

CALIFORNIA GAMBLING CONTROL COMMISSION
INITIAL STATEMENT OF REASONS
CGCC-GCA-2018-**XX**-R

HEARING DATE: **Month, Day, 2018**

SUBJECT MATTER OF PROPOSED REGULATIONS: Approval of Transactions

SECTIONS AFFECTED: California Code of Regulations, Title 4, Division 18:
Sections 12002, 12200.15, 12220.15, 12311, 12312,
12313, 12315, 12316, 12320, 12322, 12324, 12326,
12328, 12330, 12332, 12560, 12562, and 12566

SPECIFIC PURPOSE OF REGULATORY PROPOSAL:

INTRODUCTION:

The California Gambling Control Commission (Commission) is the state agency charged with the administration and implementation of the California Gambling Control Act (Act or GCA).¹ Under the Act, the Commission is required to establish regulations for reporting and approving transactions. These regulations implement various aspects of the Act and provide guidance to the procedures required to maintain and submit transactions and transaction reports. These regulations would apply transaction requirements, as appropriate, to gambling enterprises, Third-Party Providers of Proposition Player Services (TPPPS), and gambling businesses.

PROBLEM ADDRESSED:

The Act (Sections 19878 and sections 19900 through 19906) authorize the Commission to approve transactions and the enforcement of security interests, but provide no formal processes for doing so. Instead, these statutes require that the formal process be established by regulation. There are currently no regulations that provide procedures or guidance for licensees to obtain approval for transactions or for the enforcement of a security interest involving a licensee. Also, section 19841 authorizes the Commission to regulate transaction reporting and maintenance, but there are currently no regulations establishing transaction reporting or maintenance requirements. These modifications provide necessary procedures and guidance to applicants, the Bureau, and the Commission.

PURPOSE:

This proposed action establishes reporting, review, and approval procedures for transactions, as well as procedures for the enforcement of security interests. These regulations provide clear direction by ensuring clarity and uniformity for optimal oversight and compliance.

¹ Business and Professions Code, Division 8, Chapter 4, section 19800 et seq.

ANTICIPATED BENEFITS OF PROPOSED REGULATION:

These proposed regulations will have the benefit of providing specific procedures to follow when reporting or requesting approval for transactions and the enforcement of security interests. The proposed regulations would have the benefit of establishing transaction reporting procedures to monitor a licensee's compliance with the Act. These review and approval procedures would assure the public that only those who have Commission approval would be permitted to conduct business within the gambling industry, and would provide transparency, clarity, and uniformity in business and government.

PROPOSED ACTION:

This proposed action would make changes within Division 18 of Title 4 of the California Code of Regulations. The proposed changes are as follows:

A general change has been made in the proposal to replace the word "shall" with other words less subject to interpretation. Shall is a potentially ambiguous word. In most connotations it is used to convey an obligation. However, the word has been used in a variety of contexts to convey a range of ideas including "may," defining a term, meaning "should," compelling as "must," etc. In an effort to foreclose any such ambiguity, shall is replaced throughout the text with other words subject to less interpretation. These are non-substantive, clarifying changes to syntax within the meaning of Section 100(a)(4), Title 1 of California Code of Regulation (CCR).

CHAPTER 1. GENERAL PROVISIONS.

ARTICLE 1. DEFINITIONS AND GENERAL PROCEDURES.

Amend Section 12002. Definitions.

1. Subsection (d) would add clarity and specificity to the definition of the term "affiliate" found in Business and Professions Code section 19805, subdivision (a). While section 19805 provides a definition for "affiliate," it does not provide sufficient clarity concerning which individuals or entities fall under this definition. The proposed action clarifies the individuals and entities that are required to be identified and reported to the Bureau under various provisions throughout Division 18 relating to contracts and transactions by clarifying the meaning of control into difference categories. The amended subsection (d) specifies that "affiliate" includes, but is not limited to, the following:

- Any business in which the specified person and that specified person's spouse or registered domestic partner, have a combined ownership interest of 10 percent or more.
- A director, officer, general partner, managing member or person in control of any business where the specified person and that specified person's spouse or registered domestic partner, have a combined ownership interest of 10 percent or more.
- A spouse or registered domestic partner of the specified person.
- A father, mother, or sibling of either a specified person or a specified person's spouse or registered domestic partner, or a child or grandchild of a specified person or the spouse or

registered domestic partner of a child or sibling of a specified person who resides in the same home as the specified person.

- Any trust or estate in which a specified person or a specified person's spouse or registered domestic partner is a beneficiary, or serves as a trustee or trustor of a revocable trust, or in a similar fiduciary capacity.

It is necessary to identify individuals and entities that are financially closest to parties involved in the contracts, transactions, and other financial dealings of gambling enterprises, TPPPS, and gambling businesses in order to comply with applicable provisions of the Act. For example, the Commission is charged with the responsibility of assuring that there is no material involvement, directly or indirectly, with a gambling operation of persons whose activities are conducted in a manner inimical to the public health, safety, or welfare. To achieve this, the Commission is granted all powers necessary and proper to approve or disapprove transactions, events, and processes as provided in the Act.

Furthermore, section 19984 specifies that a gambling enterprise shall not have any interest in the funds wagered, lost, or won by a TPPPS. While regulations have been adopted to ensure that inappropriate payments are not made, the identification of other affiliated persons is necessary to ensure that inappropriate payments are not being provided through an avenue. In order to establish these secondary relationships, identification of the possible inappropriate recipients of funds is necessary and the section 19805 definition does not provide the specificity necessary.

2. The current subsections (d) through and including (x) will be renumbered as (e) through and including (y), accordingly.
3. Subsection (z) would add the term "specified person." This definition is necessary because while the Act provides a definition of affiliate in subdivision (a) of section 19805, that definition uses the term "specified person." The definition does not, however, provide any clarification of who a specified person may be. Therefore, this regulation provides the required clarity to the term so that affiliates can be accurately and consistently determined.

A specified person would be identified in relationship to a gambling enterprise, TPPPS, or gambling business based on an ownership interest of at least 10 percent. The definition of specified person is first limited to a consideration of owners of a business based upon the context of the Act. The purpose of the Act is to provide assurance to the public that gambling is safe and free from criminal influence. To accomplish this, individuals apply for and receive licenses, registrations, or some other form of approval. To receive this approval, applicants must undergo background checks. At the highest level are those applicants with direct control over the workings and assets of the business. These individuals can exert significant influence over the gambling enterprise, TPPPS, or gambling business; therefore, the State has the highest level of interest in these people and in those who can influence them.

Many business structures do not include a single main owner, but can include a multitude of individuals and entities, some with very small ownership percentages. Individuals with small ownership interests, even if influenced by others, may not be in a position to actually effectuate any action within the business. Therefore, an exception to ownership is provided to remove individuals without this control, defined as someone with less than 10 percent ownership interest and no other reason for licensure (such as working in the facility). The value of 10 percent interest is consistent with the U.S. Securities and Exchange Commission's idea of beneficial ownership [United States Code, Title 15, Chapter 2B, 78p(a)].

4. The current subsections (y) through and including (aa) will be renumbered as (aa) through and including (ac), accordingly.

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

ARTICLE 1. DEFINITIONS AND GENERAL PROVISIONS.

Repeal Section 12200.15. Transfers and Sales.

Section 12200.15 regulates the transfers and sales of an ownership interest, in whole or in part, of a TPPPS. This section would be replaced with similar provisions in Article 3 of Chapter 5, and would therefore be repealed as unnecessarily duplicative.

CHAPTER 2.2. GAMBLING BUSINESSES: REGISTRATION; LICENSING.

ARTICLE 1. DEFINITIONS AND GENERAL PROVISIONS.

Repeal Section 12220.15. Transfers and Sales.

Section 12220.15 regulates the transfers and sales of an ownership interest, in whole or in part, of a Gambling Business. This section would be replaced with similar provisions in Article 3 of Chapter 5, and would therefore be repealed as unnecessarily duplicative.

CHAPTER 5. ACCOUNTING AND TRANSACTIONS.

ARTICLE 1. ACCOUNTING AND FINANCIAL REPORTING.

This article is renamed to Definitions and General Provisions

Amend Section 12311. Definitions.

Section 12311 is amended to include two additional terms used throughout Chapter 5. These definitions are necessary to ensure that the proposed regulations are clear, concise, and easy to understand, and that the meanings of these terms are specific. The following definitions are proposed:

1. Amend Paragraph (6) to define licensee as all owner licensees, owners of a TPPPS, and owners of a gambling business. This is a non-substantive change as the intent of Chapter 5 was not to apply to employees of a TPPPS or gambling business. The existing provision could be interpreted to apply to employees and so it is modified to provide clarity.

2. Adopt paragraph (7) which would define “security interest” to mean an interest in property that secures the payment or performance of an obligation or a judgment. This term is necessary to provide a clear, consistent reference to this action.
3. Adopt paragraph (8) which would define “transaction” to mean any business activity that establishes or modifies any rights, powers, privileges, obligations, duties, or liabilities in which goods, services, or monies are exchanged or transfer or assignment of an interest through a gift. The use of this term is consistent with the Act, specifically sections 19801, 19805, 19824, 19841, and 19931, to apply even when individual sections of the Act may refer to a contract, agreement, etc. Using one term throughout the regulations is necessary to provide simplicity, clarity, and consistency.

Amend Section 12312. Record Retention and Maintenance; General Provisions.

This section is renamed Record Retention and Maintenance. This section provides requirements for what records and the duration in time records must be maintained.

1. Subsection (a) would require that the records in this section must be maintained for a minimum of seven years. Section 12003 provides general requirements for how records must be maintained, but only requires a minimum of five years. This provision is modified to provide clarification that even though this provision requires seven years, the rest of Section 12003 still applies. As Section 12003 already applies, this change only provides clarity that the difference in time frames does not affect the other requirements. This is a non-substantive, clarifying change.
2. The non-referenced text “each licensee shall” is moved to subsection (b) and the rest of the subsections renumbered to paragraphs. This is a non-substantive change. These provisions are also revised to adjust for internal references consistent with the renumbering.

ARTICLE 2. ACCOUNTING AND FINANCIAL REPORTING.

This new article is created and will include existing Sections 12313, 12315, and 12316.

Previously, this chapter only contained provisions related to accounting and financial reporting. With the addition of transaction provisions, this separation provides clarity and allows for more specific referencing.

Amend Section 12313. Financial Statements and Reporting Requirements.

This section provides accounting requirements specific to the size of the gambling enterprise, TPPPS, or gambling business.

1. Subsection (a) provides that financial statements covering all financial activities must be prepared for each fiscal year. This provision covers TPPPS companies, gambling businesses, and gambling enterprises. The order these business types are provided is changed to place gambling enterprises first. This change makes the reference to these businesses consistent with other similar references. This is a non-substantive change, without regulatory effect.

Amend Section 12316. Unclaimed or Abandoned Property.

This section provides that a gambling enterprise must establish policies and procedures regarding unclaimed chips, cash, and cash equivalents.

Subsection (a) includes two changes. The first revises the reference to California's Unclaimed Property Law and in doing so uses an abbreviation to reference the Code of Civil Procedure. This shorthand is expanded to include the full name of the code. This is a non-substantive change that provides clarity to the referenced statutes. The second change adds a safe deposit box that has been deemed inactive to the locations that unclaimed chips, cash, and cash equivalents can be found. Some gambling establishments include safe deposit boxes. This change is necessary to clarify that chips, cash, and cash equivalents found in an inactive safe deposit box are treated the same as those left at a table or player's bank.

ARTICLE 3. TRANSACTION REQUIREMENTS.

Adopt Section 12320. General Provisions.

This section provides a series of conditions and requirements that apply to a transaction or to the parties of a transaction.

1. Subsection (a) would require that any transaction must be evidenced by documentation. This provision is necessary to create documentation of business activities for audit purposes and would create a minimum procedure for licensees to exercise effective control over their internal fiscal and gambling affairs in accordance with Business and Professions Code section 19841.
2. Subsection (b) would provide an exception to the requirements of Section 12003(c). Subsection (c) of Section 12003 provides inspection provisions for documents and hardware the Bureau seeks to inspect, copy, or audit. This provision does not provide specific timelines, as the nature of the Bureau's request would determine the appropriate timelines. This provision would provide a standard timeline for requesting transaction related documents to 10 business days, and require any requests to be made in writing. This is necessary to provide licensees sufficient time to get the requested documents organized.

An exception is provided for requests that are made onsite. The Bureau is responsible for monitoring compliance with the Commission's regulations, which means they are responsible for ensuring documents are actually being stored in the location that has been approved for their storage.

3. Subsection (c) would require that gambling enterprises, TPPPS companies, and gambling businesses provide writings and supporting documents to the Bureau, as required by subsection (c) of Section 12003, but additionally to any appropriate law enforcement agencies or federal, state, or local regulators with whom the Bureau has identified it is working on a specific topic or area. The gambling industry is a highly regulated industry and it is not the intent of the Commission to hinder any other agency with purview over gambling. Many of the records required to be maintained by the Commission are unique to the specific requirements of the Commission. Transactions and transactional documents are

of a more general interest. This requirement is necessary to ensure that Commission regulations support and not hinder those other agencies when they are working with the Bureau.

The Commission understands that in adopting this provision, some information may still be excluded from submittal due to Federal or State law. It is not the intent of the Commission to require the disclosure of otherwise privileged information, such as information subject to the attorney-client privilege, to the Commission, the Bureau or any other entity.

4. Subsection (d) would provide that a transaction is considered consummated the earlier of the contract date or later specified date, or the date that any cash, property, credit, guaranty, benefit, or security is received or exchanged. This is necessary to clarify when a transaction is consummated. Clarity on this timeline is important for other requirements and provisions of the regulation.
5. Subsection (e) would exempt a written contract between a gambling enterprise and a primary owner of a TPPPS for the purpose of providing proposition player services at a gambling establishment. The process for review and approval of a written contract with a TPPPS can be found in Chapter 2.1, Article 1, Sections 12200.7 through 12200.11.
6. Subsection (f) would exempt institutional investors from licensure when they are parties to a transaction requiring approval. Institutional investors are defined in Business and Professions Code section 19805(w), and consist of lending and investment persons otherwise regulated by law. Requiring that these persons obtain another license in order to transact with an individual would be unnecessary and burdensome; and, therefore would unnecessarily limit the licensees' ability to transact with otherwise-regulated persons. Minimizing unnecessary obstructions for a licensee to transact with institutional investors would aid the public health, safety, and welfare by encouraging the licensee to transact with persons licensed and regulated by agencies with the appropriate specialty.
7. Subsection (g) would provide that individual patron chip transactions, credit to patrons, player's banks, or patron check cashing are exempt from this article. Covering these transaction types is unnecessary because there are other regulations that require the documentation of chip balances.
8. Subsection (h) would provide that no licensee, or any of their affiliates, may enter into, or cause any other person to enter into a contract that would limit providing information to the Bureau, Commission, or any federal, state, or local law enforcement agency. The Commission is required to ensure that the gambling industry is conducted in a manner that does not endanger public health, safety, or welfare. Part of this task is to ensure that only individuals of suitable moral character are involved in the conduct of controlled gambling. In order to make these determinations and when investigating violations, the Commission, along with the Bureau and federal, state, and local law enforcement agencies require information from individuals. Allowing these individuals to engage in transactions that prevent the acquisition of needed information directly undercuts the role of the Commission

and endangers the public trust that the gambling industry is conducted in a manner that does not endanger public health, safety, or welfare.

The Commission understands that in adopting this provision, some information may still be excluded from submittal due to Federal or State law. It is not the intent of the Commission to require the disclosure of otherwise privileged information, such as information subject to the attorney-client privilege, to the Commission, the Bureau or any other entity.

9. Subsection (i) would provide that licensees may not structure, or conduct, any transaction in a way that attempts to hide anything or evade any requirements of any local ordinance or regulation, or any state or federal statute or regulation. The Commission is required to ensure that the gambling industry is conducted in a manner that does not endanger public health, safety, or welfare. Part of this task is to ensure that only individuals of suitable moral character are involved in the conduct of controlled gambling. This provision is necessary to ensure that individuals maintain their transactions in a manner intended to be consistent with all legal requirements.

Adopt Section 12322. Required Terms and Conditions.

Section 12322 would set forth specific terms or conditions required to be included, as applicable, in transactions requiring Commission approval. It is necessary to consolidate multiple provisions of the Act and current practice into this section in order to provide clear and simple compliance requirements and to apply the requirements, when appropriate, to TPPPS companies and gambling businesses. These terms are also necessary to not only comply with the Act, but also to ensure that all parties to a transaction connected with controlled gambling are appropriately informed of the responsibilities and regulating authorities for controlled gambling.

1. Subsection (a) would require all parties to a transaction to be advised that the licensee is subject to the Act and regulations of the Commission and Bureau. This is necessary to inform parties not already involved in controlled gambling of the laws and regulating authorities that control a transaction with a person holding a gambling registration or license.
2. Subsection (b) would require that when the Commission has previously required the licensure of a purchaser or lessee of any real property to be approved or licensed, that any transaction to sell or lease the property would have two conditions applied to it.
 - The transaction cannot be consummated or specify a closing date that is prior to the approval of the transaction. This provision is necessary to ensure that the Commission has the time to review the transaction. As the Commission had previously determined that the owner required a license, the Commission must be provided the time necessary to determine if any new owner requires a license. If the Commission does determine that any new owner requires a license, the transaction's timeline must provide time for the application to be submitted and considered.
 - Any documentation must include a provision, satisfactory to the Commission, that details the payment of any fees that may be due pursuant to any subsequent deficient determination may under the Act. This provision consolidates the requirements of

Business and Profession Code section 19903 with the other transaction requirements in order to provide consistency.

3. Subsection (c) requires a transaction for the sale of a gambling enterprise to comply with Business and Professions Code section 19906, which will set forth outstanding chip liability. This is necessary to ensure that the transaction contains all requirements of statute by clearly including all requirements in one location.
4. Subsection (d) requires that any proceeds derived from continuing operations during a sale of a gambling enterprise, TPPPS, or gambling business that would be payable to the new owner that is unlicensed must be placed in an escrow account until the new owner is licensed or registered. Business and Professions Code section 19855 provides that a license is required prior to engaging in controlled gambling activity. However, if responsibilities must transfer to the new owner while licensing is still in progress, placing the proceeds in escrow is necessary to allow new owners to eventually receive the income that they are entitled to without violating section 19855.
5. Subsection (e) requires that any lease between a gambling entity and the landlord must contain a statement where the landlord acknowledges that he, she, or it is familiar with the requirements of Section 12326(d) and that he, she, or it, will assist the gambling enterprise, TPPPS or gambling business with complying with the Act, Commission regulation, and Bureau regulation to the extent the lease may trigger any requirements. This provision is necessary to ensure that any prospective landlord understands that a license may be required and that there may be other additional requirements that need to be met. This avoids a situation where a gambling entity could find itself in a location where it cannot meet the requirements of the Act or regulation.
6. Subsection (f) requires that a legend must be included on any document evidencing an ownership interest in a gambling enterprise, TPPPS, or gambling business. Further, it will allow for the legend to be included in the body or attached to the document evidencing the ownership interest. This is necessary to conform to current practice, and this legend summarizes for all parties the need for Commission approval before the certificate changes possession. When adding this required legend, additional Commission approval is not required as it does not make sense for the Commission to have to approve a specific change it has required.

Adopt Section 12324. Reporting Requirements.

Section 12324 would establish reporting requirements of licensee transactions to be submitted to the Bureau. This report would be a tool to determine whether each licensee is conducting business in compliance with the regulations, and would aid in audit and enforcement procedures.

1. Subsection (a) would require all transactions to be reported annually to the Bureau. Transactions would be reported to the Bureau with the licensee's renewal application, or in years where no renewal application would be submitted, 12 months after the last report was submitted. This timeframe most effectively matches the needs of the Bureau and licensee. Currently, the licensee is required to submit fiscal information to the Bureau as part of their

renewal application. If a separate timeframe were created, the licensee would be required to submit a report with the renewal application and at some other time. An annual report is necessary so that the Bureau has up to date information when conducting compliance checks during periods not connected to the renewal of an application.

The Commission understands that in adopting this provision, some information may still be excluded from submittal due to Federal or State law. It is not the intent of the Commission to require the disclosure of otherwise privileged information, such as information subject to the attorney-client privilege, to the Commission, the Bureau or any other entity.

2. Subsection (b) would require the report to include a summary of each transaction that is either (1) still in effect at the time of the report, or (2) has an effective date after the date of the last submitted report. Additionally, should there be no applicable transactions a statement to that effect would be provided. This information provides the Bureau with an update from the last report and allows the Bureau to maintain a current picture of the gambling enterprise, TPPPS, or gambling businesses' transactional history.
3. Subsection (c) would list the information to be provided in the report for each transaction. These disclosures are necessary to provide basic information to allow the Bureau to monitor activities connected with controlled gambling. Should the Bureau wish to further investigate any of the transactions it already has the authority to request additional information. The requirements of this report are meant to only notice the Bureau of existing transactions and to provide basic information from which they can investigate. The requirements of the report include:
 - The earliest date any party performed any duties or obligations, or received any compensation.
 - The names of the parties.
 - The purpose of the transaction.
 - A description of any goods or services, rights, powers, privileges, obligations, duties or liabilities that are exchanged or modified as part of the contract.
 - The total aggregate value associated with the transaction.
 - Any affiliates other than those who are solely affiliates of the reporting licensee.
 - The name of any employee of a licensee who is performing services beyond those reasonably related to their position or classification, what services were performed, and any additional earnings from these services.
 - Any Bureau identification number that may have been previously issued.

- This provision provides that if a transaction has already been reported, this new report only needs to include items 2 and 4, above, plus any identification number that the transaction was previously reported with and a description of where, in that other report, the transaction can be found. This eliminates the requirement for the licensee to continually report the same information, if; for example, a person owns two businesses or has already submitted the transaction in a previous licensing cycle.
4. Subsection (d) would provide categories of transactions that are not required to be included in this report. Specifically, the following categories would be excluded:
- Paragraph (1) would exclude payments to government entities. Payments such as taxes, licensing fees, or other required governmental payments are not included in the report because their review is not necessary. A government entity is responsible for the receipt of its own payments. Additionally, such payments cannot be different from “industry standard.” If a licensee fails to make any appropriate government payments, such as taxes, the Bureau will find that information as part of their background investigation.
 - Paragraph (2) would exclude payments to utility companies providing standard and publicly available services. Every building is required to have certain utilities, such as power and water, and the payment of such does not warrant special notification to the Commission. Even additional utilities, such as phone or internet, when paid consistent with normal rates, do not require Commission or Bureau review.
 - Paragraph (3) would exclude payments to publicly traded companies providing standard and publicly available services. The purpose of this report is to allow the Bureau to monitor the activities of a business; however, due to the nature of these companies any payments made are unlikely to be fraudulent. For example, when purchasing computers, buying them from a company like Dell or Apple is at a much lower risk for inappropriate activities than a smaller vendor.
5. Subsection (e) would require the Bureau to review the documents submitted under this section for compliance with the Act and Commission and Bureau Regulations, and any conditions applicable to the licensee. This provision is necessary to provide guidance to the Bureau and licensee on how the documents will be used.
6. Subsection (f) specifies that a bankruptcy filing by a licensee does not relieve that licensee of the reporting requirements in this chapter. This is necessary to provide clarification to the licensee that transaction reporting requirements are still in effect during bankruptcy proceedings and that the Bureau and Commission must be kept informed of any developments.

Adopt Section 12326. Commission Approval of Transactions.

Section 12326 would establish the list of transactions that require prior approval by the Commission in accordance with the Act and current practice. The provision consolidates multiple provisions of the Act and current practice to provide clear and simple compliance requirements and apply the requirements, when appropriate, to TPPPS and gambling businesses.

The prior approval of these transactions is necessary to comply with the Act, and to allow the Commission and the Bureau to be aware of and monitor transactions creating obligations with others directly connected with gambling activities.

1. Subsection (a) would require the sale, assignment, transfer, pledge, or other disposition, in whole or in part, of any ownership interest in a gambling enterprise, TPPPS, or gambling business be approved by the Commission. Business and Professions Code section 19892 requires prior approval for the sale of a gambling enterprise that is either an LLC or a partnership, and section 19904 requires prior approval for the sale of a gambling enterprise corporation. These sections currently do not include the sale of sole proprietorships for gambling enterprises, TPPPS, or gambling businesses. This provision is necessary to encompass sole proprietorships, TPPPS, and gambling businesses.
2. Subsection (b) would require the sale, assignment, transfer, pledge, or other disposition of an option to purchase any ownership interest in a gambling enterprise, TPPPS companies, or gambling business be approved by the Commission. Business and Professions Code section 19892 provides that the grant of an option to purchase the interest in a partnership or LLC is void unless approved in advance by the Commission. This provision is necessary to encompass gambling enterprise corporations, sole proprietorships, TPPPS companies, and gambling businesses.
3. Subsection (c) would require the transfer of possession, ownership, or title of a security interest be approved by the Commission. Business and Profession Code section 19900, subdivision (a), provides that three types of security interests cannot be enforced until approved by the Commission. These types of interests are those issued by (1) a corporation, (2) a holding company, or (3) a partnership, limited partnership, or limited liability company, if that company is licensed by the State of California. This provision is necessary to encompass TPPPS and gambling businesses.
4. Subsection (d) would require the sale or lease of any real property associated with a gambling enterprise, TPPPS, or gambling business when the Commission had previously required the owner of the real property to be licensed for a reason associated with the property to have Commission approval. This provision is in accordance with Business and Professions Code section 19902 and allows the Commission the opportunity to ensure that any new owner receives licensure prior to the sale of the property, if still appropriate.
5. Subsection (e) would require any secured or unsecured loan agreement with an individual(s) or entity that includes a right to purchase interest in a new entity to be formed to own a gambling enterprise, TPPPS or gambling business to have Commission approval. This would not apply to loans from an institutional investor. This is in accordance with Business and Professions Code section 19901 and allows the Commission to ensure that any prospective owners receive any necessary licensure.
6. Subsection (f) would require any transaction with a person who has been denied a Commission license, had a Commission license suspended or revoked, or has had an application for Commission approval withdrawn with prejudice, in accordance with Business

and Professions Code section 19878 to have Commission approval. This would allow the Commission to monitor transactions with those persons deemed by the Act to be inappropriate to participate directly in gambling activities.

7. Subsection (g) would require that in order to employ a person who has been denied a Commission license, has had a Commission license suspended or revoked, or who has had an application for Commission approval withdrawn with prejudice, in accordance with subsection (b) of Business and Professions Code section 19878, Commission approval would be required. An exception is allowed if the Commission has previously permitted employment under a work permit issued by a local jurisdiction. This would allow the Commission to monitor the employment of those persons deemed by the Act to be inappropriate to participate directly in gambling activities.
8. Subsection (h) would require that when a trust or estate is created that permits a person to take part in the operation of a gambling enterprise, TPPPS, or gambling business, or that provides payment to a person from the profits of a gambling enterprise, TPPPS, or gambling business Commission approval would be required. This would allow the Commission to ensure that all persons involved or potentially involved in the operation of, or receiving profits from, a gambling enterprise, TPPPS, or gambling business are properly licensed in accordance with Business and Profession Code section 19850.
9. Subsection (i) would require that any transaction that materially amends or modifies any transaction previously approved by the Commission be re-approved by the Commission. This is necessary to ensure that later amendments do no alter or circumvent the Commission's approval, conditions, or limitations.

Adopt Section 12328. Transactions and License Requirements.

Section 12328 provides the timelines for when a transaction must be submitted and the documentation that is included in a complete application.

1. Subsection (a) provides that a transaction must be submitted to the Bureau if one or more persons involved in the transaction are not licensed or registered, but will be required to be, and the transaction must be submitted in conjunction with any required license application. This provision is necessary to ensure that the Bureau and Commission have everything required to practically act on the transaction. For situations when a license is required, the Commission will be unable to act on a transaction without the license application, so requiring the license application be submitted at the same time provides the most efficient administrative process.
2. Subsection (b) provides the contents of a complete application.
 - Paragraph (1) incorporates the Transaction Review Request Form, CGCC-0XX. This form provides the basic information that will be needed by the Bureau to review a transaction.

Section 1 of the Transaction Review Request Form requires basic information about the requestor; including, the type of business and all necessary contact and identification information. This information is necessary so that the Commission and Bureau understand who is making the request and how to contact them.

Section 2 of the Transaction Review Request Form requires a brief description of the purpose of the transaction. This information is necessary to assist the Bureau in processing the transaction and provides information that can help with determining any additional information that might be required or if a license could be required by the Commission.

Section 3 of the Transaction Review Request Form provides a space for additional items required as part of a complete application.

- A non-refundable fee of \$1,000, payable to the Bureau. This is necessary to cover the costs of processing and reviewing the transaction approval request.
- An attachment that identifies the names, addresses, and contact numbers of all parties to the transaction. This information is necessary so that the Bureau is able to conduct its review to ensure that no individuals whose conduct is inimical to the public health, welfare, and safety and is therefore prohibited from participating in the offering of controlled gambling. Additionally, the Bureau may need to contact specific parties to request additional information as part of its review of the transaction.
- An attachment that identifies if any of the parties are affiliates to any gambling enterprise, TPPPS, or gambling business. This is necessary so that the Commission and Bureau can properly consider the transaction and its requirements and limitations with other provisions of the Act and regulations.
- If the transaction involves a lender who is not an institutional investor, documents sufficient to show the sources of all money used to fund the loan. This information is necessary to provide the Commission and Bureau information related to anyone involved in providing loans to licensees to ensure unsuitable individuals whose conduct is inimical to the public health, welfare, and safety and is therefore prohibited from participating in the offering of controlled gambling.
- If the transaction includes a party who has been denied a license, or who has had their license suspended or revoked, or who has had an application denied with prejudice, information must be provided related to the party's employment and an explanation of the person's duties and why someone else cannot provide these services. This provision is necessary for the Commission to properly consider whether to allow a party who has previously been denied a license, or who has had their license suspended or revoked, or who has had an application denied with prejudice, to work in controlled gambling.

Section 4 of the Transaction Review Request Form provides a space for the application to be signed. This is necessary as it allows the Bureau to know that the application was submitted by someone who was authorized to do so.

Adopt Section 12330. Required License or Registration Maintenance.

Section 12330 would require all licenses and registrations to remain valid during a sale or ownership transfer, and would allow a former owner to be endorsed on the purchaser's or transferee's license.

1. Subsection (a) would require all licenses and registrations to continue to be renewed during the approval period of a transaction. This provision is necessary to ensure that at all times the entity remains licensed or registered, and that a suitable person is licensed or registered during the approval process.
2. Subsection (b) would allow a seller or transferor that maintains a security interest during the sale or transfer to be endorsed on the purchaser's or transferee's license as a security interest holder. This provision is necessary to allow for a smoother transfer of ownership if the security interest must be enforced and the security interest holder is reestablished as an owner.

Adopt Section 12332. Processing Timeliness for Transaction Requests.

Section 12332 would establish the submission and processing times for a request for formal approval of a transaction.

1. Subsection (a) would set forth the processing timelines for a transaction formal approval request.
 - Paragraph (1) would provide that the Bureau must notify the licensee in writing within ten days after the receipt of the request of any deficiencies in the request and what is needed to correct them. This process is consistent with other approval processes, and is necessary to allow the licensee an opportunity to correct any deficiencies in order to maintain an efficient and timely process for both the licensee and the Bureau.
 - Paragraph (2) would provide that if the licensee does not respond to any request by the Bureau to cure deficiencies within 30 days, the Bureau may deem the request abandoned. This process is consistent with other approval processes, and is necessary to allow the Bureau to manage its workload by being able to abandon a request if the licensee is unresponsive. The provision also provides the necessary guidance that allows the licensee to resubmit the transaction as a new request.
 - Paragraph (3) would provide that within 45 days of receiving a complete request, the Bureau must provide the transaction to the Commission for consideration. Additionally, the Bureau may provide a recommendation on the transaction and report whether any licensure, registration, or finding of suitability may be necessary. Upon the submission of its report to the Commission, the Bureau must notify the licensee of any recommendations to the Commission. This provision is necessary to provide a concrete

review timeline to the process. Additionally, as the review of a transaction is a request for approval, notification by the Bureau to the licensee of any recommendation is required in order to ensure there are no ex parte communications.

- Paragraph (4) would allow the Bureau to request further information. Additionally, any time taken on the part of the applicant in submitting the requested information does not count towards the 45-day timeline of the Bureau. This is necessary to provide the ability to gather whatever information they may require to complete their review of the transaction request. Additionally, the pause in the Bureau's review period provides a fixed time period that is known and understood by both the applicant and Bureau. Finally, should the applicant fail to promptly reply to the Bureau's request, the request can be abandoned pursuant to paragraph (2).

2. Subsection (b) provides the Commission's review timeline.

- Paragraph (1) provides that once the Commission has received the Bureau's transaction review, the Commission will have 60 days to provide notice that the transaction has been scheduled for review at a non-evidentiary hearing meeting. Additionally, the Commission may notify the applicant, in writing, that additional time is needed. This provision is necessary to provide a concrete review timeline to the process.
- Paragraph (2) provides some of the possible results of the Commission's consideration of the transaction request. Some of the possible options include:
 - (A) Approval of the transaction. This is provided in the regulation to include one of the more common outcomes.
 - (B) Disapproval of the transaction. This is provided in the regulation to include one of the more common outcomes.
 - (C) Requesting additional information from either the Bureau or applicant. While the Bureau conducts the review of the transaction, it is the Commission's responsibility to ultimately approve or disapprove a transaction. If the Bureau's review does not include specific information that the Commission may feel is necessary to make an informed decision, it must be able to request that information.
 - (D) Determining that an unlicensed party to the transaction requires licensure or a currently licensed party requires an additional licensure. In these cases, the Commission may set aside making a final decision on a transaction until such time as the required license application has been acted upon. This provision is necessary to make clear that the Commission need not approve a transaction that will require licensure prior to the licensure being considered. It is the Commission's responsibility to preserve the public health, safety, and welfare and to ensure that no unsuitable individuals participate in controlled gambling. Therefore, should the Commission determine that a transactional relationship requires licensure of a party;

the party's suitability must be fully resolved prior to the party being placed into the position that requires licensure.

CHAPTER 10. DISCIPLINE, HEARINGS, AND DECISIONS.

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

Subsection (b) provides a discipline structure for TPPPS owners. The minimum discipline of this subsection is a suspension of five days, with a maximum punishment of revocation. The requirement is modified to replace the word "must" with "will." This is a non-substantive change without regulatory effect. Additionally, this provision is amended to include the requirements of Chapter 5 as new paragraph (23). This provision is necessary to detail the possible disciplinary action for violation of the transaction provisions.

Amend Section 12562. Disciplinary Guidelines for Gambling Business Licensees or Registrants.

Subsection (b) provides a discipline structure for gambling business owners. The minimum discipline of this subsection is a monetary penalty of \$2,500 and/or suspension of five days, with a maximum punishment of revocation. This provision is amended to include the requirements of Chapter 5 as new paragraph (15). This provision is necessary to detail the possible disciplinary action for violation of the transaction provisions.

Amend Section 12566. Disciplinary Guidelines for Gambling Establishments.

Subsection (c) provides a discipline structure for gambling enterprise owners. The minimum discipline of this subsection is a suspension of five days, with a maximum punishment of revocation. This provision is amended to include the requirements of Chapter 5 as new paragraph (18). This provision is necessary to detail the possible disciplinary action for violation of the transaction provisions.

REQUIRED DETERMINATIONS:

LOCAL MANDATE:

A mandate is not imposed on local agencies or school districts.

UNDERLYING DATA:

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

BUSINESS IMPACT:

The Commission has made a determination that the proposed regulatory action would have no significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states. This determination is based on the following facts or evidence/documents/testimony:

While this regulation does create a new process, the approval of the designated transaction types is, for the most part, already required either by statute or regulation. While specific licensing types are now required to have some new transaction types approved and all licensees are

required to submit a new annual report, these transactions must already be recorded under accounting practices so the new requirements and do not require sufficient effort to adversely impact a business.

SPECIFIC TECHNOLOGIES OR EQUIPMENT:

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

ECONOMIC IMPACT ASSESSMENT/ANALYSIS:

IMPACT ON JOBS/NEW BUSINESSES:

The Commission has determined that this regulatory proposal will not have a significant impact on the creation of new jobs or businesses, the elimination of jobs or existing businesses, or the expansion of businesses in California.

While this regulation does create a new process, the approval of the designated transaction types is, for the most part, already required either by statute or regulation. While specific licensing types are now required to have some new transaction types approved and all licensees are required to submit a new annual report, these transactions must already be recorded under accounting practices so the new requirements are not of sufficient effect as to create or eliminate jobs or businesses.

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.

BENEFITS OF PROPOSED REGULATION:

These proposed regulations would have the benefit of providing specific procedures to follow when approving transactions and the enforcement of security interests. The proposed regulations would have the benefit of establishing transaction reporting procedures to monitor a licensee's compliance with the Act. These specified procedures would assure the public that only those who have Commission approval would be permitted to conduct business within the gambling industry through consistent review and approval processes, and would provide transparency, clarity, and uniformity in business and government.

CONSIDERATION OF ALTERNATIVES:

No reasonable alternative to the regulations would be more effective in carrying out the purpose for which the action is proposed, would be as effective as and less burdensome to affected

private persons than the proposed action, or would be more cost-effective to affected private persons 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:

- (1) Provide a broader list of transactions requiring approval: The first alternative considered and rejected by the Commission was to provide a broader list of transaction categories that would require Commission approval. These categories could include certain business related categories, such as customer procurement agreements, licensing agreements, or agreements for gambling equipment including purchasing and repair. Concern was expressed that requiring these transactions to be approved could have a negative impact on a gambling enterprise, TPPPS, or gambling business as it would impede the ability to conduct normal business.
- (2) Provide a broader list of transactions requiring approval but allowing the agreements to proceed while Commission considers approval: The second alternative considered and rejected by the Commission was to provide a broader list of transaction categories that would require Commission approval. These categories could include certain business related categories, such as customer procurement agreements, licensing agreements, or agreements for gambling equipment including purchasing and repair. A business would be allowed to proceed with the transaction while the Bureau reviewed and the Commission considered the transaction. In order to facilitate this, each transaction would have been required to include a clause that would have allowed for the termination of the transaction should the Commission deny. Concern was expressed that this process was complex and created situations where inappropriate transactions would be allowed to proceed. Additionally, this could allow a situation where a transaction could be fully completed and then denied by the Commission.