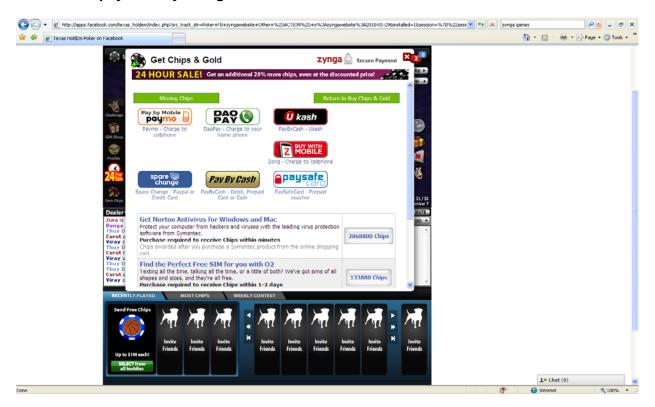


Appendix B - Illustration of step-by-step Purchase of Zynga Poker Chips using the Tapjoy Method

1. Select 'Buy with Mobile':



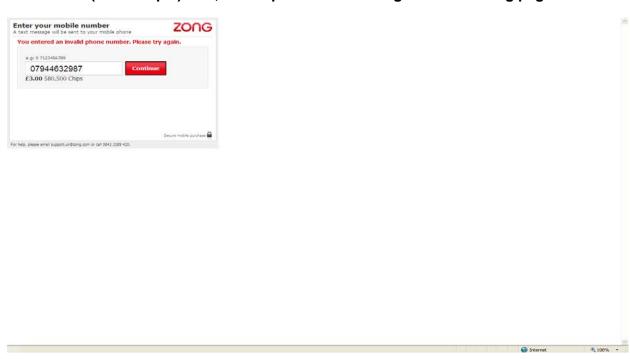
2. Select payment by 'Zong':



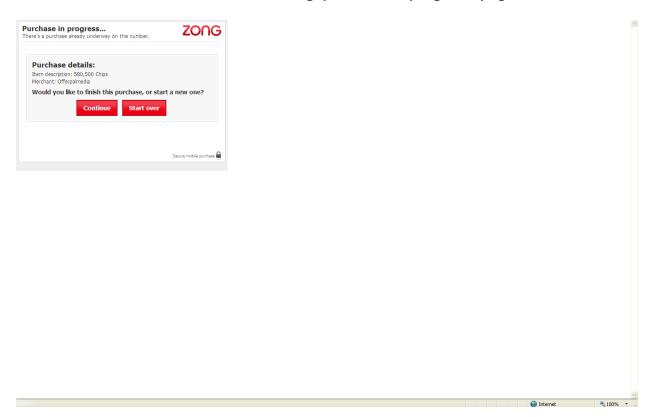
3. Select number of credits to purchase:



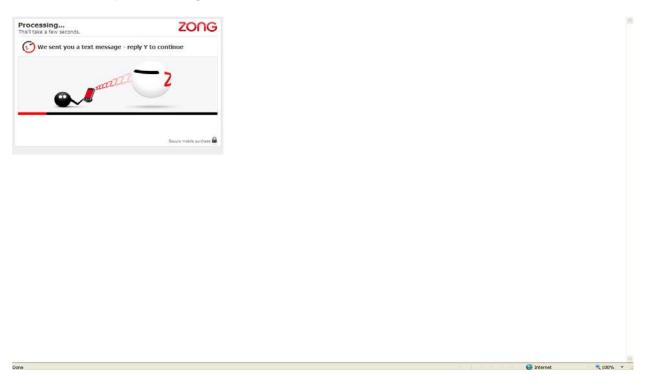
4. Select (for example) '580,500 Chips for £3' resulting in the following page:



5. Click 'continue' to show the following 'purchase in progress' page:



6. Double-Opt in Message on-screen:



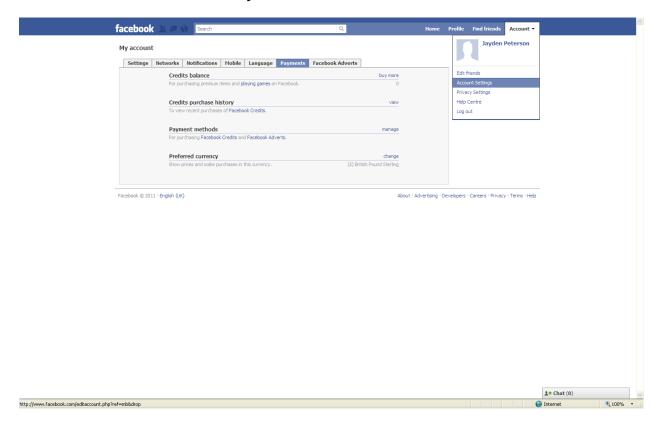
7. Final Confirmation of completed transaction:



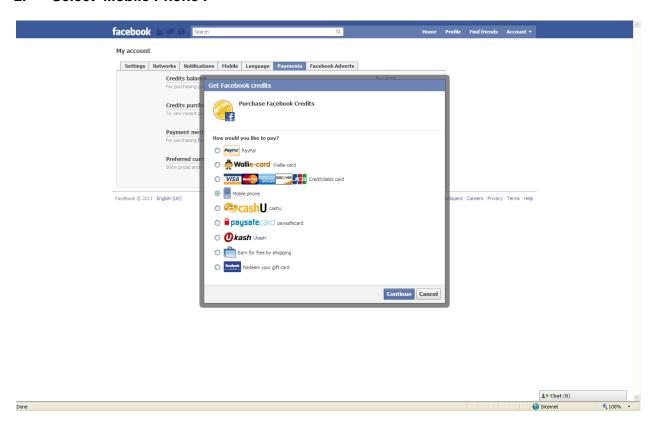
Cone © Internet # 100% •

Appendix C – Illustration of step-by-step Purchase of Facebook Credits using the Virtual Currency Method

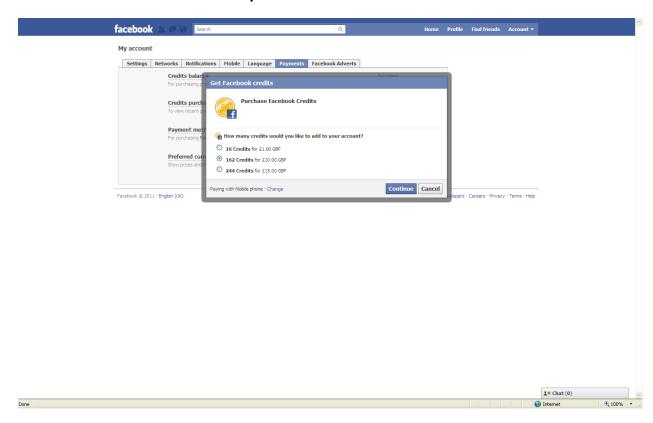
1. Go into 'Account' Select Payment:



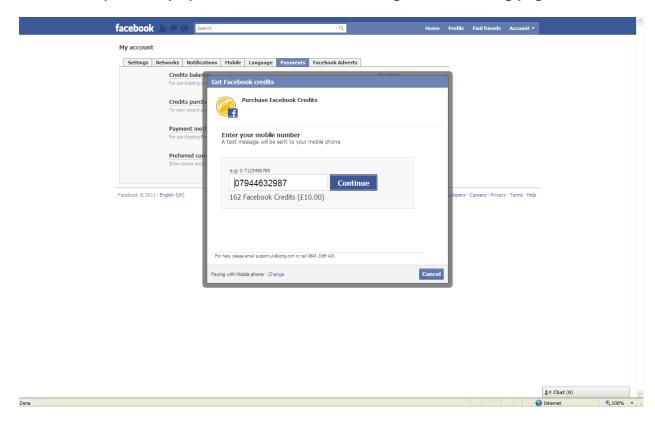
2. Select 'Mobile Phone':



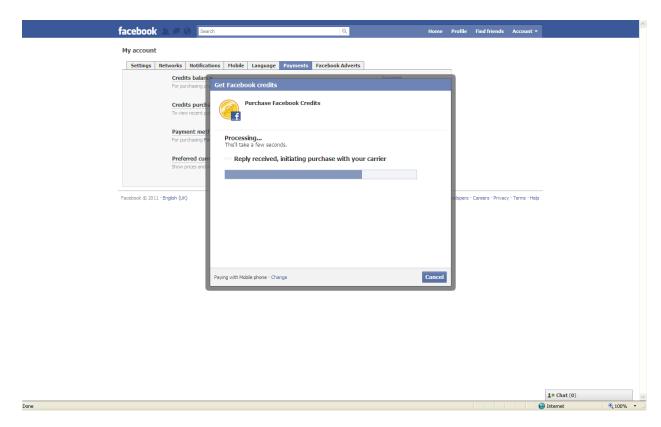
3. Select number of Credits to purchase:



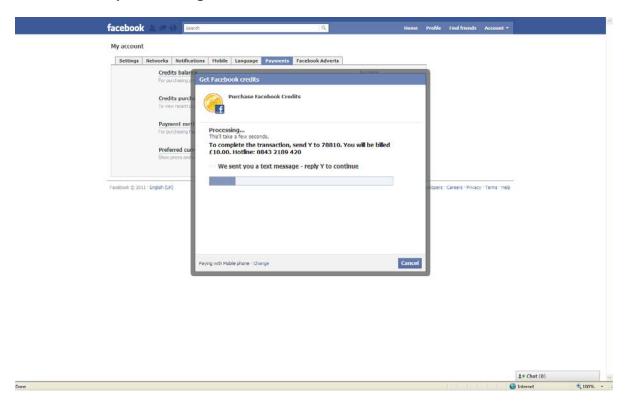
4. Select (for example) '162 credits for £10' resulting in the following page:



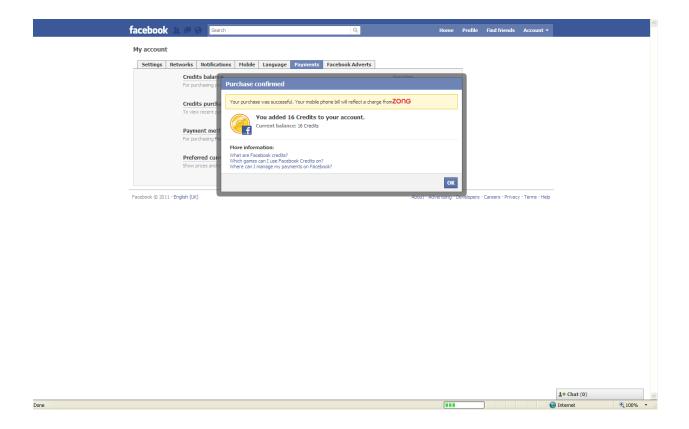
5. Click 'continue' to show the following 'processing' page:



6. Double Opt in Message on-screen:



7. Final Confirmation of completed transaction:



Appendix D - In-game Virtual Gifts

1. Cigarettes and Drugs:



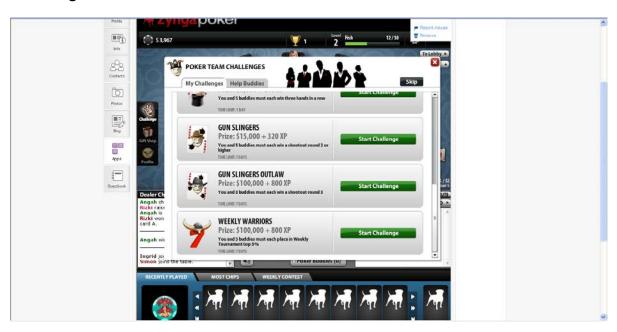
2. Cheap Date:



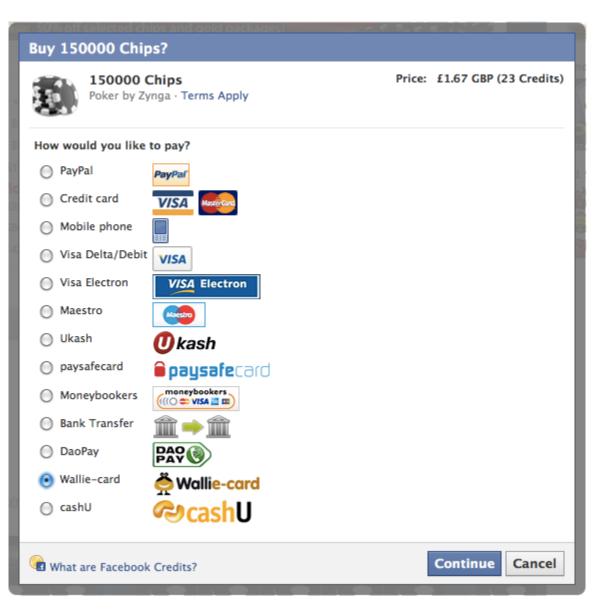
3. Go-go Dancers:

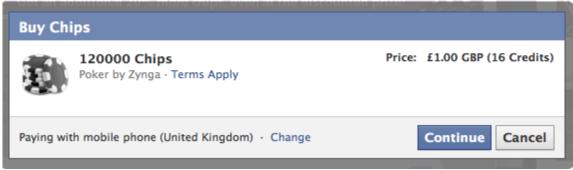


4. Gun Slingers:



Appendix E - Service Provider's Screenshots provided in letter dated 12 August 2011, showing full visibility of Chips, Credits and GBP pricing information.





Appendix F - Service Provider's Screenshots of In-game Virtual Goods

