

CALIFORNIA HORSE RACING BOARD
NOTIFICATION OF MODIFICATION OF THE FOLLOWING
TEXTS COMPRISING THE PROPOSED ADDITION OF
ARTICLE 27, EXCHANGE WAGERING

CHRB RULE 2086, DEFINITIONS; 2086.5, APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING; 2086.6, OPERATING PLAN REQUIRED; 2086.7, EXCHANGE WAGERING DATA; 2086.9, FINANCIAL AND SECURITY INTEGRITY AUDITS REQUIRED; 2087, SUSPENDING MARKETS; 2087.6, CANCELLATION OF MATCHED WAGERS; 2088.6, CANCELLATION OF UNMATCHED WAGERS; 2089, ERRORS IN PAYMENTS OF EXCHANGE WAGERS; 2089.5, REQUIREMENTS TO ESTABLISH AN EXCHANGE WAGERING ACCOUNT; 2091.5, SUSPENDING AN EXCHANGE WAGERING ACCOUNT; 2092.5, PROHIBITIONS ON WAGERS TO LAY A HORSE TO LOSE; 2092.6, SUSPENSION OF OCCUPATIONAL LICENSE.

The Board is providing notice of a 15-day public availability and comment period for revised exchange wagering regulations, Initial Statement of Reasons (ISR), Economic Impact Assessment (EIA), and other added documents relied upon during amendment to the exchange wagering rulemaking file. On March 20, 2013, the Office of Administrative Law (OAL) disapproval letter cited issues with eight of the 25 exchange wagering regulations, and identified other areas in the record that required clarity and consistency. The California Horse Racing Board (CHRB) has made modifications to several proposed rules to comply with direction provided by OAL. The modified texts are: Rule 2086, Definitions; 2086.5, Requirements to Establish an Exchange Wagering Account; 2086.6, Operating Plan Required; 2086.7, Exchange Wagering Data; 2086.9, Financial Integrity and Security Audits Required; 2087, Suspending Markets; 2087.6, Cancellation of Matched Wagers; 2088.6, Cancellation of Unmatched Wagers; 2089, Errors in Payments of Exchange Wagers; 2089.5, Requirements to Establish an Exchange Wagering Account; 2091.5, Suspending an Exchange Wagering Account; 2092.5, Prohibitions on Wagers to Lay a Horse to Lose and 2092.6, Suspension of Occupational License. **CHRB will only consider comments regarding the modifications to the above listed revised regulations, the ISR, EIA, and other added documents relied upon during amendment to the exchange wagering rulemaking file.**

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2086. DEFINITIONS

Single Underlined text represents the original language noticed to the public from May 11, 2012 to June 25, 2012.

Deletions to the original noticed text appear as ~~Double Strikethrough~~ and new and revised text appears as Double Underlined as noticed October 8, 2012 through October 22, 2012 and adopted at the November 15, 2012, regulatory hearing.

Deletions to the adopted text appear as ~~Italicized Double Strikethrough~~ and new and revised text appear as Italicized with Bolded Underlined.

2086. Definitions

As used in this article:

- (a) “Back” means to wager on a selected outcome occurring in a given market.

- (b) “Confidential information” means the following:
 - (1) the amount of money credited to, debited from, or present in any particular account holder's exchange wagering account;

 - (2) the amount of money wagered by a particular account holder on any races or series of races;

 - (3) the exchange wagering account number and personal identification number of an account holder;

 - (4) the identities of particular entries on which the account holder is wagering or has wagered; and

(5) unless otherwise authorized by the account holder, the name, address, and all other information in possession of the exchange provider that would identify the account holder to anyone other than the Board or the exchange provider.

(c) "Credits" means all positive inflow of money to an exchange wagering account.

(d) "Debits" means all negative outflow of money from an exchange wagering account related to a wager placed from such account.

(e) "Declared Entry" means a horse withdrawn from a race in which its entry has been accepted.

(f) "Deposit" means a credit of money to an exchange wagering account from an account holder.

(g) "Exchange" means a system operated by an exchange provider in which the provider maintains one or more markets in which account holders may back or lay a selected outcome.

(h) "Exchange wagering" means a form of pari-mutuel wagering in which two or more *natural* persons place identically opposing wagers in a given market, as provided under Business and Professions Code section 19604.5.

(i) "Exchange wagering account," "account" means the account established with an exchange provider by a natural person participating in exchange wagering. An account may only be established or maintained with an exchange provider by a natural person.

(j) "Exchange wagering license applicant," "applicant" means any entity including, but not limited to, corporations, partnerships, limited liability companies, limited

partnerships, or individuals that file an application with the Board to conduct exchange wagering.

(k) “Exchange wagering license application” means the application form CHRB 229 (New 5/~~12~~ 13), Application for License to Operate Exchange Wagering, hereby incorporated by reference, which shall be available at the Board’s headquarters office.

(l) “Exchange wagering licensee,” “exchange provider” means a person located within or outside of California that is authorized to offer exchange wagering to residents of California pursuant to Business and Professions Code section 19604.5 and this article.

(m) “Identically opposing wagers” means wagers in which one or more *natural* persons offer to lay a selected outcome at the same price at which one or more *natural* persons offer to back that same outcome, with the amount subject to the lay being proportionately commensurate to the amount subject to the back.

(n) “Lay” means to wager on a selected outcome not occurring in a given market.

(o) “Market” means, in relation to a given horse race or a given set of horse races, a particular outcome that is subject to exchange wagering as determined by an exchange provider.

(p) “Matched wager” means the wager that is formed when two or more *natural* persons, none of whom are the exchange provider or agents, are confirmed by the exchange provider as having placed identically opposing wagers in a given market on the exchange.

(q) “Means of personal identification” means the unique number, code, or other secure technology designated by an exchange wagering account holder to assure that only that account holder has access to his account.

(r) “Natural person” means a living, breathing human being, as opposed to a legal entity.

(s) “Net winnings” means the aggregate amounts payable to a *natural* person as a result of that person’s winning matched wagers in a pool less the aggregate amount paid by that *natural* person as a result of that *natural* person’s losing matched wagers in that pool.

(t) “Operating plan” means the plan submitted to the Board by an exchange provider detailing the proposed method of operation of the exchange.

(u) “Other electronic media” means any electronic communication device or combination of devices including, but not limited to, personal computers, the Internet, private networks, interactive television and wireless communication technologies, or other technologies approved by the Board.

(v) “Person” means any individual, partnership, corporation, limited liability company, or other association or organization.

(w) “Pool” means the total of all matched wagers in a given market.

(x) “Price” means the odds for a given exchange wager.

(y) “Unmatched wager” means a wager or portion of a wager placed in a given market within an exchange that does not become part of a matched wager because there are not one or more available exchange wagers in that market with which to form one or more identically opposing wagers.

(z) “Withdrawal” means a payment from an exchange wagering account by the exchange provider to the account holder.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

STATE OF CALIFORNIA
 CALIFORNIA HORSE RACING BOARD (CHRB)
APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING
 CHRB-229 (New 5/12 13)

Application is hereby made to the California Horse Racing Board (CHRB) for approval to conduct exchange wagering in accordance with the California Business and Professions Code section 19604.5, Chapter 4, Division 8, California Code of Regulations, Title 4, Division 4, CHRB Rules and Regulations.

Application must be filed not later than 90 days in advance of the date scheduled to conduct exchange wagering.

The applicant must supply complete responses. The information is to be provided as of the date of this application unless otherwise specified. The applicant may refer to an exhibit/attachment in response to a question; however, you must specify the page number and line in which the text is responsive.

NOTICE – By submitting the application the applicant consents to the jurisdiction of California courts and the application of California law as to all California wagers and operations.

To fulfill Business and Professions Code section 19604.5(e)(6), the total amount per fiscal year to be assessed to operate exchange wagering is \$500,000. The assessment fee for license to operate exchange wagering shall be equally apportioned amongst the approved applicants, and paid on a per month basis for the duration of the license. No application for a license to operate exchange wagering shall be granted unless the applicant has deposited with the Board a certified check in the amount of \$1,400,000 payable to the California Horse Racing Board, or an amount to be determined by the Board to fulfill Business and Professions Code section 19604.5(e)(6), which provides that the Board may recover any costs associated with the licensing or regulation of exchange wagering from the exchange wagering licensee by imposing an assessment on the exchange wagering licensee in an amount that does not exceed the reasonable costs associated with the licensing or regulation of exchange wagering. Funds received pursuant to this subdivision shall be deposited in the Horse Racing Fund, to be available upon appropriation by the Legislature for the sole purpose of regulating exchange wagering.

1. APPLICANT INFORMATION

Company name: _____

Facility address: _____

City: _____	State: _____	Zip Code: _____
Phone: _____	Fax: _____	Website: _____

County: _____

CHRB CERTIFICATION

Application received:	Hearing date
Cashier check received:	Approved date:
Reviewed:	License number:

2. CONTACT PERSON (authorized representative)

Name and title of contact:

Business name and address:

City:	State:	Zip Code:
Phone:	Fax:	County:

Email address:

3. CALIFORNIA AGENT FOR RECEIPT OF SERVICE OF PROCESS

Name and title of contact:

Business name and address:

City:	State:	Zip Code:
Phone:	Fax:	County:

Email address:

4. MANAGEMENT PERSONNEL

NOTICE TO APPLICANT: All management personnel responsible for the California operations must be CHRB licensed. Business and Professions Code section 19604.5 (e) (5) provides the Board may reasonably require licensure or registration of officers or directors of any exchange wagering licensee.

List name, title, email address, phone and license number for all management personnel directly involved in management of exchange wagering. Identify which management staff is responsible for California operations:

Name and title	Email address	Phone	License No.	Responsible for California Operations
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No

5. DATE OF OPERATION

NOTICE TO APPLICANT: CHRB Rule 2086.5 provides the term of the exchange wagering license shall ~~not~~ be ~~more than two~~ a maximum of 12 months ~~years~~ commencing the first day of the month following approval of the exchange wagering license from the date the exchange wagering license is issued, unless otherwise determined by the Board.

- A. Dates applicant is proposing to conduct exchange wagering:
 Beginning date: _____ Ending date: _____
- B. Dates exchange wagering will not be conducted:

C. Indicate the days and hours exchange wagering will be conducted below:

<u>Days:</u>	<u>Hours:</u>
<u>Sunday</u>	
<u>Monday</u>	
<u>Tuesday</u>	
<u>Wednesday</u>	
<u>Thursday</u>	
<u>Friday</u>	
<u>Saturday</u>	

6. BUSINESS STRUCTURE

A. Identify your business structure (below):

- Corporation (complete subsection B and E)
- LLC (complete subsection C and E)
- Other (Specify and complete subsection D and E)

B. CORPORATION

1. Registered name of the corporation:
2. State and/or country where incorporated:
3. Registry or file number for the corporation:
4. Names of all officers and directors, titles, and the number of shares of the corporation held by each:
5. Names (true names) of all persons, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each:
6. Number of outstanding shares in the corporation:
7. Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:
8. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation:
9. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:
 - A. Is parent and/or paired corporation or entity a publically traded or privately held

company that guarantees the obligation of the applicant? If no, proceed to section E.

If yes, answer questions 10-17. Yes No

10. Registered name of the corporation:
11. State and/or country where incorporated:
12. Registry or file number for the corporation:
13. Names of all officers and directors, titles, and the number of shares of the corporation held by each:
14. Names (true names) of all persons, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each:
15. Number of outstanding shares in the corporation:
16. Are the shares listed for public trading? Yes No
17. If yes, on what exchange and how is the stock listed:
18. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation:
19. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

C. LLC

1. Registered name of the LLC:
2. State and/or country where articles of organization are filed:
3. Registry or file number for the LLC:
4. Attach a list of the names of all members (including individuals (true names), corporations, other LLCs and or foreign entities), titles, and the number of shares of the LLC held by each:
5. Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:
6. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or

entity:

A. Is parent and/or paired entity either a publically traded or privately held company that guarantees the obligation of the applicant? If no, proceed to section E. If yes, answer questions 7-13

Yes No

7. Registered name of the LLC/Corporation:
8. State and/or country where articles of organization are filed:
9. Registry or file number for the LLC:
10. Attach a list of the names (true names) of all members (members may include individuals, corporations other LLCs and foreign entities), titles, and the number of shares of the LLC held by each:
11. Are the shares listed for public trading? Yes No
12. If yes, on what exchange and how the stock is listed:
13. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

D. **OTHER**

1. Name(s) of partners/sole proprietor:
2. If a partnership, attach partnership agreement.
3. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

E. **FINANCIAL INFORMATION** [Ⓢ]

1. Attach the most recent audited annual financial statement or financial report for the applicant. Attach a separate audited annual financial statement for the applicants California operations. The financial statement or financial report shall include all relevant financial information specific to the applicant including:
 - Statement of Financial Position: also referred to as a balance sheet. Statement should report on applicant's assets, liabilities, contingent liabilities and ownership equity as of the date of the prepared statement.
 - Statement of Comprehensive Income: also referred to as Profit and Loss ("P&L") Statement. Statement should include report on applicant's income, expenses, and profits.
 - Profit and Loss statement for prior two years and Profit and Loss statement for projected

- year.
- Statement of Changes in Equity: to include the changes of the applicants' equity through the reporting period.
 - Statement of Cash Flows: to include a report of the applicant's cash flow activity, particularly its operating investing and financing activities during the reporting period.
 - Copy of a report made during the preceding 12 months to shareholders in the corporation and/or the Securities and Exchange Commission and/or the California Corporations Commission.
2. Provide certification from the Chief Financial Officer that the account holders' funds will not be commingled with any other funds pursuant to CHRB rule 2086.6.

~~**NOTICE TO APPLICANT: The financial information provided pursuant to subsection (E) above is exempt from disclosure pursuant to Government Code section 6254(k) and non-disclosable to the public.*~~

7. ORGANIZATIONAL INFORMATION

- A. Provide a detailed organizational chart for the applicant company and parent company if applicable.
- B. List all jurisdictions inside and outside of the United States in which you offer exchange wagering to patrons.
- C. Does the applicant or parent company hold a financial interest in the following (mark all that apply):
- Race track
 - Casino
 - Advance deposit wagering

If you have indicated you have an interest in any of the above identify name and address of business interest.

- D. What contributions is the applicant making to the California horse racing industry?
- E. Has there been any action initiated against the applicant its parent, any of its directors, partners, officers or subsidiary corporation this year, or in the last year, by any court or regulatory agency? If so, please identify the issue.

8. TRACK AGREEMENT AND HORSEMEN ORGANIZATION APPROVAL

EXCHANGE WAGERING LICENSING REQUIREMENTS

Business and Professions Code section 19604.5, identifies specific provisions that must be met before an exchange wagering provider may accept thoroughbred wagers on horse races from persons whose primary residence address is in the northern and central/southern zone of California; and specific requirements for quarter and standardbred wagers accepted from a resident whose primary residence address is in California:

Business and Professions Code section 19604.5 (b)(4) provides an exchange wagering licensee may only offer exchange wagering on **thoroughbred horse races**, conducted within or outside of this state, to persons whose **primary residence address is in the northern zone** of this state if it has an exchange wagering agreement with the racing association/fair located in the **northern zone** authorized by the Board when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the northern zone of this state, and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

Business and Professions Code section 19604.5 (b)(5) provides an exchange wagering licensee may only offer exchange wagering on **thoroughbred horse races**, conducted within or outside of this state, to persons whose **primary residence address is in the central/southern zone** of this state if it has an exchange wagering agreement with the racing association or racing fair located in the central/southern zone authorized by the Board, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the central/southern zone of this state, and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

Business and Professions Code section 19604.5 (b)(6) provides an exchange wagering licensee may only offer exchange wagering on **quarter horse races**, conducted within or outside of this state, to persons whose **primary residence address is in this state** if it has an exchange wagering agreement with the racing association or racing fair located in the state authorized by the Board to conduct a live quarter horse racing meeting, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and the horsemen's organization responsible for negotiating purse agreements for the live quarter horse racing meeting.

Business and Professions Code section 19604.5 (b)(7) provides an exchange wagering licensee may only offer exchange wagering on **standardbred horse races**, conducted within or outside of this state, to persons whose **primary residence address is in this state** if it has an exchange wagering agreement with the racing association or racing fair located in the state authorized by the board to conduct a live standardbred racing meeting, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and the horsemen's organization responsible for negotiating purse agreements for the live standardbred racing meeting.

Business and Professions Code section 19604.5 (k) provides exchange wagers placed on a market after the start of a race shall be lawful if authorized by the Board, racing association, or racing fair conducting the races, and the horsemen's organization responsible for negotiating purse agreements for the breed on which the exchange wager is made.

Identify the breed of races (8A through 8E) on which exchange wagering will be offered. Attach a copy of each agreement permitting these wagers.

(* If you do not have the required agreements permitting you to accept wagers in compliance with Business and Professions Code section 19604.5, you must attach a letter addressing the status of the outstanding document(s). Please reference section 8 and the title of the outstanding agreement you are addressing. The letter must include the status of negotiations and the outstanding issues that need to be resolved and an estimated completion date for each outstanding agreement.

If the information required in response to 8A through 8E is in one agreement provide a single copy of the document.

- A. Thoroughbred wagers from persons whose primary residence address is in the northern zone of California.
1. Do you have an agreement with a racing association or fair that allows you to accept thoroughbred wagers in the northern zone? Yes No
 - a. If yes, identify which thoroughbred association or fair the agreement is with and provide a copy: _____
 - b. If no, see above instructions (*).
 2. Do you have an agreement with the horsemen's organization that allows you to accept thoroughbred wagers in the northern zone? Yes No
 - a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).
- B. Thoroughbred wagers from persons whose primary residence address is in the central/southern zone of California.
1. Do you have an agreement with a racing association or fair that allows you to accept thoroughbred wagers in the central/southern zone? Yes No
 - a. If yes, identify which thoroughbred association or fair the agreement is with and provide a copy: _____
 - b. If no, see above instructions (*).
 2. Do you have an agreement with the horsemen's organization that allows you to accept thoroughbred wagers in the central/southern zone?
 Yes No
 - a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).
- C. Quarter wagers from persons whose primary residence address is in California.
1. Do you have an agreement with a racing association or fair that allows you to accept quarter horse wagers in California? Yes No
 - a. If yes, identify which quarter association or fair the agreement is with and provide a copy: _____
 - b. If no, see above instructions (*).
 2. Do you have an agreement with the horsemen's organization that allows you to accept quarter horse wagers in California? Yes No
 - a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).
- D. Standardbred wagers from persons whose primary residence address is in California.
1. Do you have a contract and/or agreement with a racing association, fair that allows you to accept standardbred wagers in California? Yes No

- a. If yes, identify which standardbred association/fair the agreement is with and provide a copy: _____
 - b. If no, see above instructions (*).
2. Do you have an agreement with the horsemen's organization that allows you to accept standardbred horse wagers in California? Yes No
- a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).
- E. Wagers will be accepted after the start of the race.
1. Do you have an agreement that allows you to accept wagers after the start of the race with a racing association or fair that conducts the races? Yes No
- a. If yes, identify which association/fair the agreement is with and provide a copy:

 - b. If no, see above instructions (*).
2. Do you have a contract and/or agreement with the horsemen's organization that allows you to accept wagers after the start of the race? Yes No
- a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).

9. LABOR ORGANIZATION

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (f) (1) provides the Board shall not approve an application for an original or renewal license as an exchange wagering provider unless the entity, if requested in writing by a bona fide labor organization no later than ninety days prior to licensing, has entered into a contractual agreement with that labor organization.

- A. Do you have a labor agreement for the applied term of the application? Yes No
- 1. If yes, answer questions B – D.
 - 2. If no, answer question E.
- B. If yes, what is the name of the bona fide labor organization?
- C. What is the term of the agreement? (Begin date): _____ (End date): _____
- D. Provide a copy of the labor agreement.
- E. If no, have you been in contact with a labor organization? Yes No
- 1. If yes, what was the date of contact?
 - 2. Include a letter with your application titled (Labor Status) addressing the status of the current labor negotiations. Include, date of last negotiation contact, remaining issues that need to be resolved and an estimated completion date.

10. ESTABLISHING EXCHANGE WAGERING ACCOUNTS

NOTICE TO APPLICANT: CHRB Rule 2089.5 provides that specific provisions must be met to establish an exchange wagering account. Business and Professions Code section 19604.5 (c) provides in part only natural persons with valid exchange wagering accounts may place wagers through an exchange. To establish an exchange wagering account, a *natural* person shall be at least 18 years of age and a resident of California or of another jurisdiction within which the placement of exchange wagers would not be unlawful under United States federal law or the law of that jurisdiction.

- A. Provide a detailed listing of the procedures to be used for establishing an account (must comply with rule 2089.5):
- B. Provide a copy of the form and terms of agreement used to establish an account for an account holder.
- C. Name and address of the third party you will use to verify identity, residence and age verification:

11. LOCATION AND PHYSICAL PLANT

- A. Do you have a call center to accept verbal wagers? Yes No
If so, what is the name, address and phone number of the location?
- B. What is the website address available for patrons to place wagers:
- C. Do you have a location in which patrons can place a wager in person: Yes No
If so, what is the name, address and phone number of the location?

12. OPERATION OF EXCHANGE WAGERING ACCOUNTS

- A. Submit a copy of your detailed operating plan pursuant to CHRB Rule 2086.6. Plan must include all items outlined in CHRB Rule 2086.6 including:
 - 1. a detailed report of the daily operation of the exchange
 - 2. a description of policy to prevent commingling of account holders' funds with any other funds.
 - 3. management policy of customer accounts including deposit, withdrawals, debits and credits.
- B. List the type of deposits you will accept:
- C. Identify any fees or transaction-related charges and the amount that will be assessed:

13. SECURITY POLICY

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (d) provides in part the Board shall approve, as part of the exchange wagering licensee's application for an exchange wagering license, security policies and safeguards to ensure player protection and integrity, including, but not limited to, provisions governing the acceptance of electronic applications for *natural* persons establishing exchange wagering accounts, location and age verification confirmation for *natural* persons establishing exchange wagering accounts, the use of identifying factors

to ensure security of individual accounts, and the requirements for management of funds in exchange wagering accounts. An exchange wagering licensee may not accept a wager, or series of wagers, if the results of the wager or wagers would create a liability for the exchange wagering account holder that is in excess of the funds on deposit in the exchange wagering account of that holder.

- A. Attach your security access policy and safeguards pursuant to Business and Professions Code section 19604.5 (d). Policy must include the following:
 - 1. Description of the technology to ensure identity, residence, and age verification when an account is established:
 - 2. Description of the technology to ensure confidentiality of the means of personal identification:
 - 3. Methods available for account holders to withdraw funds from their account:

- B. Attach a copy of your information security incident management policy.
 - 1. Have you had any computer related security issues this year, or in the last year, with data, data storage or hardware? Yes No
 - 2. If yes, please identify the issue.

- C. Provide the name, address, phone number and hours of operation of the location in which the physical and electronic data will be will be stored:

14. ENFORCEMENT OVERSIGHT

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (d) provides in part the Board shall approve, as part of the exchange wagering licensee's application for an exchange wagering license, security policies and safeguards to ensure player protection and integrity. CHRB Rule 2091.5 (b) states the exchange provider shall immediately notify the Board if it suspends an account due to probable fraud in connection with exchange wagering. The provider shall also submit to the Board a written account of the suspension.

- A. Identify the physical location of the applicant's security oversight operation.

- B. Attach an organizational chart including chain of command and contact information (phone number and email address) for key members of the applicant's security oversight operation.

- C. Describe what forensic and analytical tools will be used for the oversight/enforcement of exchange wagering security.

15. CONTRACTS AND AGREEMENTS

- A. List name, address and phone number of all organizations you will contract with to facilitate exchange wagering:

<u>Company name, address and phone:</u>	<u>Describe services:</u>

16. ADVERTISING

- A. Name and address of the advertising agency you will use:
- B. Describe marketing strategies planned for exchange wagering:
- C. What marketing contribution is the applicant making to the California horse racing industry?
- D. What innovative programs have been created by the applicant to help invigorate the California horse racing industry?
- E. Will there be rebate programs offered? If so, identify the programs.

17. CERTIFICATION

I hereby certify under penalty of perjury that I have examined this application, that all of the foregoing statements in this Application are true and correct, and that I am authorized to attest to this application.

Print Name

Signature

Print Title

Date

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2086.5. APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING

2086.5. Application for License to Operate Exchange Wagering.

(a) Prior to any exchange wagers being accepted, the applicant for license to operate exchange wagering must obtain a license from the Board.

(b) An applicant must complete *form* CHRB - ~~form~~ 229 (~~New 05/12~~) Application for License to Operate Exchange Wagering (*New 05/13*), ~~hereby incorporated by reference~~, which shall be available at the Board's headquarters office. The application must be filed not later than 90 calendar days in advance of the scheduled start of operation. ~~A certified check in the amount of \$1,400,000 payable to the California Horse Racing Board, or an amount to be determined by the Board to fulfill Business and Professions Code section 19604.5(e)(6), a~~ detailed operating plan as described under Rule 2086.6, Operating Plan Required, and proof of the applicant's compliance with labor provisions of Business and Professions Code section 19604.5(f), must accompany the application.

(c) The term of the exchange wagering ~~License~~ license is a maximum of ~~shall be not more than 2~~ 12 months, ~~years from the date~~ commencing the first day of the month following approval of the exchange wagering license ~~is issued, unless otherwise determined by the Board.~~

(1) Every original exchange wagering license granted by the Board shall expire on the last day of the State of California's fiscal year in which it is issued. Subsequent approvals of the exchange wagering license shall be for a period of 12 months beginning July 1 and ending June 30 to coincide with the State's fiscal year.

(d) To fulfill Business and Professions Code section 19604.5(e)(6), the total amount per fiscal year to be assessed to operate exchange wagering is \$500,000. The assessment fee for license to operate exchange wagering shall be equally apportioned amongst the approved applicants, and paid on a per month basis for the duration of the license.

(1) Within 14 business days of notification of the assessment fee apportioned by the Board, the approved applicant shall submit its first month's assessment fee in the form of a certified check payable to the California Horse Racing Board. Subsequent payments shall be submitted at the first of each month for the term of the license.

(2) The monthly apportioned amount of the assessment is dependent on the number of approved applicants:

<u>Approved Applicant(s)</u>	<u>Monthly Assessment Fee</u>
<u>One</u>	<u>\$41,667</u>
<u>Two</u>	<u>\$20,834</u>
<u>Three</u>	<u>\$13,889</u>
<u>Four</u>	<u>\$10,417</u>
<u>Five</u>	<u>\$8,334</u>

(3) Within seven business days of an increase or decrease in the number of approved exchange wagering applicants, the Board shall notify existing exchange operators of adjustments to their subsequent monthly assessment fees.

(~~e~~) The Board shall notify the applicant in writing within 30 calendar days from the receipt date if the application is deficient. No later than 90 calendar days following the receipt of the application, the Board shall make a final determination on the application. The Board shall ~~may~~ approve the application if, after reasonable investigation and inspection, as it deems appropriate, it determines that the applicant has demonstrated that exchange wagers placed through the exchange will be accurately processed and that there will be sufficient safeguards to

protect the public and to maintain the integrity of the horse racing industry in this state. If the Board denies an application, the applicant has 30 calendar days, from the receipt of the Board's denial notification, to request a reconsideration of the Board's decision. The request must be in writing and sent to the Board's headquarters office. The Board shall respond in writing to the reconsideration request within 30 working days from the receipt date of the request. If reconsideration is denied, the applicant may file for judicial review in accordance with Government Code section 11523.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.
Section 11523, Government Code.