

CALIFORNIA HORSE RACING BOARD
ECONOMIC IMPACT ASSESSMENT PER GOVERNMENT CODE SECTION 11346.3(b):
PROPOSED ADDITION OF ARTICLE 27. EXCHANGE WAGERING

Action: The California Horse Racing Board (Board) proposes to add Article 27, Exchange Wagering, to enact the provisions of Business and Professions Code section 19604.5, inclusive, which provides that exchange wagering shall only be offered by an exchange wagering licensee pursuant to a valid exchange wagering license issued by the Board. The proposed addition of Article 27 consists of 25 proposed regulations that will govern the conduct of exchange wagering in California. The regulations are:

Rule 2086, Definitions: Rule 2086 provides definitions of terms and phrases used in exchange wagering.

Impact: The purpose of Rule 2086 is to provide clarity with regards to exchange wagering vocabulary. The Board has determined that Rule 2086 will have no impact on small business. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed addition of Rule 2086 is not expected to have a direct impact on the creation or elimination of jobs within the State of California. To the extent that California residents may engage in exchange wagering, the proposed addition of Rule 2086 will promote fairness, and an increase in the openness and transparency in the conduct of exchange wagering by providing a uniform meaning to exchange wagering terminology. The proposed regulation provides a vocabulary for exchange wagering, as such it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2086.1, Authorization for Exchange Wagering: The regulation states the authority under which a provider may conduct exchange wagering in the State of California and it provides that the licensee may conduct exchange wagering on horse races outside California where the licensee does not offer exchange wagering to residents of California on that race.

Impact: Rule 2086.1 provides clarity with regards to the authority under which an exchange provider may offer exchange wagers to California residents after it obtains the appropriate license. In addition, the regulation provides clarity with regards to the licensee's ability to conduct exchange wagering outside of the State of California where it does not offer such wagering to California residents. Rule 2086.1 will have no impact on small business. The Board has determined that Rule 2086.1 has no adverse impact on small business as defined in Government Code section 11342.610. The proposed addition of Rule 2086.1 is not expected to have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation may promote openness and transparency in business and government by stating under what authority exchange wagering may be conducted in this State. In this regard, proposed regulation may aid in the creation of new exchange wagering enterprises in this State, and, to the degree such businesses are involved in exchange wagering enterprises, it may affect the expansion of horse racing related businesses currently doing business within this state;

however, it will not eliminate existing businesses within the State of California. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2086.5, Application for License to Operate Exchange Wagering: Rule 2086.5 requires an applicant to obtain a license from the Board prior to accepting any exchange wagers in California. The regulation provides that the applicant must complete an application as specified and as provided by the Board. Rule 2086.5 also sets the application fee, and sets the term of an exchange wagering license at two years from the date the license is issued, unless otherwise determined by the Board. Finally, Rule 2086.5 provides the timeframes which the applicant and the Board must meet to complete the application process.

Impact: Rule 2086.5 sets forth the process used by potential exchange wagering entities to apply for an exchange wagering license. The regulation promotes fairness, openness and transparency by promulgating the process under which an applicant may apply for a license to operate exchange wagering. All applicants will work with the same application and within the same timeframes as clearly outlined in the regulation. The Board has determined that Rule 2086.5 will have no impact on small business. Rule 2086.5 does not have an adverse impact on small business as defined in Government Code section 11342.610. The proposed addition of Rule 2086.5 is not expected to have a direct impact on the creation or elimination of jobs within the State of California, as the regulation only provides the administrative requirements to obtain an exchange wagering license. However, by providing such requirements the regulation may aid in creating new exchange wagering businesses and the expansion of horse racing related businesses currently doing business within this State. The proposed regulation will not eliminate existing businesses within this State. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2086.6, Operating Plan Required: Rule 2086.6 requires an applicant for an exchange wagering license, or an applicant for renewal of an exchange wagering license, to submit a detailed operating plan at the time of application. The operating plan must provide a detailed report of the daily operation of the exchange, as well as information regarding the management of customer funds, technology systems information, document retention policies and other items relating to the operation of the exchange, as specified.

Impact: The operating plan required under Rule 2086.6 allows the Board to review information about the applicant entity that may otherwise not be included in the application for license. This will have the benefit of helping the Board to determine that the entity has a viable business plan and the financial resources to operate an exchange. It will also help the Board to determine that adequate safeguards are in place to protect the interests of exchange wagering account holders. As such, the Board has determined that Rule 2086.6 will have no impact on small business. Rule 2086.6 does not have an impact on small businesses as defined in Government Code section 11342.610. The proposed addition of Rule 2086.6 is not expected to have a direct impact on the creation or elimination of jobs within the State of California, as the regulation merely requires the submission of information related to the an exchange wagering license applicant's plans for operation. The proposed regulation requires that certain information be provided to the Board to aid in the determination of an applicant's suitability for license. Such information may result in

a successful hearing for license, as such it will aid in the creation of new businesses, but it will not eliminate existing businesses within the State of California. The proposed regulation may also affect the expansion of horse racing related businesses currently doing business within this State should such businesses apply for license to operate exchange wagering. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2086.7, Exchange Wagering Data: The regulation requires the exchange wagering provider to furnish the nonprofit horse racing data base with data and a data interface in an agreed upon format for the purpose of pari-mutuel accounting and settlement, as well as reporting and analysis of data related to exchange wagering.

Impact: Rule 2086.7 will facilitate the daily pari-mutuel accounting, and the reporting and analysis of data related to pari-mutuel wagering in California to reflect what has actually taken place in California horse racing. The data will be used by mutuel, racing and accounting departments at the track, as well as horsemen's organizations and the Board. Without the participation of exchange wagering providers, the daily pari-mutuel data provided by the nonprofit horse racing data base would not be complete. Providing the exchange wagering data will allow for complete daily pari-mutuel reporting, and will have the benefit of promoting openness and transparency within the horseracing industry. Rule 2086.7 will have no impact on small business. The Board has determined that Rule 2086.7 will not have an impact on small businesses as defined in Government Code section 11342.610. The proposed addition of Rule 2086.7 is not expected to have a direct impact on the creation or elimination of jobs within the State of California, as the regulation sets forth the requirements for the sharing of exchange wagering pari-mutuel data. The proposed regulation provides for the reporting of pari-mutuel data for exchange wagering, as such it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2086.8, Monitoring Systems and Notification: The regulation requires that the exchange provider and the Board enter into an agreement for access to the provider's real-time monitoring system, as well as online documentation and training. In addition, Rule 2086.8 requires immediate notification to the Board of unusual wagering patterns and predetermined events, as well as criteria for anti money laundering procedures and monitoring account holders' telephone records.

Impact: Rule 2086.8 will help to ensure that the Board has access to, and knowledge of the exchange provider's real time monitoring systems. The regulation will also ensure that the Board is advised of unusual wagering activities and agreed upon events, as well as other exchange wagering procedures, as specified. Access to the provider's real time monitoring systems and immediate notification of agreed upon events will enhance the Board's efforts to ensure the integrity of exchange wagering. This will have the benefit of promoting fairness by working to guarantee that exchange wagering account holders are participating in an activity free of misuse. In turn, the regulation may aid in building account holder confidence in the system, which may result in positive economic results for the exchange provider and the industry. Rule

2086.8 will have no impact on small business. The Board has determined that Rule 2086.8 will not adversely impact small business as defined in Government Code section 11342.610. The regulation is not expected to have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation addresses the integrity of exchange wagering operations, as such it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health of California residents, worker safety or the state's environment. Rule 2086.8 could have a positive effect on the welfare of California residents who participate in exchange wagering in that it will help to guarantee the integrity of exchange wagers.

Rule 2086.9, Financial Security Integrity Audits Required: The regulation requires the exchange provider to submit to the Board an annual financial statement for its California operations 120 days after the end of each calendar year. In addition, on a calendar year bases the exchange provider shall undergo the Statement on Standards for Attestation Engagements 16 audits: Service Organization Controls (SOC) I and SOC II, which shall be submitted to the Board ninety days after the end of the calendar year.

Impact: The goal of requiring an SOC audit is to assure California stakeholders that certain financial and internal control standards are met by exchange wagering companies. It is important that appropriate requirements and procedures are in place for exchange wagering, a form of pari-mutuel wagering which relies upon an entirely new distribution methodology. The benefit of Rule 2086.9 is transparency in the conduct of the exchange, and a guarantee that the exchange provider's description of its system and the suitability of its controls are such that the control objectives are achieved. This will have the benefit of assuring the Board, the industry and account holders of the integrity of the wagering exchange. The Board has determined the proposed regulatory action will have no impact on small business. The regulation will not adversely impact small business as defined in Government Code section 11342.610. The proposed addition of Rule 2086.9 is not expected to have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation provides audit functions to be conducted by exchange wagering providers. Such auditing is routinely required within the industry. The proposed regulation will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health of California residents, worker safety or the state's environment. Rule 2086.9 could have a positive effect on the welfare of California residents who participate in exchange wagering in that it will help to guarantee the integrity of exchange wagers.

Rule 2087, Suspending Markets: The regulation allows the exchange provider to suspend a market if it has reasons to suspect fraud or it has questions about the fairness or integrity of the market. Rule 2087 also requires the exchange provider to immediately notify the Board if it suspends a market, and upon settlement of the market it must provide a written account of its actions, as specified.

Impact: Rule 2087 allows the exchange provider to suspend a market if it believes there may be fraud or it has reason to question its integrity or fairness. Immediate notification of the Board is

required if a market is suspended. The benefit of this regulation is that it will help to ensure the integrity of exchange wagering, and horseracing in general. It is important for the industry to be able to move swiftly if it has reason to believe the integrity of a market may be in question. This will promote fairness for the wagering public, and it will help to keep the industry economically healthy. The Board has determined that Rule 2087 will have no impact on small business. The regulation does not adversely impact small business as defined in Government Code section 11342.610. The proposed addition of Rule 2087 is not expected to have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation addresses the integrity of exchange wagering operations, as such it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health of California residents, worker safety or the state's environment. Rule 2087 could have a positive effect on the welfare of California residents who participate in exchange wagering in that it will help to guarantee the integrity of exchange wagering markets.

Rule 2087.5, Antepost Market: The regulation provides a definition of an antepost market, which is a wager unique to exchange wagering. The antepost wager may be placed before certain races are run, and it is made on an outcome that includes whether a selected horse will run in the race, and whether the horse finishes in the selected position of win, place, or show.

Impact: Rule 2087.5 provides the definition of a wager that is unique to exchange wagering. The benefit of the regulation is that it will provide clarity and a uniform understanding of what an antepost market entails. This will result in transparency and fairness for patrons who engage in exchange wagering. A clear understanding of what constitutes an antepost market may result in a greater number of such wagers being placed, which could have a positive economic impact on the industry. The purpose of the regulation is to define an exchange wager. As such, the Board has determined Rule 2087.5 will have no impact on small business. The Board has determined Rule 2087.5 will not adversely impact small business as defined in Government Code section 11342.610. The regulation is not expected to have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation describes a type of wager unique to exchange wagering. It will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2087.6, Cancellation of Matched Wagers: The regulation provides the circumstances under which an exchange provider can cancel or void a matched wager. The circumstances include technological failure, human error or maintaining the integrity or fairness of a particular market. The regulation also provides for notification to the Board, as specified, when a matched wager is cancelled. Under Rule 2087.6, an account holder may submit a claim to the exchange provider if he or she believes a payout was not made due to the cancellation of a matched wager.

Impact: There may be circumstances under which an exchange provider must cancel a matched wager due to errors or to protect the integrity of a market. Rule 2087.6 informs the exchange provider and exchange wagering account holders of the circumstances under which a matched wager may be cancelled, as well as the procedures to be followed if a matched wager is cancelled

for reasons of integrity. The rule also informs the exchange provider and account holder that patrons may make claims if they believe a payout was not made due to the cancellation. The benefit of the regulation is that it provides clarity and transparency for all parties with regards to the cancellation of matched wagers and promotes fairness for patrons who believe they may have a valid claim. The Board has determined the proposed regulatory action will have no impact on small business as it addresses when a matched wager may be cancelled or voided. The regulation will not adversely impact small business as defined in Government Code section 11342.610. The cancellation or voiding of a matched wager involves one wager between two individuals. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation addresses the function of the exchange in the cancellation of matched wagers, as such it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2088, Declared Entries: The regulation states that except for an antepost market, matched wagers on declared entries shall be voided by the exchange provider. When a horse is declared (withdrawn from a race in which it is entered) it is necessary to void matched wagers because, unless the matched wagers are antepost wagers, the matched wagers are no longer valid.

Impact: This regulation provides clarity for exchange account holders who have matched wagers on horses that are then declared (withdrawn) from a race. Unless the matched wager is an antepost wager, it shall be voided. The benefit of this regulation is that it promotes fairness and transparency in exchange wagering. Account holders will know that when a horse is declared from a race, all matched wagers involving the horse will be voided, except antepost wagers. The Board has determined the proposed regulatory action will have no impact on small business as it details how the declaration of a horse from a race will affect individual matched wagers. The regulation will not adversely impact small business as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation requires the operator to void matched wagers under specific conditions. It will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2088.6, Cancellation of Unmatched Wagers: The regulation states that the exchange provider may cancel an unmatched wager at any time before it is matched to form one or more identically opposing wagers. Rule 2088.6 also provides that the account holder who offers an unmatched wager may cancel that wager at any time before it is matched to form one or more identically opposing wagers.

Impact: This regulation provides clarity regarding the exchange provider's and the account holder's ability to cancel unmatched wagers. The exchange provider or account holder may cancel such wagers at any time before they are matched to form an identically opposing wager. In exchange wagering, it is the account holder who proposes the wager and sets the odds. This may result in many proposed wagers with odds that no one will accept to form a matched wager.

Cancellation of such wagers by the exchange provider may be considered “housekeeping” in that it allows the exchange provider to clear the exchange of wagers that are unlikely to be matched. There may be other reasons an exchange provider may wish to cancel unmatched wagers, including technological or human error. Conversely, the account holder who offers a wager should have the ability to cancel that wager if it is unmatched. The benefit of Rule 2088.6 is that it promotes transparency in the operation of exchange wagering because the account holder will understand that an unmatched wager may be canceled at any time by the provider or the account holder. The Board has determined the proposed regulatory action will have no impact on small businesses. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation allows the operator or account holder to cancel an unmatched wager at any time. This is an internal function of the exchange, and it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health of California residents, worker safety or the state’s environment. Rule 2088.6 may have a positive effect on the welfare of California residents who engage in exchange wagering in that they have the ability to manage their accounts and will not be forced to follow through with a wager they may otherwise wish to cancel.

Rule 2089, Errors in Payments of Exchange Wagers: Rule 2089 states what provisions apply when an error results in an overpayment to individuals wagering, or what steps must be taken when an error results in an underpayment. Rule 2089 provides the timelines for an account holder to make a claim for underpayment, as well as the timelines the exchange provider must follow in responding to such claims. If the exchange provider rejects a claim for underpayment, Rule 2089 provides the procedures and timelines which the account holder must follow to request that the Board determine the validity of the claim.

Impact: Rule 2089 will provide clarity and transparency in the operation of the exchange because account holders will know what to expect if they receive an overpayment, or if an error results in what they believe is an underpayment. An additional benefit of the regulation is fairness because the provisions of Rule 2089 are consistent with current Board and industry practice when errors result in the overpayment or underpayment of pari-mutuel wagers. Because exchange wagers are pari-mutuel wagers that involve two or more persons who place identically opposing wagers in a given market, the Board has determined the proposed regulatory action will have no impact on small businesses. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation addresses the necessary steps an exchange operator must take when errors are made in payments of exchange wagers. It will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state’s environment.

Rule 2089.5, Requirements to Establish an Exchange Wagering Account: The proposed regulation provides that an exchange wagering account is necessary to place exchange wagers.

Rule 2089.5 states the minimum necessary information the exchange provider must obtain from an individual who wishes to open an account, and it requires the exchange provider to verify such information. The regulation allows the provider to refuse to establish an account, or cancel or suspend a previously established account if any of the information is found to be false or incomplete. Rule 2089.5 also provides that the exchange provider shall comply with Internal Revenue Service reporting requirements, as specified; must record and retain all wagering conversations and transactions, as specified; must provide statements to account holders, as specified; and shall not divulge confidential information related to the placing of exchange wagers or the operation of the exchange, except with the consent of the account holder, or as otherwise required under the law.

Impact: Persons who wish to engage in exchange wagering must understand that an exchange wagering account is necessary, and what information is necessary to open such an account. Rule 2089.5 sets forth the requirements to open an exchange wagering account. The regulation also describes the obligations of the exchange provider with regards to the account. The benefit of Rule 2089.5 is that it provides clarity and openness for potential and current exchange wagering account holders. The rule also protects the interests of account holders in that the rule prohibits employees or agents of the exchange provider from divulging confidential information without the consent of the account holder. The Board has determined the proposed regulatory action will have no impact on small businesses. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation requires that an exchange wagering account be established before a patron may place exchange wagers. This is a function of the exchange and it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2089.6, Deposits to an Exchange Wagering Account: The proposed regulation describes the methods an account holder may use to make a deposit to his account. Rule 2089.6 requires that the name and billing address for any method of payment through which the account holder funds or transfers from an account shall be the same as the account holder's registered name and address. The rule also provides that an account shall bear no interest to the account holder, and the account holder may be liable for any charges imposed by the transmitting or receiving entity involved in a wire or electronic transfer.

Impact: Account holders must have sufficient funds in their accounts to place exchange wagers. Rule 2089.6 provides information regarding the various methods by which funding an account may be accomplished. The regulation also informs account holders of other details regarding their responsibilities in maintaining and funding their accounts. The benefit of Rule 2089.6 is transparency in the operation of the exchange. All account holders will know how accounts may be funded. The methods of funding and the responsibilities of the account holders are consistent with current Board practice regarding the funding of advance deposit wagering accounts. The result is fairness, as exchange wagering accounts are treated in the same manner as advance deposit wagering accounts. The Board has determined the proposed regulatory action will have no impact on small businesses. The regulation will not adversely impact small businesses as

defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation discusses the maintenance and funding of exchange wagering accounts. It will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

2090, Posting Credits for Winnings from Exchange Wagers: The proposed regulation states that winnings from exchange wagers shall be posted to the account by the exchange provider after the race is declared official. Rule 2090 also states that where outcomes of a matched wager can be determined with certainty prior to the time the race is declared official, the exchange provider may settle such wager when the outcome is determined with certainty.

Impact: Rule 2090 provides transparency in the operation of the exchange. The regulation informs account holders of when winnings from exchange wagers will be posted to their accounts. The regulation also provides the benefit of fairness for exchange account holders, as the posting of winnings to advance deposit wagering accounts, or the payment of winnings at the racetrack, are also paid after the race is declared official. Exchange wagering differs from other forms of pari-mutuel wagering in that it allows antepost wagers wherein one may wager that a horse entered in a race will ultimately not run in the race in which it was entered. In the case of such wagers, Rule 2090 allows the exchange provider to pay the wager if the outcome is determined with certainty. This provision provides transparency in the operation of the exchange, as persons laying antepost wagers (wagering the horse will not run) will know that, depending on the results of their matched wagers, the wagers could be settled prior to the races being declared official, because the outcome of their wagers is known. The Board has determined the proposed regulatory action will have no impact on small business. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation informs account holders how winnings from exchange wagers will be posted. The regulation deals with the internal operation of the exchange; it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2090.5, Debits to an Exchange Wagering Account: The proposed regulation describes how an exchange wagering account is debited when an account holder properly places an exchange wager. The exchange provider will determine if there are enough funds in the account to cover the maximum amount the account holder may be liable for. If there are sufficient funds, the account will be debited for the total maximum amount. The regulation provides that wagers may be accepted only during the days and times designated as operating by the exchange provider, and that the exchange provider may declare the system closed for receiving wagers on any race or closed for all exchange wagers.

Impact: The proposed addition of Rule 2090.5 will provide clarity and openness for exchange wagering account holders regarding the operation of the exchange. The proposed regulation lets account holders know that their accounts must be fully funded before the exchange provider will accept a wager. The account holder is also informed that the total maximum amount of his liability will be debited to his account if the wager is accepted. All account holders will know that wagers may only be placed during the days and times designated as operating, but that the exchange provider may declare the system closed for receiving wagers on any race or closed for exchange wagers. Another benefit of Rule 2090.5 is fairness in that the provisions of the regulation are consistent with current practice regarding advance deposit wagering. Persons making conventional pari-mutuel wagers at the racetrack must also provide the total amount wagered. Exchange wagering account holders are treated in the same manner as other horse racing patrons. The Board has determined the proposed regulatory action will have no impact on small business. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation describes the debiting of exchange wagering accounts when wagers are placed, as well as other functions of the exchange regarding the acceptance of exchange wagers. The regulation deals with the internal operation of the exchange; it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2090.6, Withdrawals by Account Holder: The proposed regulation states how account holders may make withdrawals from their accounts, including procedures the exchange provider must take if there are not sufficient funds in the accounts, and how the funds may be transmitted to account holders. Rule 2090.6 also states account holders may be liable for any charges imposed by the transmitting or receiving entity involved in a wire or electronic transfer of funds.

Impact: The proposed addition of Rule 2090.6 will provide clarity and openness for exchange wagering account holders regarding the operation of the exchange. The proposed regulation tells account holders how to withdraw funds from their exchange wagering accounts. The account holder is also informed that he or she may be liable for any charges imposed by the transmitting or receiving entity involved in a wire or electronic transfer of funds, and is informed of the exchange provider's responsibilities. Rule 2090.6 also provides the benefit of fairness in that the provisions of the regulation are consistent with current practice regarding advance deposit wagering. The Board has determined the proposed regulatory action will have no impact on small business. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation informs account holders how withdrawals from accounts may be made. The regulation deals with the internal operation of the exchange; it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2091, Closing an Inactive Exchange Wagering Account: The proposed regulation allows the exchange provider to close any exchange wagering account that has remained inactive for six months or longer. The rule requires the exchange provider to return any funds remaining in the account to the account holder at the address of record within five business days of closing the account.

Impact: The proposed addition of Rule 2091 will provide clarity and openness for exchange wagering account holders regarding the operation of the exchange. The proposed regulation informs account holders that their account may be closed by the exchange provider if it remains inactive for six months or longer. The regulation also informs the account holder of how soon he or she may expect to receive any funds remaining in the account that was closed. Rule 2090.6 also provides the benefit of fairness in that the provisions of the regulation are consistent with current practice regarding advance deposit wagering. The Board has determined the proposed regulatory action will have no impact on small business. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation describes what must happen with accounts inactive for six months or longer. The regulation deals with the internal operation of the exchange; it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2091.5, Suspending an Exchange Wagering Account: The proposed regulation allows an exchange provider to suspend an exchange wagering account if the provider has reason to believe the account holder may have committed fraud in connection with exchange wagering or any action which threatens the integrity or fairness of exchange wagering, or is otherwise ineligible to hold the account. Rule 2091.5 requires the exchange provider to immediately notify the Board if it suspends an account due to fraud or actions that threaten the integrity or fairness of any exchange wagering.

Impact: The proposed addition of Rule 2091.5 will provide clarity and openness for exchange wagering account holders regarding the operation of the exchange. The proposed regulation informs account holders that an account may be suspended if the exchange provider has reason to believe the account holder has engaged in acts of fraud in connection with exchange wagering or any other action that may threaten the integrity or fairness of exchange wagering. Allowing the exchange provider to act to suspend an account under such circumstances will help to ensure the integrity of the exchange. This might result in a positive economic benefit, as account holders are more likely to place wagers if they feel the exchange is fair. Rule 2091.5 also states what the exchange provider must do if it suspends an account. All parties will know the Board will be informed, and that there will be an investigation. The Board has determined the proposed regulatory action will have no impact on small business. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The regulation allows for the suspension of accounts if there is reason to believe fraud may have been committed in connection with exchange wagering. This is an internal

operation of the exchange and will not create new businesses or eliminate existing businesses within the State of California. To the degree that stopping or eliminating fraud builds confidence in exchange wagering operations, the regulation may have an effect on the expansion of horse racing related businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2091.6, Powers of the Board to Review and Audit Records: The proposed regulation states that the Board shall have access for review and audit of all records and financial information of an exchange provider. Rule 2091.6 provides that the information concerning exchange wagering transactions and account holders shall be considered proprietary and shall not be disclosed, except as required by law.

Impact: Rule 2091.6 will have the benefit of helping to increase transparency in the operation of the exchange. Providing the Board with access for review and audit of records will help to ensure the financial health of the exchange, and that the exchange is keeping account holder records in proper order. The regulation also promotes fairness in that account holders can be sure the information regarding wagering transactions and account holders will be maintained in confidence and not disclosed, unless required by law. The Board has determined the proposed regulatory action will have no impact on small business. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation allows the Board access for review and audit of exchange wagering records and financial information. The regulation deals with the internal operation of the exchange; it will not create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2092, Exchange Wagers Placed After the Start of a Race: The proposed regulation provides that exchange wagers may be placed after the start of a race, but before the results of the race have been declared official, as specified. Rule 2092 prohibits wagers on a market after the conclusion of a live race, and on previously run races.

Impact: Exchange wagering is a unique form of pari-mutuel wagering in that account holders may offer wagers after the start of the race, but before the race is declared official. Rule 2092 provides clarity and openness in the operation of the exchange by stating such wagers are allowed. This may have a positive economic benefit, as the ability to place such exchange wagers may attract new fans to horseracing. Rule 2092 prohibits exchange wagers after the conclusion of a live race and on previously run races. This is consistent with current pari-mutuel wagering practice and will have the benefit of promoting fairness in that exchange wagering account holders are treated in the same manner as other persons placing pari-mutuel wagers. The Board has determined the proposed regulatory action will have no impact on small business. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation addresses when exchange wagers may be placed on a race. The regulation deals with the operation of the exchange; it will not

create new businesses or eliminate existing businesses within the State of California, nor will it affect the expansion of businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2092.5, Prohibitions on Wagers to Lay a Horse to Lose: The proposed regulation lists persons who are prohibited from placing exchange wagers to lay horses to lose. The persons prohibited from placing such wagers include horse owners, trainers, jockeys or drivers, and others who work directly with horses, or work for such persons. Rule 2092.5 also states that persons prohibited from laying a horse to lose may not instruct other persons to lay horses to lose on their behalf, and that only account holders may use exchange wagering accounts to lay horses to lose.

Impact: Rule 2092.5 will provide openness in the operation of the exchange by clearly stating who may not place a wager to lay a horse to lose, and by informing account holders that they may not lay horses to lose on behalf of other persons, including those persons prohibited under the regulation from placing such wagers. The intent of Rule 2092.5 is to prevent persons who may have inside knowledge of the true condition of a horse from using such knowledge for personal gain. The rule is also intended to prevent owners, trainers, jockeys and others from manipulating races. Therefore, a benefit of the regulation is fairness, in that exchange wagering account holders may be assured the exchange will not accept wagers to lay horses to lose from persons prohibited from placing such wagers. In addition, exchange wagering account holders who place such wagers on behalf of others face action by the exchange and the Board. The Board has determined the proposed regulatory action will have no impact on small business. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation will promote fairness within exchange wagering, as such, it may aid in the expansion of horse racing businesses currently doing business in California. It will not create new businesses or eliminate existing businesses within the State of California. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2092.6, Suspension of Occupational License: The proposed regulation provides that the Board of Stewards may suspend the occupational license of any licensee if after a preliminary hearing it determines there is probable cause to believe the person has committed acts of fraud in connection with exchange wagering or any other action that threatens the integrity or fairness of any exchange wagering. The proposed regulation limits the suspension to 10 days, and a hearing, as specified, must be held before any further disciplinary action may be taken. Rule 2092.6 also states that the licensee may make an appeal to the Board, as specified.

Impact: Rule 2092.6 will help to protect the integrity of exchange wagering by allowing the Board of Stewards to suspend an occupational license if after a preliminary hearing it finds there is probable cause to believe the licensee committed acts that threatened the honesty or fairness of exchange wagering. This regulation provides transparency for licensees who hold exchange wagering accounts in that they are informed that if there is probable cause to believe they have committed acts that violate the fairness or integrity of exchange wagering, their occupational

license may be suspended. The regulation also has the benefit of fairness in that it limits the term of the suspension, requires a hearing before additional disciplinary action may be taken, and provides for the licensee's ability to appeal the suspension of an occupational license. The Board has determined the proposed regulatory action will have no impact on small business. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The proposed regulation allows for the suspension of any licensee if there is probable cause to believe such person has committed acts of fraud in connection with exchange wagering. This rule will not create new businesses or eliminate existing businesses within the State of California. To the degree that stopping or eliminating fraud builds confidence in exchange wagering operations, the regulation may have an effect on the expansion of horse racing related businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.

Rule 2093, Certain Practices Related to Exchange Wagering: Rule 2093 fulfills the requirements of Business and Professions Code section 19604.5(e)(3), which requires the Board to promulgate certain regulations relating to exchange wagering. Rule 2093 requires the exchange provider to provide an account holder with information on the races on which wagering is available, as specified. The rule also requires the exchange provider to have the account holder making an exchange wager select the specific horse and race; prohibits the exchange provider from offering specified aids, such as an automatic quick pick, in the placing of a wager; and prohibits the exchange provider from displaying the results of an exchange wager through the use of specified technology, games or lotto.

Impact: Rule 2093 will promote openness in the operation of exchange wagering by requiring the account holder to be given specific information on the race on which they are wagering. The prohibitions on offering automatic quick picks or on displaying the results of exchange wagers through the use of video or mechanical reels, games or a lotto will prevent the use of gimmickry in exchange wagering. This will provide the benefit of fairness as account holders will not be attracted to make wagers by devices or stratagems meant to attract attention. The Board has determined the proposed regulatory action will have no impact on small business. The regulation will not adversely impact small businesses as defined in Government Code section 11342.610. The proposed regulation will not have a direct impact on the creation or elimination of jobs within the State of California. The regulation requires certain information to be provided account holders and to take other actions with regards to the placing of exchange wagers. The proposed rule will not create new businesses or eliminate existing businesses within the State of California, nor will it have an effect on the expansion of horse racing related businesses currently doing business within this state. The proposed regulation will not affect the health and welfare of California residents, worker safety or the state's environment.