

CALIFORNIA GAMBLING CONTROL COMMISSION
SUPPLEMENTAL INITIAL STATEMENT OF REASONS
CGCC-GCA-2016-01-R

SUBJECT MATTER OF PROPOSED REGULATIONS:

Playing Books for Third-Party Providers of Proposition Player Services (TPPPS) and gambling businesses

SECTIONS AFFECTED:

California Code of Regulations, Title 4, Division 18: Sections 12003, 12200, 12200.7, 12200.9, 12200.10A, 12200.11, 12200.13, 12200.16, 12200.18, 12200.21, 12220, 12220.13, 12220.16, 12220.18, 12220.21, 12250, 12260, 12261, 12262, 12263, 12264, 12285, 12290, 12560, and 12562

UPDATED INFORMATION:

The necessity contained in the Initial Statement of Reasons, as published on June 10, 2016, is supplemented as follows:

PROPOSED ACTION:

This proposed action makes the following specific changes within Division 18 of Title 4 of the California Code of Regulations:

The proposed changes to Chapter 1 are as follows:

Amend Section 12003. General Requirements

Section 12003 provides general requirements and procedures dealing with the maintenance and availability of records. These requirements are applied to any other regulatory provisions which require a record to be created, reported, or maintained.

Subsection (c) is modified to include language that allows Bureau of Gambling Control (Bureau) representatives to inspect, copy, or audit all required documents, papers, books, and other records to include hardware, associated equipment, and systems that support the operation of the licensed activities. This provision already existed for gambling enterprises and is being applied to TPPPS and gambling businesses. This is necessary to ensure that the new components and data associated with an electronic playing book system are likewise accessible to the Bureau's inspection. Including the language here, versus in an electronic playing book system specific provision allows this provision to maintain its purpose of applying to all records unless specifically exempted by a more specific provision.

The language of the section is amended to change "copies of any records" to "inspect, copy, or audit." This represents no change for TPPPS and gambling businesses, as this language is consistent with current subsection (a) of Section 12200.16 and subsection (a) of Section

12220.16, but does represent a change in language for gambling enterprises. However, despite the change in regulatory language, this does not represent any practical change to gambling enterprises. Specifically, Section 12003 currently allows for copies of records to be made and Business and Professions Code section 19827(a)(1) already allows for records and locations to be inspected and for the audit of all papers, books, and records.

The proposed changes to Chapter 2.1 are as follows:

Amend Section 12200. Definitions.

Section 12200 provides definitions for the chapter dealing with TPPPS. Two definitions have been repealed from this section and moved to another section, other provisions have therefore been renumbered accordingly.

Subsection (b) provides the specific definitions that apply to this chapter.

Paragraph (15) provides the definition of “other employee” to mean an individual that is employed or hired by a primary owner and who is not authorized to provide proposition player services. An “other employee” is prohibited from functioning as a proposition player and therefore cannot be a supervisor, officer, director or owner as all of these positions are otherwise authorized to function as a proposition player. This provision is amended to include any subcontractor or independent contractor of a primary owner who is present in a gambling establishment but is not authorized to act as a proposition player.

This provision is necessary to clarify the requirements of Business and Professions Code section 19984(b), which requires that “[t]hose employed by a third-party provider of proposition player services, including owners, supervisors, observers, and players, shall wear a badge...” [emphasis added] Additionally the provision goes on to provide that “[t]he commission may impose licensing requirements...as it deems necessary to protect the integrity of controlled gambling...” In order to effect these provisions, specifically the licensing of observers, the California Gambling Control Commission (Commission) has created a licensing category of “other employee.” The proposed action amends this category to clarify that all hired workers, such as an independent contract or subcontractor, are still considered an employee by the TPPPS, and therefore requires licensure. Additionally, language is moved to this definition from subparagraph (B) of paragraph (12).

Repeal Section 12200.13. Playing Books.

This provision provides minimum standards for the makeup, storage, and use of a playing book. This provision is being replaced with new processes, procedures, and requirements as provided for in Article 2 of Chapter 3. Many of the existing provisions are being moved. Where a provision has been modified, the necessity of that modification is discussed with that new provision.

Subsection (a) provides the following requirements:

1. That the primary owner is responsible to ensure that all playing books are accurately maintained, complete, and up to date. This provision has been moved to Section 12260(b).
2. That playing book records shall be transferred to the primary owner or a designated supervisor at the end of each session of play. This provision has been moved to Section 12260(c).
3. That playing books shall be maintained in English at a single location within California. This provision is duplicative of Section 12003, subsections (a) and (b).
4. That playing books shall be maintained for five years. This provision is duplicative of Section 12003(b).
5. That storage locations shall be disclosed to the Commission and Bureau and notification of any change shall be provided within five days. This provision is duplicative of Section 12003(b). The Commission has been removed from this notification and mirrors the change in the roles of the Commission and Bureau as part of Governor's Reorganization Plan No. 2 of 2012.

The Governor's Reorganization Plan No. 2 of 2012 (GRP No. 2) became effective July 3, 2012 with an operative date of July 1, 2013. GRP No. 2 made numerous changes to the Act that consolidated the support, investigatory, auditing, and compliance functions of the Commission and transferred these duties to the Department. The Department, instead of the Commission, is now required to receive and process applications for licenses, permits, or other approvals, and to collect related fees. The Commission retains its policy-making authority, the authority to approve licenses, and the authority to monitor revenues for specific Tribal funds.

Subsection (b) provides the standards of how a playing book shall be maintained.

- Paragraph (1) provides that the playing book form shall be reviewed during the Bureau's review of the TPPPS contract. This provision has been repealed consistent with the separation of the playing book into its own review process.
- Paragraph (2) provides that the form must be written in ink and include the following minimum information:
 - Subparagraph (A) provides that the pages of the playing book must be sequentially numbered with unused pages voided and maintained.
 - Subparagraph (B) provides that the playing book form must include the name of the gambling establishment where play occurred.
 - Subparagraph (C) provides that the playing book form must include the date and approximate time of play.
 - Subparagraph (D) provides that the playing book form must include the beginning and ending balance.
 - Subparagraph (E) provides that the playing book form must identify any fills and credits.

- Subparagraph (F) provides that the playing book form must include the name and badge number of the proposition player who is conducting play.
- Subparagraph (G) provides that the playing book form must include the table number where play occurred.
- Subparagraph (H) provides that the playing book form must include the game activity that was played.
- Subparagraph (I) provides that the playing book form must include the name of the primary owner.

These provisions have been moved to Section 12260(g), paragraphs (1) through (4) and (6)-(10).

- Paragraph (3) provides that the form must be time-stamped, dated, and signed under the penalty of perjury. This provision has been moved to Section 12260(g), paragraphs (11) and (12).

Subsection (c) provides that for a playing book to be amended it must be submitted to the Bureau with a fee and that the Bureau will have 30 days to conduct its review. This provision has been combined with the approval processes of Sections 12261 (hardcopy) and 12264 (electronic).

Repeal Section 12200.16. Inspections and Investigations.

This provision authorizes the Bureau to request, inspect, copy, or audit any documents or records required of the TPPPS, including providing storage requirements.

Subsection (a) provides inspection authority to the Bureau and maintenance requirements to the TPPPS. This provision is repealed. Many of its provisions, such as the requirement that copies be made in English, duplicate the general storage provisions of Section 12003. The other provisions of this subsection are incorporated in Section 12003 as part of this action. Subsection (a) includes a requirement that requested electronic documents must be provided “within 24 hours of the request.” This has been replaced with Section 12003’s requirement that documents requested must be provided “within the time period specified in the request.” This change is necessary to provide the Bureau additional flexibility in their request. For example, the Bureau may require a more prompt submittal time for an immediate law enforcement need, or may provide a greater time for documents needed for a less urgent purpose.

Subsection (b) provides that the Executive Director may request the Bureau to conduct an inspection or investigation. This regulatory provision is repealed to eliminate redundancy. To this point, subsection (b) has never been applied, as the Commission already has the ability to direct the Bureau to conduct an inspection or investigation. The Gambling Control Act provides that it is the Commission’s responsibility to ensure that persons who are unqualified do not hold a license.¹

Subsection (c) provides that nothing in Chapter 2.1 precludes Commission staff from carrying out their duties under applicable statutes and regulations. This regulatory provision is repealed

¹ Business and Professions Code section 19823(a)

for clarity. The Commission does not have the regulatory authority to bar any applicable statutes, nor could it adopt a regulation in conflict with another one of its regulations. To maintain this provision would suggest that the Commission has the authority to approve regulations it cannot.

Subsection (d) provides that records must be maintained in English, in California, and for at least five years. This provision is redundant and repealed as all of its requirements are provided for in Section 12003.

Amend Section 12200.18. Revocation.

This provision provides that the Commission may revoke a registration or license pursuant to the same hearing structure used for a gambling enterprise license.

Subsection (d) provides that a cause for administrative hearing is the failure by the registrant or licensee to properly maintain records. To maintain consistency, the regulatory reference is revised to reflect other changes and references Section 12003. Additionally, because Section 12003 included provisions that are not part of Section 12200.16, the following requirements are now covered by subsection (d):

1. Any change in an approved storage location must be reported to the Bureau within five days.
2. Records must be kept, stored, and submitted in a permanent form or media.
3. Hardware, associated equipment, and systems are subject to inspection, copying, and audits.

Items 1 and 2 were previously included as part of Section 12200.13, with the failure to properly follow these provisions already covered under Section 12200.18. Specifically, subsection (b) of Section 12200.18 provides that “[a]ny act...that would disqualify the licensee from obtaining licensing under this chapter.” As these provisions were already required of a licensee, failure to follow them would be considered a violation of the regulations and is therefore an act that could disqualify licensure. Item 3 represents a new requirement, one that comes with the introduction of electronic playing books. Failure to properly establish a system would likewise constitute a violation of the regulations and is therefore an act that could disqualify licensure. Therefore, the inclusion of these provisions by referencing Section 12003 does not create any new requirement or burden not otherwise already provided for in regulation.

The proposed changes to Chapter 2.2 are as follows:

Amend Section 12220. Definitions.

Section 12220 provides definitions for the chapter dealing with gambling businesses. Two definitions have been repealed from this section and moved to another section and other provisions have been renumbered accordingly.

Subsection (b) provides the specific definitions that apply to this chapter.

The provisions of paragraph (16) mirror the provisions of paragraph (15) of subsection (b) of Section 12200 in Chapter 2.1. The explanation and necessity for amending this provision are the same. Therefore, see Section 12200.

Repeal Section 12220.13. Playing Books.

The provisions of Section 12220.13 mirror the provisions of 12200.13 in Chapter 2.1. The explanation and necessity for repealing this Section and replacing it with Article 2 of Chapter 3 are the same. Therefore, see Section 12200.13.

Repeal Section 12220.16. Inspections and Investigations.

The provisions of Section 12220.16 mirror the provisions of 12200.16 in Chapter 2.1. The explanation and necessity for repealing this Section and applying Section 12003 are the same. Therefore, see Section 12200.16.

Amend Section 12220.18. Revocation.

The provisions of Section 12220.18 mirror the provisions of 12200.18 in Chapter 2.1. The explanation for referencing Section 12003 is the same. Therefore, see Section 12200.18.

The proposed changes to Chapter 3 are as follows:

Add Section 12250. Definitions.

Section 12250 provides definitions for the chapter dealing with both TPPPS and gambling businesses. Fifteen definitions have been proposed to provide clarity to the terms used in other provisions. Where necessary, existing terms from other chapters have been either moved to this chapter or referenced.

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

Subsection (b) would provide the terms specific to Chapter 3. This provision clarifies the terms used in this chapter to ensure consistent understanding by the public and regulated industry.

- Paragraph (1) would define the term “authentication” to mean the verification that an individual is authorized to access a database system. This definition is necessary to provide consistent understanding to the public and regulated industry. In addition, two types of authentication are considered:
 - Subparagraph (A) would define the term “active authentication” to mean the identification information of those individuals currently allowed access to an electronic playing book system.
 - Subparagraph (B) would define the term “inactive authentication” to mean the identification information of individuals who are no longer allowed to use or access an electronic playing book system.

- Paragraph (2) would define the term “backup” 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. This definition is necessary to provide consistent understanding to the public and regulated industry.
- Paragraph (3) would define the term “electronic playing book” to mean a collection of digital playing book forms. This definition is necessary to differentiate an electronic playing book from a paper playing book so that provisions can be applied to one without being applied to the other.
- Paragraph (4) would define the term “electronic playing book device” or “playing book device” to mean the specific terminal used to access an electronic playing book. This would be the physical device used by the proposition players to access the system. This definition is necessary to provide consistent understanding to the public and regulated industry.
- Paragraph (5) would define the term “hardcopy playing book” to mean a tangible collection of paper playing book forms. This definition is necessary to differentiate a paper playing book from an electronic playing book so that provisions can be applied to one without being applied to the other.
- Paragraph (6) would define the term “independent gaming test laboratory” to mean a gaming test laboratory that meets one of two requirements. The laboratory must either be: (A) licensed or registered by another United States jurisdiction to test, approve, and certify gambling equipment, systems, and software, and accredited by a signatory to the International Laboratory Accreditation Cooperation Mutual Recognition Arrangement, or other equivalent laboratory accreditation agreement; or, (B) be operated by a state governmental gaming regulatory agency. This definition is necessary to identify a class of approved test laboratories.

This process is necessary because the Commission and Bureau do not have the technical expertise to either validate a testing laboratory or test a system. It is therefore necessary to establish a system where outside entities are able to provide the required verifications. This process is similar to other states that require testing of electronic systems, most often slot machines. The process as defined would (1) verify by a separate entity that the testing laboratory has the expertise to test an electronic playing book system, (2) provide the Commission and Bureau confidence that an electronic playing book system meets the required technical specifications, and (3) focus the Bureau and Commission on the tasks it does best, ensuring that the individuals entering data into the system are trustworthy and suitable.

The proposed definition identifies a possible accreditation organization. This is not intended to limit a testing laboratory to just these standards, but to instead provide guidance on what types of standards are appropriate. This group was identified because

it is one the Commission is familiar with. However, the regulation has been left open for other accreditation agencies of similar standards. These other accreditation standards will be considered by the Bureau during the application process and will be accepted on a case-by-case basis.

- Paragraph (7) would define the term “information technology technician” or “IT technician” to mean any person responsible for and has the permissions necessary to access a system, as specified. This definition is necessary to identify a class of individuals who have a high level of access to the financial information stored in a primary database but who otherwise may not be registered or licensed as employees of a TPPPS or gambling businesses.

Adopt Section 12260. General Provisions.

Subsection (a) would allow 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 provide three clarifications, (1) a terminal may be used for other purposes, (2) an electronic playing book system includes all applications that are able to access the playing book database, and (3) that all applications with access to the playing book database must be approved by the Bureau. This provision ensures flexibility for the licensees to use their terminals for other purposes, but that any other use of the terminal does not jeopardize the playing book database. Additionally, a licensee is responsible to ensure that playing book data is not accessed or changed by an unauthorized source. This is necessary to clarify that the system’s integrity is the responsibility of the licensee, and that if the licensee chooses to install unapproved applications, they must ensure that the unapproved application does not have access to the playing book database.

Subsection (b) would consolidate the current requirements in subsections (a) of Sections 12200.13 and 12220.13 which require the primary owner to be responsible for ensuring that its employees maintain an accurate, complete, and up-to-date playing books. The proposed provision would additionally require that the playing book must be legible. This additional requirement clarifies that the information contained in a playing book must be usable as this information can be used for audit and compliance purposes. Finally, a provision requiring that a playing book be established and maintained is moved from subsections (b) of Sections 12200.13 and 12220.13, and is expanded to allow for the new electronic playing book.

Subsection (f) would require that the primary owner develop written procedures acceptable to the Bureau for limiting access to the electronic playing book system, database, and equipment. This is necessary to protect the system by ensuring people cannot gain unauthorized access to or alter information.

Subsection (g) 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 flexibility for the primary owner to develop a playing book that suits the needs of the business and regulations while still ensuring that appropriate protections are put in place.

- Paragraph (1) would provide that a playing book form must include sequential numbers, including a specific unique gambling establishment identifier. Additionally, for hardcopy playing books, the provision would require that unused forms be voided and maintained in the book. Current regulations, in subparagraphs (b)(2)(A) of Sections 12200.13 and 12220.13, require that a playing book form have sequential numbers and that any unused forms be voided and maintained. This is non-substantive change.

Additionally, the playing book form is now required to include a unique gambling establishment identifier. The current process requires a primary owner to submit for approval a different playing book for each gambling establishment they contract with and therefore each receives a separate approval. A TPPPS company or gambling business can have dozens of approved playing books. The new process will no longer require unique approvals for each gambling establishment, instead one general format playing book form will be approved, to be used across all gambling enterprises served. This has the benefit of removing duplicative Bureau workload. However, there still needs to a way to easily identify which gambling enterprise a playing book is for. This requirement will provide the Bureau another way of ensuring a playing book is being properly utilized and not mixed among gambling establishments.

- Paragraph (5) would require that the amount of any win or loss balances be entered after each session of play. This would provide a final comparison between the session of play's starting and ending balances which would result in either a positive number (win) or negative number (loss). This comparison is a necessary audit tool. It allows for the monitoring of the play of a game over time. This information can be used to discover theft and other inappropriate activities by comparing a specific series of sessions of play to the statistical expectations of a specific game.
- Paragraph (9) would require the playing book form to include the Bureau-approved game identification number. This is a current requirement in subparagraphs (b)(2)(H) of Sections 12200.13 and 12220.13. The content of these provisions is revised to reference the Bureau identification number instead of the Bureau-approved gaming activity. This change better reflects the nature of the Bureau's approval process and ensures that accurate and useful information is being recorded on the playing book form.

Subsection (h) [which has been modified to subsection (j) as a 15-day change] would require that all IT technicians employed by or contracting with 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 person working for the TPPPS company or gambling businesses is properly identified. The term IT technician is discussed in more detail in Section 12250.

Subsection (i) [which has been modified to subsection (k) as a 15-day change] provides the notification requirements associated with subsection (c) of Section 12290. This information is necessary to ensure that the Bureau can identify all pertinent incident information, such as the

reporting entity, location of incident, relevant dates, descriptive information, and any resolution plan to prevent future incidents.

Adopt Section 12261. Review of Playing Book Forms.

Subsection (b) provides that 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. 02/16). The proposed change simply provides a non-substantive, editorial revision without regulatory effect.

- Paragraph (3) would require submission of a description of any changes to an approved form. This information is necessary to provide the Bureau direction regarding what aspects of the playing book they need to review.

Subsection (c) would provide that the Bureau must provide the applicant notification if their application is deficient within 10 working days and complete their review within 30 days. These time periods are mirrored from existing timelines for playing book approval. Currently, the Bureau reviews a TPPPS playing book alongside a TPPPS contract application. When a contract application (including a playing book) is submitted, the Bureau has 10-days to determine if an application is complete. This existing timeline can be found in Section 12200.9(a)(4). When reviewing a contract for approval, current regulations provide 90 days; however, the TPPPS contract package is a much complicated than just the playing book and so 90 days is excessive. Section 12200.13(c) provides a review process for the amendment of a playing book, which is the review of only the playing book. The 30-day timeline from 12200.13 is maintained.

For gambling businesses, the existing review process is slightly different. Section 12220.13(c) provides for a 30-day review period. Therefore, the new 10-day complete application period is new for this process. Applying the 10-day period to these playing books will allow the Bureau to provide a consistent process. This period will also help the Bureau find any easily correctable application issues earlier in the processes.

The Bureau will also be required to provide a written notice to the primary owner or the designated agent. This is retained from paragraphs (c)(2) of Sections 12200.13 and 12220.13. This provision provides instruction to the Bureau in order to provide a consistent timeline of review.

Subsection (d) would provide that a non-substantive change to a previously approved playing book form may be deemed accepted upon notice to the Bureau, unless otherwise advised by the Bureau within 30 days. The Bureau would retain the ability to determine, on an individual case-by-case basis, that a particular change is substantive and requires approval pursuant to subsection (b). This provision is necessary to both ease the workload of the Bureau and alleviate the burden on the licensee by providing a method of easily and quickly providing for non-substantive changes to an approved playing book system.

Subsection (e) would allow an approved playing book form to be used at any gambling establishment where the TPPPS or gambling businesses operates. This provision is the essential

purpose of the change in the approval process. Current regulations provide that the TPPPS or gambling businesses must have a new playing book approved for each gambling establishment in which they operate. This created a lot of extra work as most often a TPPPS or gambling businesses would not change a playing book form beyond altering the gambling establishment's name. By streamlining the approval process the TPPPS or gambling businesses is able to more flexibly change their gambling establishments operation and the Bureau is required to approve less repetitive playing book forms.

Adopt Section 12262. Electronic Playing Book Device Requirements.

Subsection (a) would establish data storage and retrieval requirements for the playing book device. This provision is necessary to provide clear and consistent standards for electronic playing books.

- Paragraph (1) 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 to assist the Bureau and TPPPS or gambling businesses in ensuring that the system is working properly.
- Paragraph (2) would require that the playing book form and recorded data be printable to a playing book form and exportable to a spreadsheet (delimiter-separated value or comma-separated value) file format. This is necessary to ensure the Bureau is able to request system information in an electronic format that allows for viewing in Excel or other similar software.
- Paragraph (3) would require that documentation be printable to an on-site printer. This is necessary to ensure the Bureau is able to view system information in an onsite printed form.

Subsection (b) would establish security requirements for the playing book device. This provision is necessary to provide clear and consistent standards for electronic playing book.

- Paragraph (1) would require that upon login, the date and time of the last session of the same user must appear and be accepted. This is necessary to prevent misappropriation of a user's access.
- Paragraph (2) would require that the device have anti-virus, firewall, and unauthorized software installation protection. This is necessary to protect the financial data produced by the playing book system.

Subsection (c) would establish the capability and limitation requirements for the playing book device. This provision is necessary to provide clear and consistent standards for electronic playing book.

- Paragraph (1) would provide that all access, activities, and entries into the playing book device be time, date, and user identification stamped. This is necessary to provide an audit trail for any access, entries, or changes to the playing book system.
- Paragraph (2) 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. This is necessary to ensure that information is not lost due to a system failure. Ideally, system information would be saved to the database as quickly as possible; however, some leeway needs to be allowed for different levels of equipment and connection speeds.
- Paragraph (3) 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 is necessary to ensure that information is not lost due to a system failure.
- Paragraph (4) 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. This is necessary to ensure that information is not lost due to a system failure.

Subsection (d) would require that, in the event of a device or multiple device failure, physical copies of the approved playing book form are available for use until a device is repaired or replaced. Any information manually recorded must later be entered into the electronic system with a notation providing for the alternative entry type. This is necessary to ensure that information is not lost and is properly recorded in the event of a system failure.

Adopt Section 12263. Electronic Playing Book Database Requirements.

Subsection (a) – This subsection would establish the security requirements for the database. This provision is necessary to provide clear and consistent standards.

- Paragraph (1) would require that all access, activities, and data entries be date, time, user, and terminal identification stamped and logged. This is necessary to prevent misappropriation of a user's access and to provide an audit trail. Audit trails can provide a means to help accomplish several security-related objectives, including individual accountability, reconstruction of events (actions that happen on a computer system), intrusion detection, and problem analysis.
- Paragraph (2) would require that all communications between the database and any terminal be encrypted. This is necessary to protect sensitive financial information during transmission from being seen, altered or exploited by unauthorized persons/devices. Data encryption protects digital data stored on computer systems and transmitted using the internet or other computer networks. The modern encryption algorithms play a critical role in the security of IT systems and communications. These algorithms provide confidentiality and drive key security including authentication, integrity, and non-

repudiation. Authentication allows for the verification of a message's origin and integrity provides proof that a message's contents have not changed since it was sent.

In an IT context, non-repudiation refers to the ability to ensure that a party to a digital communication cannot deny the authenticity of that communication.

- Paragraph (3) would require that the database have anti-virus, firewall, and unauthorized software installation protection. This is necessary to protect sensitive financial information from being corrupted, deleted, stolen, altered, or utilized by an unauthorized person/device.
- Paragraph (4) would require that the database have surge protection and uninterrupted power supply protection to protect the physical security of the database. This is necessary to protect sensitive financial information. In the event of an electrical power loss or power spikes, a UPS surge protector will ensure the system remains on. This allows the system to complete saving any data prior to powering off. Power spikes can also physically damage computer devices and cause data loss.
- Paragraph (5) 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 requirements are necessary to provide confidentiality and drive key security including authentication, integrity, and non-repudiation.
Authentication allows for the verification of a message's origin, and integrity provides proof that a message's content had not changed since it was sent. By requiring notification to an IT technician, any periods where system access has or could be compromised are known as soon as possible to allow for repair or countermeasures to be implemented.

Subsection (b) would establish the means by which the database will control access to the playing book system. This provision is necessary to provide clear and consistent standards.

- Paragraph (1) would require a minimum of two methods of active authentication for all users. After three failed access attempts, the database would deny access to the user until the login account has been reset. By asking for authentication information the system ensures that data being provided is coming from a proper source. Without this requirement it would be possible for a user to input information under a different name or for someone who should not have access to compromise the system.
- Paragraph (2) would require a minimum of three active authentications for an IT technician to access the database, and notice to the primary owner upon three failed attempts. This provision provides the same protection as paragraph (1) but to a higher degree. An IT technician has a higher level of access to sensitive information so a higher level of authentication is warranted.

- Paragraph (3) 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 is necessary to protect the data by ensuring that only authorized individuals actually have access. Ideally, system permissions will be removed as promptly as possible; however, flexibility needs to be allowed for systems that utilize offsite or outsourced IT technicians. As many TPPPS or gambling business could operate around the clock, 24 hours allows the primary owner the time to coordinate any change within standard businesses hours.
- Paragraph (4) would require that the database 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 is necessary to protect the data by ensuring that only authorized individuals actually have access at this level.

Subsection (c) would establish the storage and retrieval requirements for the database. This provision is necessary to provide clear and consistent standards.

- Paragraph (1) would require that no data stored in the system can be edited, deleted, or replaced. If any necessary changes are made to the data, a notation indicating edits, deletions, or replacements would be required to be made. This is necessary to protect the integrity of the data, ensure confidence that it is complete and accurate, and allow for accurate documentation and tracking of the entered data.
- Paragraph (2) would require that the database have the ability to generate a system report and a report of all notations as required in paragraph (1). This is necessary for the Bureau to conduct audit investigations to ensure system integrity and program compliance.
- Paragraph (3) 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 is necessary for the Bureau to conduct audit investigations to ensure system integrity and program compliance.

Subsection (d) would require that a system and database backup be performed daily, and that the documentation be maintained at a location compliant with subsection (f). This is necessary to protect sensitive financial information in the event of corruption, viruses, environmental disasters, catastrophic disasters, power loss, or incompatible system updates and allows the data to be restored to original state.

Subsection (e) would require that date and time synchronization for all playing book devices, terminals, and the database be controlled or updated by a network time protocol server. This is necessary for the Bureau to conduct audit investigations to ensure system integrity and program compliance.

Subsection (f) would require that the 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. This is necessary to protect sensitive financial information and ensure the Bureau is able to conduct audit investigations to ensure system integrity and program compliance.

Subsection (g) would require that an IT technician monitor and be responsible for any necessary access to the database by a non-licensed party. This is necessary to protect sensitive financial information and to ensure that any access has a corresponding registered or licensed individual in attendance.

Adopt Section 12264. Review and Certification of Electronic Playing Book Systems.

Subsection (a) would provide that each electronic playing book system requires prior approval by the Bureau. Currently hardcopy playing books must be approved by the Bureau. For TPPPS the playing book is currently approved pursuant to Sections 12200.9, 12200.10A and 12200.11 in conjunction with a TPPPS contract. For gambling businesses, approval of a playing book is currently provided pursuant to Section 12220.13. Requiring Bureau review and approval of an electronic playing book ensures the approval process for electronic playing book systems are subject to oversight similar to that currently applied to existing playing books and the new hardcopy playing book process.

- Paragraph (1) would adopt an application processing fee of \$1,200 for the initial review and processing of the electronic playing book approval application. The Bureau has estimated costs of review between \$900 and \$1,550² depending on if the review includes only in-office review or if there is an on-site demonstration. The \$1,200 application fee reflects a middle amount between those two review possibilities.
- Paragraph (3) 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, meet the requirements of this chapter. This provision would also require that the certification identify which technical test standard was used to certify the system. This is necessary because the Bureau does not have the expertise to ensure compliance with the programming and development of software, gambling devices or databases. Independent gaming laboratories are entities licensed in other gaming jurisdictions to provide similar compliance on electronic devices such as slot machines and can provide this supplemental review. Providing the certification from an independent gaming test laboratory with a request for review and approval, allows the Bureau to ensure the compliance of the electronic playing book system without directly developing the required expertise.
- Paragraph (4) 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 is necessary for the Bureau to be able to ensure compliance and ensure that inappropriate individuals are not given

² Playing Book Regulation – Workload Analysis and Fee Calculation, April 28, 2016, incorporated by reference into the Initial Statement of Reasons and included in the rulemaking record as an attachment to the Department of Finance’s Economic and Fiscal Impact Statement, STD. 399.

system access. Ideally, system permissions will be removed as promptly as possible; however, flexibility needs to be allowed for systems that utilize offsite or outsourced IT technicians. Five business days allows the primary owner the time to coordinate any change and provide notification to the Bureau while ensuring that the period the Bureau is uninformed is minimal.

- Paragraph (5) 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 at least one of the following: (1) a video of the system in operation; (2) a prototype device with written instructions and access; or, (3) a live demonstration of the system. This is necessary for the Bureau to be able to conduct a basic review to ensure compliance in conjunction with the review by the independent test laboratory.
- Paragraph (6) would require that the contact information for an IT technician responsible for administering 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 businesses hours so that the Bureau may ask any questions it may have regarding the system. This is necessary so that the Bureau can ask any technical questions about the system when conducting its review.

Subsection (b) would provide that the Bureau 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 is necessary to provide guidance to the Bureau on review timelines. The timelines of 30 days to confirm a complete application and 120 days to review the system provides the Bureau the time needed to complete its review. The timeline for an electronic review is longer than the hardcopy review because the system is more complicated. Specifically, an electronic review needs to allow additional time to review certifications, system functions, and to allow for the meetings required in Section 12264(a)(5).

Subsection (c) 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. This provision is necessary to ensure continued compliance of the electronic playing book system. Just as the original system required approval by an independent gaming test laboratory, so too would any updates. This outside review is necessary due to the Bureau not having the technical specialization necessary to fully vet the software, the database, and a playing book device.

- Paragraph (1) would provide that new security updates for a previously approved version would not require notification, approval, or certification. This is necessary to ensure that security updates can be efficiently and effectively applied to the system to maximize the protection of sensitive financial information.

- Paragraph (2) would require that any update to any software, system, or components internally developed by the licensee, or employee of the licensee, requires notification to the Bureau within five days of the change. This provision is necessary to ensure that the Bureau is promptly notified that the system has been altered, how it was altered, and what problems were being corrected or prevented. Prompt notification of five days is necessary to allow Bureau to know about the change and to minimize any time period in which a system is possibly out of compliance, as could be determined by the Bureau review of the modification notification.

Adopt Section 12290. Compliance.

Subsection (b) would require that only an authorized TPPPS and Gambling Business player may possess, direct, or otherwise control currency, chips, or other wagering instruments. This provision is currently part of subsections (b) of Sections 12200.21 and 12220.21. The language of the provisions has been modified from current text in order to reference both TPPPS and gambling business. While this technically a change, it is done to maintain the current effects of regulation and is therefore non-substantive change.

Subsection (c) would require that the licensee notify the Bureau within five calendar days of specific incidents. This provision is necessary to provide clear and consistent standards. Notification to the Bureau needs to be prompt in order to allow the Bureau to initiate any investigation while evidence is still available. Prompt notification of five days is necessary to allow Bureau to know about compliance any compliance issues while still providing time for the primary owner to gather all relevant information and to provide flexibility due to the Bureau's schedule, such as holidays and weekends.

- Paragraph (1) would require that the licensee notify the Bureau when an electronic playing book device, system, or database failure prevents it from functioning as initially approved. Notification to the Bureau is necessary so that the Bureau is able to monitor the situation to ensure the TPPPS complies with their procedures related to the failure of an electronic system and can conduct any other investigation it deems necessary.
- Paragraph (2) would require that the licensee notify the Bureau when there has been impermissible use or access to the electronic playing book device system. This is necessary so that the Bureau is able to monitor or investigate any inappropriate activities.
- Paragraph (3) would require that the licensee notify the Bureau when the electronic playing book database cannot synchronize information for a period longer than 24 hours. This is necessary so that the Bureau is able to monitor or investigate any inappropriate activities.