CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2086.6. OPERATING PLAN REQUIRED

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

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2086.6. Operating Plan Required.

As part of the exchange wagering license application, and any renewal application, the applicant shall submit a detailed operating plan ~~*in a format and containing such information as required by the Board*~~. ~~At a minimum, the~~ *The* operating plan shall address the following:

(a) A detailed report of the daily operation of the exchange.

(b) Management of customer accounts including deposits, withdrawals, debits and credits. This shall include:

(1) A policy to prevent commingling of funds; and

(2) Evidence of an established account with ~~an~~ a Federal Deposit Insurance Corporation (FDIC) insured bank in which all funds of the account holders will be deposited. This shall include evidence that account holder's funds are segregated and held in a separate FDIC insured bank account of the exchange provider, and that the funds shall not be used for any purpose other than those required by the account holder's exchange wagering transactions.

(c) Technology and hardware and software systems information, which shall include a data security policy as provided under Business and Professions Code section 19604.5(d), as well as a policy for the notification of the Board and account holders of any unauthorized access that may compromise account holders' personal information.

(d) Financial information that demonstrates the financial resources to operate an exchange and a detailed budget that shows anticipated revenue, expenditures and cash flows by month projected for the term of the license.

(e) Document retention policies including those related to account holder personal information and wagering information.

(f) A customer complaint and conflict resolution process.

(g) Programs for responsible wagering.

(h) The requirements for exchange wagering accounts established and operated for *natural* persons whose principal residence is outside of the state, which for the purposes of these rules, shall apply only to wagering on California races.

~~*(i) The operating plan submitted pursuant to this regulation, and any subsequent updates or changes to such operating plan, shall be exempt from disclosure pursuant to Government Code section 6254(k) and non-disclosable to the public.*~~

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

Reference: Sections 19593 and 19604.5(e)(4), Business and Professions Code.
~~*Section 6254(k), Government Code.*~~

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2086.7. EXCHANGE WAGERING DATA

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2086.7. Exchange Wagering Data.

(a) For the purposes of ~~pari-mutual~~ pari-mutuel accounting and settlement of exchange revenues according to contract, as well as reporting and analysis of data related to exchange wagering, the exchange provider shall furnish the nonprofit horse racing data base, *CHRIMS Inc.*, ~~*as designated by the Board*~~ with ~~*the following*~~ a data interface and the following listed data in a format agreed upon by the exchange provider and *CHRIMS Inc.* ~~*the nonprofit horse racing data base*~~:

(1) A daily reconciliation of the amounts settled by the exchange provider and its account holders, including but not limited to:

(A) Race date, event, race number, wagering interests, breed type;

(B) Post time of race, start time of race, finish time of race;

(C) Winning, losing and net wagers;

(D) Wagers by type before race; by winning, losing, and net wagers, odds, amounts, backer, layer;

(E) Wagers by type during race; by winning, losing and net wagers, odds, amounts, backer, layer;

(F) Cancellations of wagers made by customers on betting interest~~,~~ or interests during one event, *if any*;

(G) Zip code of each account holder;

(H) Percentage or flat fee paid to source of event;

(I) Percentage or flat fee rebated to each account holder, *if any*.

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

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

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2086.9. FINANCIAL AND SECURITY INTEGRITY AUDITS REQUIRED

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Rule 2086.9. Financial and Security Integrity Audits Required.

(a) ~~Ninety~~ One hundred twenty days after the end of each calendar year the exchange provider shall submit to the Board an annual audited financial statement for its California operations.

(b) On a calendar year basis the provider shall undergo the Statement on Standards for Attestation Engagements 16 (SSAE 16) audits:

(1) Service Organization Controls I (SOC I) and;

(2) Service Organization Controls II (SOCII) reports.

(c) The SOC I and SOC II reports shall be submitted to the Board ninety days after the end of the calendar year.

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

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

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2087. SUSPENDING MARKETS

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2087. Suspending Markets.

(a) An exchange provider may suspend a market at any time, including after the race is declared official but before winning wagers are credited, if the provider has reason to suspect that fraud or any other action or inaction by any *natural* person connected with the race raises questions about the integrity and fairness of the market.

(b) The provider shall immediately notify the Board by means of electronic mail any time a market is so suspended. Upon settlement of the market the provider shall submit to the Board a written account of the suspension that at a minimum provides the following information:

(1) The market suspended;

(2) The date and time of the suspension;

(3) The reason for suspending the market;

(4) The results of the investigation;

(5) How the market was settled.

(c) Upon the completion of an investigation, the exchange provider shall settle the market as appropriate.

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

Reference: Sections 19593 and 19604.5(k), Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2087.6. CANCELLATION OF MATCHED WAGERS

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2087.6. Cancellation of Matched Wagers.

(a) An exchange provider may cancel or void a matched wager or part of a matched wager if required by law or where, in its sole discretion, it determines:

(1) there is a technological failure and the market must be voided; or

(2) there is good cause to suspect that a *natural* person placing a wager through the exchange has breached any term of the *natural* person's agreement with the exchange provider;

(3) it is in the interest of maintaining integrity and fairness in a particular market; or

(4) human error by the exchange wagering provider in recording an exchange wager.

(b) If a matched wager is canceled or voided due to situations described in subparagraphs (a)(1), (a)(2) and (a)(3) of this ~~*regulation*~~ *section*, the exchange provider shall notify the Board in writing of its actions and the circumstances that resulted in such action.

(c) An account holder who believes a payout was *not made* ~~*inappropriately disr*upted~~ due to the cancellation of a matched wager may submit a claim to the exchange provider in accordance with Rule 2089 of this article.

Authority: Sections 19420, 19440, 19590 and 19604.5,

Business and Professions Code.

Reference: Sections 19593 and 19604.5(k), Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2088.6. CANCELLATION OF UNMATCHED WAGERS

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2088.6. Cancellation of Unmatched Wagers.

~~An unmatched wager may be cancelled by the exchange provider at any time before it is matched by the provider to form one or more identically opposing wagers.~~

(a) The exchange provider may cancel an unmatched wager at any time without cause before it is matched to form one or more identically opposing wagers.

(b) The ~~exchange provider or the~~ account holder who ~~*offered the*~~ *offers an* unmatched wager may cancel ~~*an*~~ *that* unmatched wager at any time without cause before it is matched to form one or more identically opposing wagers.

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

Reference: Sections 19593 and 19604.5(j), Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2089. ERRORS IN PAYMENTS OF EXCHANGE WAGERS

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2089. Errors in Payments of Exchange Wagers.

If an error occurs in the payment of amounts for exchange wagers, the following shall apply:

(a) In the event the error results in an over-payment to the ~~individuals wagering, the exchange provider shall be responsible for such payment~~ account holder, the exchange provider may prohibit the withdrawal of funds equal to the overpayment. The exchange provider shall ~~*immediately*~~ *within one business day* notify the account holder of the overpayment and shall be entitled to recover from such account holder the amount of the overpayment.

(1) An account holder who disputes an overpayment may, within 90 calendar days of the date of the overpayment, request in writing that the Board determine the validity of such overpayment.

(b) In the event the error results in an under-payment:

(1) *Within one business day* ~~*The*~~ *the* exchange provider shall notify the account holder of such underpayment.

(~~1~~2) An account holder must submit a claim for the underpayment within ~~30~~ 90 calendar days inclusive of the date on which the alleged underpayment occurred. The exchange provider shall investigate such claims and shall pay each claim, or a part thereof, which it determines to be valid, and shall notify the claimant in writing if his claim is rejected as invalid.

(~~2~~3) Any claim not filed with the exchange provider within ~~30~~ 90 calendar days inclusive of the date on which the alleged under-payment occurred shall be deemed waived and the exchange provider shall have no further liability therefore.

(~~3~~4) Any *natural* person whose claim is rejected by the exchange provider may, within ~~15~~ 45 calendar days from the date he received the notice of rejection, request in writing that the Board determine the validity of the claim. Failure to file such request with the Board within the said time shall constitute a waiver of the claim.

(~~4~~5) A hearing shall be held on each such rejected claim timely filed with the Board. The Board shall give notice of such hearing to the claimant and the exchange provider. The Board may determine a claim to be valid, in whole or in part, and thereafter order the exchange provider to pay to the claimant the amount of the claim determined to be valid, or may deny the claim ~~I~~ *in* whole or in part. Any such determination shall be final and binding on all parties.

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

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

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2089.5. REQUIREMENTS TO ESTABLISH AN EXCHANGE WAGERING ACCOUNT

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2089.5. Requirements to Establish an Exchange Wagering Account.

(a) An exchange wagering account is necessary to place exchange wagers. Exchange wagering accounts may be established by residents of California. Residents of another ~~jurisdiction~~ state may establish exchange wagering accounts provided it is not unlawful under United States federal law or the law of that ~~jurisdiction~~ state to place an exchange wager provided, however, that these rules shall apply only to wagering on California races. An account may be established in person, by mail, telephone, or other electronic media including but not limited to the Internet. Only natural persons may open an account. An account shall not be assignable or otherwise transferable.

(b) The information required to establish an account shall include:

(1) The prospective account holder's full legal name.

(2) The principal residence address of the prospective account holder. Such address shall be deemed the address of record for mailing checks, withdrawals, statements, if any, of the

account, notices, or other correspondence or materials. It is the responsibility of the account holder to notify the exchange provider of any address change.

(3) Telephone number.

(4) Social Security Number or Individual Tax Identification Number.

(5) Certification or other proof that the applicant is at least 18 years of age.

(c) An exchange provider shall employ electronic verification with respect to each prospective account holder's name, principal residence address, date of birth and social security number at the time of the account establishment by a Board-approved national, independent, individual reference company or another independent technology approved by the Board which meets or exceeds the reliability, security, accuracy, privacy and timeliness provided by individual reference service companies.

(d) An exchange provider may refuse to establish an account, or may cancel or suspend a previously established account, without notice, if it ~~is found~~ finds that any information supplied by the prospective account holder is untrue or incomplete, or for any other reason as determined by the exchange provider.

(1) If the exchange provider cancels a previously established account, within five business days it shall return to the account holder at the address of record any funds held in the account.

(e) If an exchange provider or an affiliate of such provider is also licensed by the Board to conduct advance deposit wagering, the exchange provider may offer holders of existing advance deposit wagering accounts held with such exchange provider or such affiliate a convenient method of establishing an exchange wagering account by verifying information on file for the existing advance deposit wagering account.

(f) The exchange provider shall have the right to suspend or close any account at its discretion.

(g) The account applicant shall supply the exchange provider with a means of personal identification to be used by the account holder to access his account. Exchange wagering accounts are for the use only of the account holder and the account holder is responsible to maintain the secrecy of the account number and means of personal identification. The account holder must immediately notify the exchange provider of any breach of security for the account.

(h) Each account shall have a unique identifying account number. The exchange provider shall inform the account holder of the assigned account number and provide a copy of the exchange provider's exchange wagering procedures, terms, and conditions, as well as any information that pertains to the operation of the account.

(i) Each exchange provider shall, at all times, comply with Internal Revenue Service (IRS) requirements for reporting and withholding proceeds from exchange wagers by account holders and shall, following the credit to an account for a winning exchange wager, send to any account holder who is subject to IRS reporting or withholding a Form W2-G summarizing the information for tax purposes. Upon written request by an account holder, the exchange provider shall provide the account holder with summarized tax information on exchange wagering activities.

(j) All wagering conversations, transactions or other wagering communications through the exchange wagering system, verbal or electronic, shall be recorded by means of electronic media, and the tapes or other records of such communications shall be kept by the entity for at least 180 days.~~,~~ ~~*unless otherwise directed by the Board*~~ *The Board may direct the entity to retain such records for an additional period of one year past the 180 days for purposes including but*

not limited to conducting an investigation, an audit or an ongoing wagering inquiry. These tapes and other records shall be made available to the Board upon request or order by the Executive Director.

(k) Upon request of the account holder the exchange provider shall provide a statement detailing account activity for the immediate 30 days prior to the request. Unless the exchange provider receives written notice disputing the statement within 14 calendar days of the date a statement is forwarded, it shall be deemed to be correct.

(l) No employee or agent of the exchange provider shall divulge any confidential information related to the placing of any exchange wager or any confidential information related to the operation of the exchange wagering system without the consent of the account holder, except to the account holder as required by this article, the Board, and as otherwise required by state or federal law.

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

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

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2091.5. SUSPENDING AN EXCHANGE WAGERING ACCOUNT

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2091.5. Suspending an Exchange Wagering Account.

(a) An exchange provider may suspend any exchange wagering account if the provider has reason to believe that the account holder may have committed acts of fraud in connection with exchange wagering or any other action or inaction which threatens the integrity or fairness of any exchange wagering, or is otherwise ineligible to hold the account.

(b) The exchange provider shall immediately notify the Board by electronic mail if it suspends an account due to fraud in connection with exchange wagering or any other action or inaction which threatens the integrity or fairness of any exchange wagering. The provider shall also submit to the Board a written account of the suspension that at minimum states:

(1) The name of the *natural* person whose account was suspended;

(2) The date and time of the suspension;

(3) The reason for suspending the account;

(4) The results of any investigation associated with the suspension of the account.

(c) Funds in a suspended account shall be maintained by the exchange provider until such time as any investigation associated with the suspension is complete and/or the account is no longer suspended.

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

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

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2092.5. PROHIBITIONS ON WAGERS TO LAY A HORSE TO LOSE

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2092.5. Prohibitions on Wagers to Lay a Horse to Lose.

(a) No exchange wager that lays a horse to lose may be made by a *natural* person who owns such horse in whole or in part, nor shall an exchange wager to lay the horse to lose be made by:

(1) The trainer, ~~or~~ assistant trainer or substitute trainer who trains the horse;

(2) The authorized agent who represents the owner of the horse;

(3) The jockey or driver who rides or drives the horse;

(4) The jockey agent who represents the jockey who rides the horse;

(5) The valet who attends the jockey; ~~or~~

(6) Any stable employee of the trainer who trains the horse~~.~~;

(7) The veterinarian or any assistant to the veterinarian providing services to the trainer who trains the horse.

(b) Nor shall any of the *natural* persons named in subsection (a) through (a)(7) of this regulation instruct another *natural* person to lay a horse to lose on their behalf, or receive the whole or any part of any proceeds of such a lay.

(c) No exchange wagering account shall be used to lay a horse to lose, except by the account holder. All wagers that lay a horse to lose will be presumed to be effected by, and for the benefit of, the account holder.

(d) Nothing herein is intended to otherwise alter the applicability or application of Rule 1970.

(e) Individuals prohibited from wagering under Rule 1969 Shall be prohibited from placing an exchange wager while on duty at a race meeting or off-track wagering facility, including an out-of-state-Hub.

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

Reference: Sections 19593 and 19604.5(e)(3)(A), Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
PROPOSED ADDITION OF
ARTICLE 27. EXCHANGE WAGERING
RULE 2092.6. SUSPENSION OF OCCUPATIONAL LICENSE

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2092.6. Suspension of Occupational License.

(a) The Board of Stewards may suspend the occupational license of any *natural* person if, after a preliminary hearing, it determines there is probable cause to believe that such *natural* person ~~may have~~ has committed acts of fraud in connection with exchange wagering or any other action or inaction which threatens the integrity or fairness of any exchange wagering.

(b) Such suspension of license shall be for a period of time designated by the Board of Stewards, unless otherwise determined by the Board,~~.~~ provided that any such suspension under this section shall be limited to ten days and, if probable cause that a violation has occurred has been found, a hearing under Business and Professions Code section 19461 to determine whether a licensee has committed a violation of the rules must be held before any further discipline may be imposed.

(c) The licensee may make an appeal to the Board by complying with the provisions of Rule 1761 of this division.

Authority: Sections 19420, 19440, 19460, 19461, 19590 and 19604.5, Business and Professions Code.

Reference: Sections 19461, 19593 and 19604.5, Business and Professions Code.