CALIFORNIA GAMBLING CONTROL COMMISSION

INITIAL STATEMENT OF REASONS

CGCC-GCA-2015-02-R

HEARING DATE: December 3, 2015

SUBJECT MATTER OF PROPOSED REGULATIONS: Playing Books for Third-Party Providers of Proposition Player Services and Gambling Businesses

SECTIONS AFFECTED: California Code of Regulations, Title 4, Division 18: Sections 12200, 12200.7, 12200.9, 12200.10A, 12200.11, 12200.13, 12220, 12220.13, 12250, 12251, 12253, 12255, 12257, 12259, and 12560

SPECIFIC PURPOSE OF REGULATORY PROPOSAL:

INTRODUCTION:

The California Gambling Control Commission (Commission) is proposing regulations that would amend previously adopted regulations related to the playing book requirements for Third-Party Providers of Proposition Player Services (TPPPS) and Gambling Businesses. The amendments would better implement various aspects of the Gambling Control Act (Act)[1] and add criteria for an electronic playing book option.

PROBLEM ADDRESSED:

Playing books are records of each session of play performed by a third-party proposition player or a gambling business player. These records are used to document each player's bank activity. This information is also used by the Bureau of Gambling Control (Bureau) in investigations to confirm that there are no acts of collusion or unsuitable, unfair, or illegal practices that would harm patrons or impair the integrity of controlled gambling.

Current regulations require hardcopy playing books to be maintained by TPPPS and Gambling Businesses in order to document each player's session of play. Current regulations do not include an option to maintain this documentation electronically. Without a change in the current regulations, each TPPPS and Gambling Business must maintain hardcopy playing books for review by the Bureau.

Section 19984 provides that a gambling enterprise may contract with a third party for the purpose of providing proposition player services to participate in the play of a controlled game

[1] Business and Professions Code section 19800, et seq.

that has a rotating player-dealer position. Therefore, a TPPPS is licensed to be able to contract to provide those services. A Gambling Business is licensed in accordance with paragraph (3) of subsection (a) of section 19853, because it conducts its business on the premises of a gambling establishment. Like the TPPPS, Gambling Businesses participate in the play of controlled games that have a rotating player-dealer position, but they do so independently without a contract with the gambling enterprise. The regulations for TPPPS and Gambling Businesses are found in Chapters 2.1 and 2.2 respectively. With the exception of the contractual requirements for TPPPS and procedural differences resulting from those contracts, Chapters 2.1 and 2.2 are nearly identical due to the similarity of the activities that each entity performs.

Current regulations require TPPPS to submit their playing book form with each contract between a TPPPS and a gambling enterprise for review and approval by the Bureau. Current regulations require Gambling Businesses to submit their playing book form for review and approval every two years as part of the registration or license renewal process. Without a change in the current regulations, the playing book form approval process would remain as part of the contract approval process for TPPPS and the registration/license renewal process for Gambling Businesses, rather than simply requiring approval for new or amended forms for both entities.

PURPOSE:

This proposed action has been drafted to supplement the current requirement that TPPPS and Gambling Businesses maintain playing books for all sessions of play with an option to do so electronically. This proposed action will create uniform requirements and approval processes for both TPPPS and Gambling Businesses. Finally, the proposed regulations will consolidate the playing book requirements into a new chapter that will apply to both TPPPS and Gambling Businesses for clarity and simplicity, and to eliminate redundancy.

Subsection (b), paragraph (1) of Section 12200.13 in Chapter 2.1 and Section 12220.13 in Chapter 2.2 provide that a playing book must be “recorded in ink.” This has been interpreted to require hardcopy playing books. With advancements in electronic and virtual recordkeeping, providing for an electronic method of maintaining the playing books has been requested by the industry. These proposed regulations will offer an electronic method to comply with the playing book requirements, as well as the approvals necessary to ensure that the electronic playing book system and information are properly secure.

Moreover, the current regulations create a different playing book form approval process for TPPPS and Gambling Businesses. A TPPPS is required to submit a playing book form for approval with each gambling enterprise contract. Because a Gambling Business does not enter into a contractual relationship with a gambling enterprise, the Gambling Business is required to have a playing book form approved as part of the registration or license renewal process every two years. Both entities must submit the playing book form for review and approval even if the previously approved playing book form is still in use and has not changed. This results in unnecessary and repetitive approvals being requested by licensees and processed by the Bureau. These proposed regulations will separate playing book approvals from contract approvals and registration/license renewal processes and create an approval process uniformly applied to both

TPPPS and Gambling Businesses that will require only initial and amended playing book form approvals.

Finally, these proposed regulations will apply uniformly to both TPPPS and Gambling Businesses, to reduce the redundancy of maintaining mirroring requirements in two different chapters. This will provide simplicity, uniformity and clarity.

ANTICIPATED BENEFITS OF PROPOSED REGULATION:

These proposed regulations will have the benefit of providing one uniform and streamlined playing book approval process for TPPPS and Gambling Business and will provide an electronic playing book compliance option for licensees. These proposed regulations will allow each licensee to choose the method of playing book maintenance that best suits their business, while still maintaining the standards required to document each session of play. This will provide clarity, simplicity and uniformity for TPPPS and Gambling Businesses.

The proposed regulations will also enhance transparency in the regulation of TPPPS and Gambling Businesses; and, will protect the health, safety, and general welfare of the public by aiding and preserving the integrity of controlled gambling.

PROPOSED ACTION:

This proposed action will make changes within Division 18 of Title 4 of the California Code of Regulations, as follows:

CHAPTER 2.1. THIRD-PARTY PROVIDERS OF PROPOSITION PLAYER SERVICES: REGISTRATION; LICENSING.

Amend Section 12200. Definitions.

- Subsection (b), paragraph (12), "License," subparagraph (B) – The quotations around the phrase "other employee" would be deleted as a non-substantive conforming editorial change for consistency. This phrase refers to the other persons employed by the primary owner and not the license type; and, is consistent with how the phrase is used in the definition for the term "registration" in paragraph (23).

- Subsection (b), paragraph (25) "Sessions of play" – This paragraph would be amended to delete the reference to Section 12200.13, which would be repealed, and to specify that a session of play is limited to a specific gaming table. It is necessary to limit a session of play to a specific gaming table to conform to current practice. The definition would also delete the phrase "of a third-party proposition player services provided" and add the word "performed" as a non-substantive change for simplicity and clarity.

- Subsection (b), paragraph (26) – The word "proposition" is added before the word "players" for clarity and consistency and is a non-substantive, conforming editorial change.

Amend Section 12200.7. Proposition Player Contract Criteria.

- Subsection (b), paragraph (13) would be repealed as this requirement is unnecessary since the playing book form approval process will no longer remain as part of the contract approval process.
- Subsection (b), paragraphs (14) through (22) would be renumbered accordingly.

Amend Section 12200.9. Review and Approval of Proposition Player Contracts.

- Subsection (3), paragraph (D) would be repealed as this requirement is unnecessary since the playing book form approval process will no longer remain as part of the contract approval process.
- Subsection (3), paragraphs (E) and (F) will be changed accordingly.

Amend Section 12200.10A. Expedited Review and Approval of Proposition Player Contracts.

- Subsection (c), paragraph (4) would be repealed as this requirement is unnecessary since the playing book form approval process will no longer remain as part of the contract approval process.
- Subsection (c), paragraphs (5) and (6) would be renumbered accordingly.

Amend Section 12200.11. Extension of Proposition Player Contracts.

- Subsection (a), paragraph (4) would be repealed as this requirement is unnecessary since the playing book form approval process will no longer remain as part of the contract approval process.
- Subsection (a), paragraph (5) would be renumbered accordingly.

Repeal Section 12200.13. Playing Books.

Section 12200.13 would be replaced by Sections 12250 through 12259 in the new Chapter 3 of the proposed regulations, and would be repealed as unnecessarily duplicative.

CHAPTER 2.2. GAMBLING BUSINESSES: REGISTRATION; LICENSING.

Amend Section 12220. Definitions.

- Subsection (b), paragraph (13), "License," subparagraph (B) – The quotations around the phrase "other employee" would be deleted as a non-substantive conforming editorial change for consistency. This phrase refers to the other persons employed by the primary owner and not the license type; and, is consistent with how the phrase is used in the definition for the term "registration" in paragraph (23).

- Subsection (b), paragraph (25) – This paragraph would be amended to delete the reference to Section 12220.13, which would be repealed, and to specify that a session of

play is limited to a specific gaming table. It is necessary to limit a session of play to a specific gaming table to conform to current practice.

Repeal Section 12220.13. Playing Books.

Section 12220.13 would be replaced by Sections 12250 through 12259 in the new Chapter 3 of the proposed regulations, and would be repealed as unnecessarily duplicative.

CHAPTER 3. PLAYING BOOKS.

Add Section 12250. Definitions.

The meaning of various words and terms used in this chapter may be unique to this chapter or may not be consistent with the meaning of similar words or terms used in other chapters. As a result, these definitions are necessary to ensure that the proposed regulations are clear, concise and easy to understand.

- Subsection (a) would clarify that the terms used in Business and Professions Code section 19805 and Sections 12002, 12200 and 12220 of Division 18 shall govern Chapter 3, unless otherwise provided in subsection (b).

- Subsection (b), paragraph (1) – The term "authentication" would be defined to mean the verification of an individual as being authorized to access a database system.

- Subsection (b), paragraph (1), subparagraph (A) – The term "active authentication" would be defined to mean the identification information of those individuals currently allowed access an electronic playing book system.

- Subsection (b), paragraph (1), subparagraph (B) – The term "inactive authentication" would be defined to mean the identification information of those individuals no longer allowed to use or access an electronic playing book system. This differentiation would identify the information as belonging to a person that shall no longer access the system, but the identifying information is maintained for tracking and documentation purposes.

- Subsection (b), paragraph (2) – The term "backup" would be defined to mean the process of copying files to a second medium in order to allow the information to be retrieved in the event of a system failure.

- Subsection (b), paragraph (3) – The term "electronic playing book" would be defined to mean a collection of digital playing book forms, to differentiate it from a hardcopy version of a playing book.

- Subsection (b), paragraph (4) – The term "electronic playing book device" or "playing book device" would be defined to mean the specific type of terminal used as an electronic playing book by the players. This would allow this particular type of terminal to be differentiated from the other terminals used to access a playing book system, such as the

computer terminal used by IT personnel or owners. This difference will help clarify the requirements and limitations with which this specific device must comply.

- Subsection (b), paragraph (5) – The term "hardcopy playing book" would be defined to mean a tangible collection of paper playing book forms, to differentiate it from an electronic playing book.

- Subsection (b), paragraph (6) – The term "independent gaming test laboratory" would be defined to mean a gaming test laboratory that meets one of two requirements. The laboratory may either be: (1) registered or licensed by another United States jurisdiction to test, approve, and certify gambling equipment, systems, and software and be accredited by a signatory to the International Laboratory Accreditation Cooperation (ILAC) Mutual Recognition Arrangement (MRA), or other equivalent laboratory accreditation agreement; or, (2) be operated by a state governmental gaming regulatory agency.

  Accreditation is a means by which to ensure competence and to provide confidence in the accuracy and reliability of testing, inspection and product certification results. ILAC members and those of similar agreements are accreditation bodies that have been recognized as competent through rigorous peer evaluation. Accreditation is necessary to provide confidence that the certifications received by the Bureau are issued by a laboratory familiar with gambling equipment, systems, and software as well as testing in a consistent, accurate, and reliable manner. The provision to accept equivalent laboratory accreditation agreements is necessary to also maximize the number of accredited laboratories that a licensee may use to certify an electronic playing book system.

  In addition, several states operate their own gaming test laboratories under their gaming regulatory agencies. While those government-operated laboratories may not be accredited, they are highly regarded as being perhaps the most experienced and knowledgeable in the field. While it is unlikely that a government-operated testing laboratory would perform testing or provide certifications for gambling equipment, systems, and software that is not being approved specifically for use in their jurisdiction, the possibility should not be ignored. To do so would exclude acceptance of a certification from a laboratory that is just as experienced, knowledgeable and competent as any private laboratory, if not more so. Therefore, it is necessary to include the option of obtaining certification from a gaming test laboratory operated by a state governmental gaming regulatory agency.

- Subsection (b), paragraph (7) – The term "information technology technician" or "IT technician" would be defined to mean any person responsible for and with the permissions necessary to access a system database, as specified.

- Subsection (b), paragraph (8) – The term "permissions" would be defined to mean the assigned level of system access rights to view or make changes to the content of the system. Permissions are used to make clear who may only enter data, who may note

edits, and that only an IT technician registered or licensed as an "other employee" may have access to the database.

- Subsection (b), paragraph (9) – The term "primary database" or "database" would be defined to mean a collection and storage of all electronic playing book system information.

- Subsection (b), paragraph (10) – The term "synchronization" or "synch" would be defined to mean the process of uploading information from a terminal, such as a playing book device, to a primary database.

- Subsection (b), paragraph (11) – The term "system" would be defined to mean a group of interdependent components that interact regularly to perform a task.

- Subsection (b), paragraph (12) – The term "terminal" would be defined to mean computer hardware that is used to enter data into or display information from a system.

Adopt Section 12251. General Provisions.

Section 12251 would provide the mandatory requirements for both hardcopy and electronic playing books. Many of these requirements are in current Section 12200.13 for TPPPS and current Section 12220.13 for Gambling Businesses.

- Subsection (a) – This subsection allows a playing book terminal to have access to applications other than the playing book system, but requires that any application affecting the playing book database must be approved by the Bureau. This provision is necessary to allow a terminal to utilize other applications, such as spreadsheet or human resource programs. However, it is necessary that any program affecting the playing book database also be approved, so that the approval by the Bureau is accurate and comprehensive. Specification that the licensee is responsible for any electronic playing book system data leakage to or data contamination from an unauthorized source is necessary to clarify that the responsibility for the maintenance of the playing book system rests with the licensee.

- Subsection (b) – The current requirement that the primary owner is responsible for assuring that its players maintain accurate, complete, and up-to-date playing books in conformity with the regulations of the Commission for all sessions of play would be moved from Sections 12200.13(a) and 12220.13(a) to subsection (b). This subsection would add the requirement that the playing books be legible for audit purposes. This provision is necessary to clarify the standards of compliance expected for the licensees.

- Subsection (c) – The current requirement that the playing book record be transferred to the primary owner, or a supervisor designated by the primary owner, at the end of each session of play would be moved from Sections 12200.13(a) and 12220.13(a) to subsection (c) with non-substantive edits.

- Subsection (d) – The current requirement that a hardcopy playing book be recorded in ink would be moved from Sections 12200.13(b)(2) and 12220.13(b)(2) to subsection (d). Sections 12200.13(a) and 12220.13(a) provide that the retention period for playing books is five years, and document storage shall be in California. This subsection will continue these retention requirements by referencing Section 12003,[2] which requires a five-year retention period at a California location disclosed to the Bureau. This subsection would then require that the electronic playing book records be maintained in accordance with Section 12257, which has different requirements for the database and the storage of the backup information. These requirements are necessary to establish a mandatory retention period and to allow the Bureau to access the documentation for audit purposes.

- Subsection (e) – This subsection would provide that the data-entry method for the playing book forms may be in any format that the Bureau approves. This provision is necessary to allow each licensee to choose the method that best suits their business, while still maintaining the standards required to document each session of play. The current requirements for the information to be included on each playing book form would be moved from Sections 12200.13(b)(2) and 12220.13(b)(2) to subsection (e) with non-substantive edits.

- Subsection (e), paragraph (1) – The current requirement of Sections 12200.13(b)(2)(A) and 12220.13(b)(2)(A) for the playing book form to include sequential numbers would be moved to paragraph (1) and would add a requirement for a unique identifier for each specific gambling enterprise. This is necessary to incorporate current practice for both hardcopy and electronic playing books, and to clearly identify the gambling enterprise source for electronic playing book information. The current requirements of Sections 12200.13(b)(2)(A) and 12220.13(b)(2)(A) that any unused forms be voided and maintained remains for hardcopy playing books and would be moved to paragraph (1) without change. This requirement is not necessary for electronic playing books as they would not have unused forms.

- Subsection (e), paragraph (2) – The current requirements of Sections 12200.13(b)(2)(B) and 12220.13(b)(2)(B) to include the name of the gambling establishment where play occurred would be moved to paragraph (2) without change.

- Subsection (e), paragraph (3) – The current requirements of Sections 12200.13(b)(2)(C) and 12220.13(b)(2)(C) to record the date and time in the playing book would be moved to paragraph (3), and would be edited for clarity.

- Subsection (e), paragraph (4) – The current requirements of Sections 12200.13(b)(2)(D) and 12220.13(b)(2)(D) to include the beginning and ending balances would be moved to paragraph (4) without change.

[2] This general records retention requirement is included in Section 12003 of the recently approved rulemaking file for the Accounting and Financial Reporting Requirements regulations which become effective July 1, 2015.

- Subsection (e), paragraph (5) – The current requirements of Sections 12200.13(b)(2)(E) and 12220.13(b)(2)(E) to record the fills and credits in the playing book would be moved to paragraph (5). The requirement would be edited to clarify that the itemizations are to be maintained for each session of play, which is necessary to reflect current practice.

- Subsection (e), paragraph (6) – The current requirement of Sections 12200.13(b)(2)(F) and 12220.13(b)(2)(F) to identify players by printed name and badge number in the playing book would be moved to paragraph (6), and would be edited for clarity.

- Subsection (e), paragraph (7) – The current requirements of Sections 12200.13(b)(2)(G) and 12220.13(b)(2)(G) to include the table number assigned by the gambling enterprise would be moved to paragraph (7) without change.

- Subsection (e), paragraph (8) – The current requirements of Sections 12200.13(b)(2)(G) and 12220.13(b)(2)(G) to identify the Bureau-approved game in the playing book would be moved to paragraph (8), and would be edited to refer to "Bureau identification number." This reference is necessary to incorporate accurate terminology.

- Subsection (e), paragraph (9) – The current requirements of Sections 12200.13(b)(2)(I) and 12220.13(b)(2)(I) to include the name of the primary owner would be moved to paragraph (9) without change.

- Subsection (e), paragraph (10) – The current requirements of Sections 12200.13(b)(3) and 12220.13(b)(3) to record the date and time again in the playing book would be moved to paragraph (10), and would be edited to clarify that this date and time is for the completion of the session of play.

- Subsection (e), paragraph (11) – The current requirements of Sections 12200.13(b)(3) and 12220.13(b)(3) for the person who prepared the form to sign it under penalty of perjury would be moved to paragraph (11) with non-substantive editorial changes for clarity and correct sentence structure. In addition, a provision would be added to allow a cage receipt to be substituted for a supervisor's signature in situations where a supervisor is not present to sign the playing book form. The player would have to take his or her TPPPS player's bank to the cage to be counted down with a cage supervisor or other cage employee and a cage receipt issued to confirm the count. This is necessary to maintain dual verification of the TPPPS player's bank and is an essential part of minimum internal controls.

- Subsection (e), paragraph (11), subparagraph (A) – Signatures would also be required for the electronic playing book, but in a method approved by the Bureau, and supported by the system, to indicate a signature. This is necessary to allow maximum flexibility for the licensee in choosing a device and system capabilities that best suit their business. This may include authentications, and examples of authentications are included for clarity and understanding.

- Subsection (e), paragraph (11), subparagraph (B) – This provision would require that the version of the playing book form to be signed must be the same as the approved printed version and visible as a single document on the playing book device. This is necessary to confirm compliance with the approved playing book form, and to allow players to see the information they are confirming to be true. If screen size is a constraint scrolling through the document would be allowed. This is necessary to allow flexibility for the licensee in choosing a device and system capabilities that best suit their business.

- Subsection (f) – This provision would require that the information collected from all playing book records, copies of playing books, or any other information or records shall be provided to the Bureau upon request, pursuant to Section 12003, subsection (c). This would apply to both hardcopy and electronic playing book records. This is necessary to affirm the applicability of Section 12003 and ensure that the Bureau has access to critical data necessary for the preparation of audit triggers, statistical exception reports, market tracking analyses, and other analyses to aid in their compliance and oversight roles.

- Subsection (g) – This provision would require that all IT technicians employed by a registrant or licensee be registered or licensed as other employees pursuant to either Chapter 2.1 or 2.2, as applicable. This requirement would also be made applicable to any subcontractor, independent contractor or any employee of either, who are authorized to perform IT technician duties. This is necessary to ensure that any individual who may have access to and the ability to manipulate data or the data base, has undergone an appropriate background investigated by the Bureau in order to protect the integrity of controlled gambling.

Adopt Section 12253. Approval of Playing Book Forms.

Section 12253 would provide the approval process for both hardcopy and electronic playing books.

- Subsection (a) – The current requirement of Sections 12200.13(b)(1) and 12220.13(b)(1) that the Bureau review and approve or disapprove playing book forms would be moved to subsection (a). This subsection would require that only an approved playing book form on record with the Bureau may be used during play. This provision is necessary to conform to current practice and to prohibit the use of non-approved forms.

- Subsection (b) – The current Bureau form, Request for Approval of Playing Book, BGC-APP 036 (Rev. 12/11), would be renamed "Application for Approval of Playing Book Form or Electronic Playing Book System, BGC-APP 036 (Rev. 06/15)"; and, amended to accommodate applications for approval of both new and revised hardcopy playing book forms, as well as electronic playing book forms and systems. Currently, Section 12200.13(b)(1) requires a playing book form to be submitted for review and approval with each contract a TPPPS enters into with a gambling enterprise, even if there are no changes to the form. Because Gambling Businesses do not enter into contracts with

gambling enterprises, the current Section 12200.13(b)(1) requires a playing book form to be submitted for review and approval during the license or registration renewal for the Gambling Business every two years, even if there are no changes to the form. This section is necessary to require approval only if an initial playing book form is submitted or a currently approved playing book form is revised. This would simplify the approval process and eliminate duplicate and unnecessary approvals, thus creating a more uniform and practical process for TPPPS and Gambling Businesses.

- Subsection (b), paragraph (1) – The current requirement of Sections 12200.13(c)(1)(A) and 12220.13(c)(1)(A) for an application processing fee of $75 would be moved to paragraph (1) without change. The current fee is intended to cover the initial review and processing of a submitted application for approval of a playing book form. Since the application for approval of an electronic playing book system is being consolidated in the same form and will be almost identical, the same fee is appropriate for the initial review and processing of the application.

- Subsection (b), paragraph (2) – The current requirement of Sections 12200.13(c)(1)(B) and 12220.13(c)(1)(B) to include a sample playing book form would be moved to paragraph (2). To apply for an approval of an electronic playing book form, this paragraph would also require submission of a print out of the form, screen-shots or pictures of the form as it appears on the device, a copy of the current certification of the electronic playing book system from an independent gaming test laboratory, and a description of how a signature would be indicated. This information is necessary for the Bureau to confirm that the electronic playing book form is in compliance with this chapter.

- Subsection (b), paragraph (3) – This paragraph would require a description of the changes to an approved form for an amendment approval. This information is necessary to create an efficient review and approval process.

- Subsection (c) – The current requirement of Sections 12200.13(c)(2) and 12220.13(c)(2) that the Bureau shall review and approve or disapprove a playing book form within 30 days of receipt of a completed application would be moved to subsection (c). In conformity with other approval regulations, this subsection would provide that the Bureau shall notify the applicant within 10 working days if the application is accepted or deficient. This provision is necessary for an efficient review process for both the Bureau and the licensee. The current provision of Sections 12200.13(c)(2) and 12220.13(c)(2) that a written notice to be sent to the primary owner or the primary owner's designee would also be retained in this subsection.

- Subsection (d) – This provision would allow non-substantive changes to a previously approved playing book form to be deemed accepted upon notice to the Bureau, unless otherwise advised by the Bureau within 30 days. Some examples of non-substantive changes are included to assist both licensees and the Bureau in determining whether a particular change may or may not be substantive. The Bureau would retain the ability to

determine, on an individual case-by-case basis, that a particular change is substantive and to require approval pursuant to subsection (b). While some examples of nonsubstantive changes are given, such as the addition of a Bureau-approved game, or a change in font style or size for either hardcopy or electronic playing book forms, the list is not intended to be exhaustive, but only a guide to both licensees and the Bureau. This case-by-case consideration is necessary due to the inability to specify all possible nonsubstantive changes that that could be made.

This provision is necessary to provide a fast and efficient means for licensees to make non-substantive changes. This is also necessary to enable the Bureau to ensure that changes are not made that may appear to the licensee to be nonsubstantive when in fact they are not; and, to ensure that substantive changes are properly reviewed and approved.

- Subsection (e) – This provision would allow an approved playing book form to be used at any gambling establishment where the TPPPS or Gambling Business operates. This provision is necessary to allow a TPPPS or Gambling Business the option to universally use the playing book form in each gambling enterprise where their players conduct a session of play, and to eliminate multiple approvals of the same version of a playing book form.

Adopt Section 12255. Electronic Playing Book Device Requirements.

Section 12255 sets forth the requirements for the device to be used by the TPPPS and Gambling Business players during a session of play. This specific terminal is meant to have fewer capabilities to minimize inappropriate changes to the main database, the playing book form, or the functions of the electronic playing book system.

- Subsection (a) – This subsection would establish data storage and retrieval requirements for the playing book device. These requirements are necessary to allow the Bureau to confirm that a particular playing book device being used is the type of device certified as part of the system, as well as to allow the Bureau to extract from the playing book device any information necessary during an audit.

- Subsection (a), paragraph (1) – This paragraph would require that the playing book device be able to retrieve or display the information necessary to confirm that it is the type of device that was certified and is functioning as approved. This is necessary for the Bureau to confirm compliance with these regulations.

- Subsection (a), paragraph (2) – This paragraph would require that the playing book form and recorded data be exportable to a printable version of the playing book form and to a spreadsheet (delimiter-separated value or comma-separated value) file format. This provision is necessary to provide the Bureau with information needed in a readable and compatible format for audit purposes.

- Subsection (a), paragraph (3) – This paragraph would require that documentation be printable to an on-site printer in order to provide hardcopy documentation if needed by the Bureau during an on-site audit. This also allows the electronic playing books to provide the same information and documentation for an audit as a hardcopy playing book provides. This provision is necessary to confirm compliance with these regulations and to provide documentation during an on-site audit.

- Subsection (b) – This subsection would establish security requirements for the playing book device. These requirements are necessary to protect the security and integrity of both the system and device.

- Subsection (b), paragraph (1) – This paragraph would require that upon login, the date and time of the last session must appear and be accepted for security purposes. This will confirm to users that the last session displayed was not an unauthorized session using their authorizations, which is necessary to protect the security and integrity of the database. This is a common security measure, and one currently used in New Jersey for online gambling.[3] This allows users to quickly identify if a misuse of their authentications has occurred, and the time-stamp of the last breach. Moreover, this provision serves as a deterrent to improper use, as the misuse would be easily detected. Finally, this provision provides a security audit trail that will identify which terminal was breached, at what time, and under what user's authentications.

- Subsection (b), paragraph (2) – This paragraph would require that the device have anti-virus and unauthorized software installation protection. This requirement is necessary to protect the security and integrity of the device and database.

- Subsection (c) – This subsection would establish the capability and limitation requirements for the playing book device. These requirements are necessary to protect the security and integrity of playing book information.

- Subsection (c), paragraph (1) – This paragraph would provide that all access, activities, and entries into the playing book device be time, date, and user identification stamped for accurate and complete data tracking and recording. This provision is necessary to protect the security and integrity of the database.

- Subsection (c), paragraph (2) – This paragraph would require that all information entered into the playing book device be automatically synched to the database in time increments of 60 seconds or less to ensure that the database maintains all playing book information. This allows the database, and not the device, to store the playing book information for central audit purposes and as a protection in case of device failure. This provision is necessary to maintain the integrity of the database information.

[3] New Jersey Administrative Code section 13:69O-1.2(c).

- Subsection (c), paragraph (3) – This paragraph would require that the device have manual synch capabilities so that information could be synched upon command or in case of an automatic synch error. This provision is necessary to maintain the integrity of the database information.

- Subsection (c), paragraph (4) – This paragraph would provide that the device must have the ability to remain functional and save information in the event of a database connectivity failure, and requires that the information be synchronized upon reconnection as a failsafe to protect the data entered into the playing book device. While the database would be where the playing book information is stored, the playing book device should have some capability to save information in case the playing book device loses communication with the database. This provision is necessary to maintain the integrity of the database information.

- Subsection (d) – This subsection would require that, in the event of a device or multiple device failure, physical copies of the approved playing book form is available for use until a device is repaired or replaced. This provision is necessary to maintain continued and accurate recordkeeping of the playing book information at all times.

Adopt Section 12257. Electronic Playing Book Database Requirements.

Section 12257 sets forth the requirements for the primary database of the playing book system and the backup for the primary database.

- Subsection (a) – This subsection would establish the security requirements for the database. These provisions are necessary to provide the protection requirements for the information, functionality, and access of each system, and to protect the security and integrity of playing book information.

- Subsection (a), paragraph (1) – This paragraph would require that all access, activities, and data entries be date, time, user and terminal identification stamped and logged. This provision is necessary to preserve the accuracy of data tracking and reporting.

- Subsection (a), paragraph (2) – This paragraph would require that all communications between the database and any terminal be encrypted. This is necessary to protect the security and integrity of the database.

- Subsection (a), paragraph (3) – This paragraph would require that the database have anti-virus and unauthorized software installation protection. This provision is necessary to protect the security and integrity of the database.

- Subsection (a), paragraph (4) – This paragraph would require that the database have surge protection and uninterrupted power supply protection to protect the physical security of the database. This provision is necessary to protect the security and integrity of the database.

- Subsection (a), paragraph (5) – This paragraph would require that the database be able to identify and log the date, time, and terminal of any unauthorized access, system error or connectivity failure as well as notify an IT technician. These provisions are necessary to protect the security and integrity of the system and to create an audit trail for the Bureau.

- Subsection (b) – This subsection would establish the means by which the database will control access to the playing book system. These system access controls are necessary to protect the integrity, accuracy, and security of playing book information.

- Subsection (b), paragraph (1) – This paragraph would require a minimum of two methods of active authentication for all users. After three failed access attempts, the database would also deny access to the user until reset by an IT technician. This provision is necessary to prevent access to the database by unauthorized users.

- Subsection (b), paragraph (2) – This paragraph would require a minimum of three active authentications for the IT technician to access the database, and notice to the primary owner upon three failed attempts. This provision is necessary to establish an added level of security for those with the capability of maintaining the database.

- Subsection (b), paragraph (3) – This paragraph would require that the authentications for any person losing permission to use the system be made inactive within 24 hours after the loss of permission. This requirement is necessary to protect the system from unauthorized access by persons no longer authorized to do so.

- Subsection (b), paragraph (4) – This paragraph would require that the database shall not allow a user to be active on more than one terminal at a time without specific permissions as indicated on the chart of system access. This requirement is necessary to prevent a user from entering data in a way that the system is unable to identify the user entering data. The database must be able to identify at all times the user entering data on a terminal. This provision does not prohibit persons from being recognized as present or active by the system but not currently entering data, if that is the design of the licensee's system.

  For example, Supervisor A may open a playing book form for Player 1 at Table 1, and a player can verify fills and credits through Supervisor A or Supervisor B on the form while active in the system. But Supervisor A is only logged into playing book device (terminal) A and Supervisor B is only logged into playing book device (terminal) B, even though both have access to Player 1's playing book form in the system.

- Subsection (c) – This subsection would establish the storage and retrieval requirements for the database. These provisions are necessary to allow the Bureau to confirm that the particular system in use is the system that the Bureau approved and to extract from the system any information or reports.

- Subsection (c), paragraph (1) – This paragraph would require that all data stored in the system cannot be edited, deleted, or replaced, but instead notations of edits, deletions or replacements must be made in order to protect the integrity of the data and allow for accurate documentation and tracking of the entered data. This provision mirrors current Sections 12200.13(b)(2) and 12220.13(b)(2) that require hardcopy playing books be recorded in ink, and is necessary to allow the tracking of all information entered into the database.

- Subsection (c), paragraph (2) – This paragraph would require that the database have the ability to generate a system report and a report of all notations to edit, delete, or replace original data for Bureau audit and system monitoring purposes. This provision is necessary to preserve and track notations made to the information for audit purposes.

- Subsection (c), paragraph (3) – This paragraph would require that the database be able to retrieve or display the information necessary to confirm that it is the type of device that was certified and is functioning as approved. This provision is necessary for the Bureau to confirm compliance with these regulations.

- Subsection (d) – This subsection would require that a system backup be performed daily, and that the documentation be maintained at a location compliant with subsection (f). This provision is necessary to protect the playing book system from data loss.

- Subsection (e) – This subsection would require that date and time synchronization for all terminals and the database be controlled or updated by a network time protocol server. This synchronization of date and time is necessary to ensure that the database accurately records and reviews all entries and access into the system for audit purposes.

- Subsection (f) – This subsection would require that the primary database location comply with Section 12003 and that the backup storage must be at a site other than where the primary database is located, and that the backup storage location be disclosed to the Bureau. Knowledge of and access to the primary database is required by Section 12003. This provision is necessary to confirm that the Bureau will have knowledge of and access to the location of the backup storage. This provision is also necessary to protect the primary and backup databases from loss or physical damage by keeping them in separate locations.

- Subsection (g) – This subsection would require that an IT technician registered or licensed as an “other employee” monitor and be responsible for any necessary access to the database by a non-licensed party to protect the integrity of the system. This provision is necessary to ensure that, at all times, any access to the software or hardware of the database is monitored by a person registered or licensed by the Commission.

Adopt Section 12259. Approval of Electronic Playing Book Systems.

Section 12259 would set forth the provisions to approve an electronic playing book system.

- Subsection (a) – This subsection would provide that each electronic playing book system requires prior approval by the Bureau. Because the playing books serve as a documentation method for audit and investigation purposes, the Bureau would approve this electronic playing book system as compliant with their investigatory needs just as the Bureau approves the hardcopy playing books. This subsection is necessary to establish the electronic playing book system approval application submission requirements.

- Subsection (a), paragraph (1) – This paragraph would use the current application processing fee of $75 for hardcopy playing book forms in Sections 12200.13 and 12220.13 as the fee for the initial review and processing of the electronic playing book approval application. The current fee is intended to cover the initial review and processing of a submitted application for approval of a playing book form. Since the application for approval of an electronic playing book system is being consolidate in the same form and will be almost identical, the same fee is appropriate for the initial review and processing of the application. This fee is necessary to cover the initial review and processing of a submitted application.

- Subsection (a), paragraph (2) – This paragraph would require a certification, from an independent gaming test laboratory, confirming that the electronic playing book system, including the software, the database, and a playing book device prototype, meets the requirements of this chapter. This provision would also require that the certification identify which technical test standard was used or, alternatively, include a statement that no technical test standard was used to certify the system. This would allow the Bureau to note if a technical test standard was used and to follow up with an IT technician if there are questions. This provision is necessary for the Bureau to confirm compliance with these regulations prior to making a decision to approve or disapprove a playing book system.

- Subsection (a), paragraph (3) – This paragraph would require that a chart of system access be included with the application for approval, which would provide the position titles, methods of authentication, and the permissions granted for use of or access to the system. This provision is necessary to identify for the Bureau the identities of the persons responsible for the documentation of the licensee's gambling activities, and to confirm that they have successfully passed a background check and are appropriately registered or licensed.

- Subsection (a), paragraph (4) – This paragraph would require that a written summary of the design and operation of the system be submitted with the application for approval. In addition, the written description must be supplemented by one or any combination of the following: (1) a video of the system in operation; or, (2) a prototype device with written instructions and access; or, (3) a live demonstration of the system. This provision is

necessary to allow the Bureau to confirm that the system is compliant with this chapter, as well as to allow the licensee flexibility in explaining the system clearly and simply.

- Subsection (a), paragraph (5) – This paragraph would require that the contact information for an IT technician responsible for administrating the electronic playing book system be included in the application for approval. This paragraph would also require that an IT technician be available during the approval process during the Bureau's normal business hours so that the Bureau may ask any questions it may have regarding the system. This provision is necessary for the Bureau to make a timely, efficient and fully informed decision on the playing book system.

- Subsection (b) – In conformity with other approval regulations, this paragraph would provide that the Bureau shall notify the applicant within 30 working days if the filing is accepted or deficient and that the Bureau must approve or deny an electronic playing book system within 120 days of receiving a completed application. This provision is necessary to maintain timely and efficient process for both the licensee and the Bureau.

- Subsection (c) – This subsection would provide that each system replacement or upgrade requires certification of continued compliance with this chapter by an independent gaming test laboratory. This certification would be submitted with the application for Bureau approval of a playing book system. An upgrade usually changes functionality, adds more features, or perhaps changes or replaces security functions. For example, replacing Windows XP with Windows 8, or an Apple system with an android system, would be an upgrade or replacement. Due to the change in the functionality, this provision is necessary to confirm compliance with these regulations for Bureau review and approval.

- Subsection (c), paragraph (1) – This paragraph would provide that new security updates for a previously approved version would not require notification, approval, or certification. An update does not change the functionality of the system, but is required to make the system more secure by eliminating a found system flaw or adding a correction for a computer bug. Updates allow the software to continue to function as promised at purchase. There are usually many updates on a system, and because updates do not change the functionality, approval would not be necessary. For example, owning Windows 8, then receiving an update for Windows 8 from Microsoft would be an example of an update. The owner's user experience would not change and the owner would still own Windows 8. This provision is necessary to provide a simple and efficient process for compliance data that does not change the functionality of a playing book system.

- Subsection (c), paragraph (2) – This paragraph would require that any update to any software, system, or components internally developed by the licensee requires notification to the Bureau within five days of the change. It is the intent of these minimum requirements to allow a licensee reasonable flexibility in creating a playing book system appropriate to their business needs. However, for an internally designed

system, it is necessary that the Bureau be notified of an internal update to demonstrate that the change was an update (and not an upgrade or replacement that requires Bureau approval) because the update cannot be independently verified.

CHAPTER 10. DISCIPLINE, HEARINGS, AND DECISIONS.

Amend Section 12560. Disciplinary Guidelines for Third-Party Providers of Proposition Player Services Licensees or Registrants.

- Subsection (b), paragraph (20) would be amended to change the referenced section from 12200.13 to 12251.

UNDERLYING DATA:

Technical, theoretical, or empirical studies or reports relied upon: None.

BUSINESS IMPACT:

The Commission has made an initial determination that the adoption of these regulations would have no significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states.

For the most part, this proposed action only makes minor modifications to the requirements already in place for hardcopy playing books. Furthermore, the elimination of the requirements for redundant approval of the same playing book form, regardless of any change, should actually have a positive impact on the affected businesses.

The addition of provisions relating to electronic playing book forms and systems may have a business impact; however, that impact would not be significant. The possible adverse impact would come from the development of the electronic playing book system itself, and in the certification of the system. That impact may be offset, at least to a large extent, by the reduction in storage costs in that data would be stored electronically rather in hardcopy form. Furthermore, the use of the electronic playing book is a purely discretionary alternative and is not mandated by the proposed action.

SPECIFIC TECHNOLOGIES OR EQUIPMENT:

The proposed action does not mandate the use of specific technologies or equipment.

ECONOMIC IMPACT ASSESSMENT/ANALYSIS:

CREATION OR ELIMINATION OF JOBS WITHIN THE STATE OF CALIFORNIA:

It has been determined that the proposed action will not affect the creation or elimination of jobs. It only makes minor modifications to existing requirements for hardcopy playing books and adds a discretionary alternative for the use of electronic playing books.

CREATION OF NEW BUSINESSES OR ELIMINATION OF EXISTING BUSINESSES WITHIN THE STATE OF CALIFORNIA:

It has been determined that the proposed action will not affect the creation of new businesses or the elimination of existing businesses. It only makes minor modifications to existing requirements for hardcopy playing books and adds a discretionary alternative for the use of electronic playing books.

EXPANSION OF BUSINESSES CURRENTLY DOING BUSINESSES WITHIN THE STATE OF CALIFORNIA:

It has been determined that the proposed action will not affect the expansion of businesses currently doing business in California. It only makes minor modifications to existing requirements for hardcopy playing books and adds a discretionary alternative for the use of electronic playing books.

HEALTH AND WELFARE OF CALIFORNIA RESIDENTS:

It has been determined that the proposed action will protect the health, safety, and general welfare of California residents by aiding and preserving the integrity of controlled gambling.

WORKER SAFETY:

It has been determined that the proposed action will not affect worker safety because it has nothing to do with working conditions or worker safety issues.

STATE'S ENVIRONMENT:

It has been determined that the proposed action will not affect the State's environment because it has nothing to do with environmental issues.

CONSIDERATION OF ALTERNATIVES:

No reasonable alternative to the regulation would be either more effective in carrying out the purpose for which the action is proposed, would be as effective and less burdensome to affected private persons than the proposed regulation, or more cost-effective to affected private person and equally effective in implementing the statutory policy or other provision of law.

Set forth below are the alternatives that were considered and the reasons each alternative was rejected:

No reasonable alternative has been considered or otherwise identified and brought to the attention of the Commission.