



## ADVISORY NOTICE

APPROVED REGULATIONS REGARDING:  
ACCOUNTING AND FINANCIAL REPORTING REQUIREMENTS FOR GAMBLING ENTERPRISES, THIRD-  
PARTY PROVIDERS OF PROPOSITION PLAYER SERVICES, AND GAMBLING BUSINESSES

(CGCC-GCA-2014-04-R)

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On February 2, 2015, the Office of Administrative Law (OAL) approved regulations which update the California Gambling Control Commission's (Commission) accounting and financial reporting requirements. The approved regulations were filed with the Secretary of State on February 2, 2015, and will become effective July 1, 2015.

In general, previously adopted regulations related to the requirements for accounting and financial reporting have been amended and moved to a new Chapter 5. The amendments better implement various aspects of the Gambling Control Act (Act)<sup>1</sup> and provide clarification as to the procedures required to maintain and submit accounting and financial records. The amended regulations apply these requirements, as appropriate, to third-party providers of proposition player services (TPPPS) and gambling businesses, in addition to gambling enterprises. In addition, repetitive terms and general provisions have been consolidated and simplified, and placed in Chapter 1, to be applicable to all sections of the Commission's regulations.

As the current regulations in Article 4 (commencing with Section 12400) of Chapter 7 have been moved to the new Chapter 5, Article 4 has been repealed in its entirety.

With respect to the annual submission of financial statements by TPPPS and gambling businesses (§ 12313), the required submissions shall begin with the financial statements for the licensee's or registrant's fiscal year ending on or after June 30, 2015.

### **Approved Regulations**

This regulatory action has made changes in Chapter 1 of Division 18 of Title 4 of the California Code of Regulations. Those changes are as follows:

#### **Section 12002. General Definitions.**

With the addition of a new Chapter 5, certain definitions limited to Chapter 2.1 and 2.2 will now also apply in Chapter 5. Additionally, some terms are used throughout the regulations. For simplicity and clarity, these terms are added in the general definitions section.

Duplications of these terms are removed accordingly. The following amendments are made:

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<sup>1</sup> Business and Professions Code section 19800, et seq.

- Subsection (k) – The term “dealer’s bank” is moved from paragraph (2) of subsection (b) of Section 12400 and added in Section 12002, with minor modifications.
- Subsection (l) – The term “drop” is moved from paragraph (3) of subsection (b) of Section 12400, amended, and added in Section 12002.
- Subsection (m) – The current subsection (k) is renumbered as (m).
- Subsection (n) – The current subsection (l) is renumbered as (n).
- Subsection (o) – The term “fiscal year” is moved from paragraph (4) of subsection (b) of Section 12400 and added in Section 12002.
- Subsection (p) – The term “gambling business” is added to reference persons registered or licensed in accordance with Chapter 2.2.
- Subsection (q) – The current subsection (m) is renumbered as (q).
- Subsection (r) – The current subsection (n) is renumbered as (r).
- Subsection (s) – The current subsection (o) is renumbered as (s).
- Subsection (t) – The term “jackpot” is moved from paragraph (8) of subsection (b) of Section 12400, amended, and added in Section 12002.
- Subsection (u) – The term “licensee” is added to mean any person who is licensed or registered, or endorsed on a license or registration, by the Commission.
- Subsection (v) – The current subsection (p) is renumbered as (v).
- Subsection (w) – The term “player’s bank” is moved from paragraph (11) of subsection (b) of Section 12400, amended, and added in Section 12002.
- Subsection (x) – The current subsection (q) is renumbered as (x).
- Subsection (y) – The current subsection (r) is renumbered as (y).
- Subsection (z) – The current subsection (s) is renumbered as (z).
- Subsection (aa) – The term “third-party providers of proposition player services” or “TPPPS” is added to reference persons registered or licensed in accordance with Chapter 2.1.

### Section 12003. General Requirements.

Several requirements, such as requiring records to be maintained in English, are included in multiple sections throughout the Commission’s regulations. Moreover, requirements such as allowing electronic communication and storage have been repetitively added to individual chapters of the regulations as they are not yet generally allowed. These repetitive provisions are included in a general requirements section for simplicity, consistency, and clarity.

- Subsection (a) – The requirement to record all books, accounts, financial records, and documents required by the Commission or the Bureau in English is added.
- Subsection (b) – The requirement that all records required by the Commission or the Bureau shall be maintained for five years, unless otherwise specified, is added. The

requirement that these records shall be stored in a secure location on the premises of the gambling establishment, main offices of the TPPPS or gambling business, or other location approved by the Bureau is also added. The requirement that any change in an approved location reported to the Bureau is deemed approved if not disapproved by the Bureau within 30 days of receipt of the written notice is added.

- Subsection (c) – The current requirement of Section 12405 that each licensee must provide the Bureau with copies of any records upon request is added to Section 12003. To comply with subsection (d), if hardcopies of documents stored in another form are required by the Bureau, the licensee must be able to comply with that request.
- Subsection (d) – The option to store and submit records in either a permanent form (i.e., hardcopy) or other media (e.g., magnetic tape, CDs, thumb drives, etc.), unless otherwise specified, is added.

This regulatory action has added Chapter 5 to Division 18 of Title 4 of the California Code of Regulations, as follows:

Chapter 5. Accounting and Transaction Approvals.

Article 1. Accounting and Financial Reporting.

Section 12311. Definitions.

The current Section 12400 is renumbered as Section 12311, and amended for accuracy and clarity.

- Subsection (a) – The current subsection (a) of Section 12400 is retained in Section 12311 and amended to reference the definitions in Section 12002.
- Subsection (b), paragraph (1) – The current definition for “Group I Licensee” in paragraph (5) of subsection (b) of Section 12400 is retained.
- Subsection (b), paragraph (2) – The current definition for “Group II Licensee” in paragraph (6) of subsection (b) of Section 12400 is retained.
- Subsection (b), paragraph (3) – The current definition for “Group III licensee” in paragraph (7), subsection (b) of Section 12400 is retained and amended to refer to licensees with a reported gross income of \$500,000 or more but less than \$2 million.
- Subsection (b), paragraph (4) – The term “Group IV licensee” is added to refer to licensees with a reported gross income of less than \$500,000.
- Subsection (b), paragraph (5) – The current definition for “jackpot administrative fee” in paragraph (9) of subsection (b) of Section 12400 is retained.
- Subsection (b), paragraph (6) – The current definition for “licensee” in paragraph (10) of subsection (b) of Section 12400 is retained and amended to include those possessing a TPPPS or gambling business license or registration, for the purposes of this chapter.

Section 12312. Record Retention and Maintenance; General Provisions.

Section 12312 consolidates several current requirements for accounting and financial reporting into one section, adding references to TPPPS companies and gambling businesses where appropriate.

- Subsection (a) – The current requirement in Section 12405 to maintain financial records for seven years within California has become subsection (a) of Section 12312, with the added qualification that the retention requirement applies to the records required by this article.
- Subsection (b) – The current requirement of subsection (a) of Section 12401 to maintain accurate, complete, and legible records in sufficient detail to support the amount of revenue reported to the Bureau in renewal applications has become subsection (b) of Section 12312. Additionally, the phrase “gross revenue as defined in Business and Professions Code section 19805(r)” is replaced with “all transactions pertaining to financial activities.”
- Subsection (c) – The current requirement of subsection (b) of Section 12401 to maintain various accounting records has become subsection (c) of Section 12312 and the phrase “as applicable” is added. References to TPPPS companies and gambling businesses are added.
- Subsection (c), paragraph (4) – The phrase “separated by gaming activity” is added.
- Subsection (d) – The current requirements of subsection (a) of Section 12402 to maintain a uniform chart of accounts and accounting classifications in order to prepare a complete set of financial statements has become subsection (d) of Section 12312, with minor changes. The requirement that the chart of accounts be included with the initial application of a TPPPS company or gambling business for review and approval by the Bureau is added.
- Subsection (e) – The current requirements of subsection (d) of Section 12402 to keep a general ledger and to use a double-entry accounting system have become subsection (e) of Section 12312.

Section 12313. Financial Statements and Reporting Requirements.

The current Section 12403 is renumbered as Section 12313 and amended for clarity and simplicity. Additionally, the following amendments are made:

- Subsection (a) – The current reporting requirements of Section 12403 are amended to include TPPPS companies and gambling businesses.
- Subsection (a), paragraph (3) – The phrase “with a gross revenue of \$500,000 or more per year” is deleted, as this information is included in the definition for Group III in Section 12311.
- Subsection (a), paragraph (4) – The reference to those in Group III with gross revenue of less than \$500,000 per year is changed to refer to the new Group IV.
- Subsection (b) – The repetitive provisions in paragraphs (2), (3), and (4) of subsection (a) of Section 12403 are consolidated into subsection (b) of Section 12313.

- Subsection (c) – The phrase “and the Commission” is added to allow the Commission to also receive a copy of the annual financial statements.
- Subsection (e) – The phrase “by the Bureau or the Commission” is added as a non-substantive change to clarify by whom the fraud or illegal acts are suspected.

Section 12315. Records and Reports of Monetary Instrument Transactions for Gambling Enterprises.

The current Section 12404 is renumbered as Section 12315, with the following amendments:

- The phrase “for Gambling Enterprises” is added to the title of Section 12315 as the requirements of this section are specific to gambling enterprise activities.
- Subsection (b) – This subsection is merged with subsection (c) for clarity and simplicity.
- Subsection (c) – This subsection moves and consolidates the provisions of subsections (b) and (c) of Section 12404 in subsection (b) of Section 12315. The details of the information already required by federal law are deleted as unnecessary.
- Subsection (d) is renumbered (c), accordingly.

Section 12316. Unclaimed or Abandoned Property.

The current Section 12410 is renumbered as Section 12316, with the following changes:

- For clarity and consistency, the provisions in this subsection are numbered.
- Subsection (a) – The references to “licensee” is changed to “gambling enterprise.”

Chapter 7. Conditions of Operation for Gambling Establishments.

Article 4. Accounting and Financial Reporting.

Article 4, including Sections 12400 through 12410, is repealed and its provisions moved to the new Chapter 5 as described above.

**Regulation Text**

A copy of the recently approved regulations is enclosed with this advisory notice. That document is also available on the Commission’s Web site ([www.cgcc.ca.gov](http://www.cgcc.ca.gov)) under “[Recently Adopted, Amended, and Repealed Regulations.](#)”

**Questions, Concerns, Suggestions**

For questions, concerns, or suggestions regarding the adoption of these regulations, please contact James Allen, Regulatory Actions Manager, at (916) 263-4024.

For information or questions regarding compliance, please contact the Bureau of Gambling Control at (916) 227-3584.