

CALIFORNIA GAMBLING CONTROL COMMISSION

**DESCRIPTION OF PROPOSED REGULATORY ACTION**

**APPROVAL OF TRANSACTIONS**

**INTRODUCTION:**

The California Gambling Control Commission (Commission) is proposing regulations that would establish the Commission's requirements for reporting and approving transactions. These regulations would implement various aspects of the Gambling Control Act (Act)<sup>1</sup> and provide guidance as to the procedures required to maintain and submit transactions and transaction reports. The proposed regulations would also apply the transaction requirements, as appropriate, to Third-Party Providers of Proposition Player Services (TPPPS), and gambling businesses, in addition to gambling enterprises.

**BACKGROUND:**

Current regulations require Commission approval for the sale, in whole or in part, of any ownership interest in a TPPPS or gambling business; however, the regulations do not include provisions for the sale, in whole or in part, of a gambling enterprise. Current regulations also do not include security interest enforcement provisions or transaction reporting requirements. Without regulations, the monitoring of the transactional activities for these entities is limited to specific requests for documentation, the sale of a TPPPS or gambling business, and the information obtained through an on-site audit by the Bureau of Gambling Control (Bureau). Without regulations, the approval of the sale of a gambling enterprise, TPPPS, or gambling business would be done without regulatory guidance.

Business and Professions Code sections 19900 through 19906<sup>2</sup> authorizes the Commission to adopt regulations regarding the approval of transactions and the enforcement of security interests for those who hold a California gambling license. Sections 19878 and 19892 also require prior Commission approval for certain transactions; and, section 19841 authorizes the Commission to adopt regulations for the monitoring and transaction reporting of the licensees.

Multiple sections in the Act include terms defined in section 19805 that refer specifically to gambling enterprises. This is because the Act originally addressed only gambling enterprises and not TPPPS until the adoption of section 19984. Nevertheless, the Commission has the implied authority to apply the same transaction requirements for gambling enterprises to TPPPS and gambling businesses. TPPPS and gambling businesses are entities licensed to conduct gambling activities on the premises of a gambling enterprise. Section 19984 provides the Commission the authority necessary to impose disclosure and approval requirements upon TPPPS. Section 19857 provides that no license shall be granted unless the Commission is satisfied with the business and financial arrangements of the applicant; and, section 19870 provides that the Commission shall only grant an application to an applicant qualified to hold a

---

<sup>1</sup> Business and Professions Code, Division 8, Chapter 5, Section 19800, *et seq.*

<sup>2</sup> All statutory references hereinafter are to the Business and Professions Code, unless otherwise specified.

# ***DRAFT***

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

license. Moreover, the Commission also has broad authority over all persons or things having to do with the operations of gambling establishments under section 19811, as well as the ability to regulate any activity related to the conduct of controlled gambling under section 19841. Finally, in section 19801, the Legislature found that public trust and confidence can only be maintained by strict and comprehensive regulation of all persons, practices, associations, and activities related to the operation of gambling establishments.

Therefore, while the requirements of certain provisions of the Act do not specifically mention TPPPS or gambling businesses, the requirement that the business activities of gambling enterprises be regulated, coupled with the statutory authority and legislative intent to regulate the financial activities of all entities involved in gambling activities, provides an authority and necessity to establish transactional requirements for TPPPS and gambling businesses, as well as gambling enterprises.

## **PROBLEM ADDRESSED:**

Section 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 the formal process to 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.

## **EXISTING LAW:**

Section 19823, subdivision (a), paragraph (2) provides that the responsibilities of the Commission include, without limitation, assuring that there is no material involvement, directly or indirectly, with a gambling operation by persons whose operations are conducted in a manner inimical to the public health, safety, or welfare.

Section 19824, subdivision (c) provides that the Commission shall have all powers necessary and proper to approve or disapprove transactions, events, and processes as provided in the Act.

Section 19824, subdivision (d) provides that the Commission shall have all powers necessary and proper to take actions deemed to be reasonable to ensure that no ineligible, unqualified, disqualified, or unsuitable persons are associated with controlled gambling activities.

Section 19841, subdivision (d) provides the Commission the authority to adopt regulations that require owner licensees to report and keep records of transactions involving cash or credit.

Section 19841, subdivision (h) provides the Commission the authority to adopt regulations that prescribe minimum procedures for licensees to exercise effective control over their internal fiscal and gambling affairs. This shall include, but not be limited to, the safeguarding of assets and revenues; prescribing the manner in which compensation from games and gross revenues shall

# ***DRAFT***

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

be computed and reported; and providing reliable records, accounts, and reports to be submitted to the Department.<sup>3</sup>

Section 19841, subdivision (k) provides the Commission the authority to adopt regulations that specify standard forms for reporting financial conditions, results of operations, and other relevant financial information.

Section 19841, subdivision (m) provides the Commission the authority to adopt regulations that prescribe the intervals at which information in subdivision (k) shall be furnished to the Department.

Section 19841, subdivision (o) provides the Commission the authority to restrict, limit, or otherwise regulate any activity related to the conduct of controlled gambling that is consistent with the purposes of the Act.

Section 19855 provides that every person who is required to hold a state license shall obtain the license prior to engaging in the activity or occupying the position with respect to which the license is required.

Section 19878 provides that an owner licensee must obtain Commission approval prior to entering into any contract or agreement with any person, or any person under the control of another, who has been denied a license, has had a license suspended or revoked by the Commission, or has had an application withdrawn with prejudice. This section also requires Commission approval prior to employing any person in any capacity for which he or she is required to be licensed if the person has been denied a license, or if his or her license has been suspended or revoked.

Section 19892 requires prior Commission approval for the sale, assignment, transfer, pledge, or other disposition of any interest, or “the grant of an option” to purchase an interest, in a partnership or Limited Liability Company (LLC) that holds a gambling license.

Section 19900 provides the Commission the authority to adopt regulations to establish the procedure for the enforcement of security interests that involve the securities issued by a licensee.

Section 19901 declares unlawful any sale, purchase, lease, hypothecation, borrowing or lending of money, creation of a voting trust agreement, or any other agreement of any sort to, or with, any licensee in connection with a controlled gambling operation, unless performed in accordance with the Commission’s regulations.

---

<sup>3</sup> In the Act, “department” refers to the Department of Justice. While the Act assigns certain powers and authority to the department, in actual practice the responsibility of fulfilling the obligations imposed upon the department is delegated to the Bureau of Gambling Control, pursuant to Business and Professions Code section 19810.

# ***DRAFT***

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

Section 19902 provides that a contract to sell or lease any property or interest in property that requires approval or licensing by the Commission shall not specify a closing date that is prior to the Commission granting of approval.

Section 19903 requires a contract for the sale or lease of any property or interest in property which requires approval or licensing of the purchaser or lessee by the Commission to include a provision, acceptable to the Commission, regarding the responsibility for payment, prior to the closing date of the transaction, of any fees due for any deficiency determination.

Section 19904 provides the Commission the authority to approve, in advance, the disposition of or the granting of an option to purchase a security issued by a corporation that holds a gambling license. Without prior approval by the Commission, the disposition or granting of an option shall be void.

Section 19905 provides the Commission the authority to regulate the extension or redemption of credit and the documentation to be maintained and submitted as evidence of compliance.

Section 19906 provides that any contract for the sale of a gambling enterprise shall state whether any outstanding gaming chips of the seller will be honored by the purchaser. If the contract does not require the purchaser to honor outstanding chips, this section requires that the contract state what provisions will be made for redemption by patrons of any outstanding chips. This section also requires the Department to determine the amount of the outstanding chip liability, and the seller to satisfy the Commission that the amount of the liability is safeguarded. This section also requires that the seller provide notice to its patrons in order to provide an adequate opportunity for the redemption of any outstanding gaming chips.

Section 19984, subdivision (b) provides the Commission the authority to establish criteria for, and require the licensure or registration of, any person or entity that provides proposition player services at gambling establishments. This subdivision also provided the Commission the authority to impose requirements for disclosures, approvals, conditions, or limitations as it deems necessary to protect the integrity of controlled gambling.

Section 19984, subdivision (c), provides the Department the authority, pursuant to Commission regulations, to perform background checks, financial audits, and other investigatory services as needed to assist the Commission in regulating TPPPS.

## **PURPOSE OF THE PROPOSED REGULATIONS:**

This proposed action has been drafted to establish transaction reporting, review and approval procedures, as well as procedures for the enforcement of security interests. These regulations provide clear direction by adopting currently established practices and procedures for the review of documentation, and ensure clarity and uniformity.

# ***DRAFT***

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

## **ANTICIPATED BENEFITS OF THE PROPOSED REGULATIONS:**

These proposed regulations would have the benefit of providing specific procedures to be followed when approving transactions and the enforcement of security interests and would have the benefit of establishing transaction reporting procedures to monitor a licensee's compliance with the Act. The specified procedures will assure the public that only those who have Commission approval will 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.

## **PROPOSED ACTION:**

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

### **CHAPTER 1. GENERAL PROVISIONS.**

#### **ARTICLE 1. DEFINITIONS AND GENERAL PROCEDURES.**

##### *Amend Section 12002. Definitions.*

- 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 breaking down the different categories of relationship or control. The amended subsection (d) specifies that “affiliate” includes, but is not limited to, the following:
  - (1) A director, officer, general partner, managing member or controlling person of any business where the specified person has an ownership interest.
  - (2) A spouse or registered domestic partner of the specified person.
  - (3) 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.
  - (4) Any trust or other 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 in a similar fiduciary capacity.
  - (5) Any businesses 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.

# **DRAFT**

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

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 a secondary 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.

- Subsection (y) – The term “specified person” would mean any natural person with ownership interest in a gambling enterprise, TPPPS company, or gambling business. The definition would exempt any person that has less than a 10 percent ownership interest and is not otherwise required to be licensed.
- The current subsections (d) through and including (aa) will also be renumbered as (e) through and including (ab), 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 2 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 2 of Chapter 5, and would therefore be repealed as unnecessarily duplicative.

# ***DRAFT***

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

## **CHAPTER 5. ACCOUNTING AND TRANSACTION APPROVALS.**

### **ARTICLE 1. ACCOUNTING AND FINANCIAL REPORTING.**

#### *Amend Section 12311. Definitions.*

To provide consistency and specificity in terminology, Section 12311 is amended to include terms used throughout Chapter 5. The meaning of the words and terms used in this chapter may not be consistent with the meaning of similar words or terms used in other existing regulations. As a result, 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 to this chapter. The following amendments to subsection (b) are proposed:

- Add a new paragraph (1) which would define “Enforcement of a security interest” to mean the transfer of possession, ownership or title pursuant to a security interest.
- The current paragraphs (1) through (6) would be renumbered as paragraphs (2) through (7).
- Add a new paragraph (8) which would define “Security interest” to mean an interest in property that secures the payment or performance of an obligation or a judgment.

### **ARTICLE 2. APPROVAL OF TRANSACTIONS.**

Establishing Article 2 in Chapter 5, Accounting and Transaction Provisions, would organize and consolidate the transaction provisions for gambling enterprises, TPPPS, and gambling businesses.

#### *Adopt Section 12320. General Provisions.*

Section 12320 would establish general provisions in Article 2, that would provide a written documentation threshold, specify transactions required to be approved, and enumerate those parties generally excluded from licensure as a condition of transaction approval. Section 12320 would also apply these transaction requirements, as appropriate, to gambling enterprises, TPPPS, and gambling businesses.

- Subsection (a) – This subsection would provide that the term “transaction” refers, as applicable, to contracts, agreements, and any other business activities in which goods, services, or monies are exchanged. 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 and clarity.
- Subsection (b) – This subsection 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.

# ***DRAFT***

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

- Subsection (c) – This subsection would require that any individual transaction or series of transactions with the same party in an amount greater than or equal to \$2000 must be evidenced by a writing and maintained by the licensee. This provision would allow the Bureau to have a paper trail 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. This subsection would provide examples of acceptable documentation for clarity. Finally, this provision would exempt individual patron chip transactions from this documentation as unnecessary since other regulations require the documentation of chip balances.
- Subsection (d) – This subsection would list the licensee transactions that require prior approval by the Commission in accordance with the Act and current practice. It is necessary to consolidate multiple provisions of the Act and current practice into the paragraphs of this subsection in order to provide clear and simple compliance requirements and to apply the requirements, when appropriate, to TPPPS and gambling businesses. The prior approval of these transactions is also necessary to not only comply with the Act, but also to allow the Commission and the Bureau to be aware of and monitor transactions creating obligations with others directly connected with gambling activities.
- Subsection (d), paragraph (1) – 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 would require prior approval. 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.
- Subsection (d), paragraph (2) – The sale, assignment, transfer, pledge, or other disposition of an option to purchase any ownership interest in a gambling enterprise, TPPPS or gambling business would require prior approval. Business and Professions code section 19892 provides that the grant of an option to purchase the interest is void unless approved in advance by the Commission.
- Subsection (d), paragraph (3) – Prior Commission approval is required before security interests are enforced pursuant to subdivision (a) of Business and Profession Code section 19900. The Commission would approve the security interest enforcement provisions when approving the transaction.
- Subsection (d), paragraph (4) – Prior Commission approval is required when the Commission requires a purchaser or lessee of property associated with the gambling property to be licensed in accordance with section 19853. This provision is in accordance with Business and Professions Code section 19902.
- Subsection (d), paragraph (5) – Prior Commission approval is required when a licensee enters into an agreement with an individual(s) to obtain either a secured or unsecured

# **DRAFT**

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

loan and the agreement includes the right to purchase interest in a new entity to be formed to own a gambling enterprise, TPPPS or gambling business. This is in accordance with Business and Professions Code section 19901.

- Subsection (d), paragraph (6) – Prior Commission approval is required when a licensee enters into a 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. This would allow the Commission to monitor transactions with those persons deemed by the Act to be inappropriate to participate directly in gambling activities.
- Subsection (d), paragraph (7) – Prior Commission approval is required when a licensee employs a person who has been denied a Commission license unless the Commission has permitted employment under a work permit issued by the local jurisdiction, 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. 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.
- Subsection (d), paragraph (8) – Prior Commission approval is required when a trust or other estate is created that permits a person to take part in the operation of a gambling business, TPPPS, or gambling enterprise, or that provides payment to a person from the profits of a gambling business, TPPPS, or gambling enterprise. This would allow the Commission to ensure that all persons involved or potentially involved in the operation of, or receiving profits from, a gambling business, TPPPS, or gambling enterprise is properly licensed in accordance with GCA §19850.
- Subsection (e) – This subsection 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, 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.

## *Adopt Section 12321. Required Terms.*

Section 12321 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 and

# **DRAFT**

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

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.

- Subsection (a) – This subsection would require all parties to a transaction to be advised of the Act, the Commission and the 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.
- Subsection (b) – In accordance with Business and Professions Code section 19902, transactions to sell or lease property cannot specify a closing date that is prior to the approval of the transaction when the Commission requires the purchaser or lessee to be approved or licensed pursuant to section 19853.
- Subsection (c) – In accordance with Business and Professions Code section 19903, transactions to sell or lease property must contain a provision for the payment of any fees for any subsequent deficiency determination when the Commission requires the purchaser or lessee to be approved or licensed pursuant to section 19853.
- Subsection (d) – 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.
- Subsection (e) – 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 yet unlicensed must be placed in an escrow account. 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.
- Subsection (f) – Sets forth the legend that must appear 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.

### Adopt Section 12322. Required License or Registration Maintenance.

Section 12322 would require all licenses and registrations to remain current during a sale or ownership transfer, and would allow a former owner to be endorsed on the purchaser's or transferee's license.

- Subsection (a) would require all licensees and registrations to continue to be renewed during the approval period of a transaction. This provision is necessary to ensure that at

# **DRAFT**

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

all times the entity remains licensed or registered, and that a responsible person is licensed or registered during the approval process.

- 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 as current regulations do not address this issue, and this provision would 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 12323. Processing Requests for Transaction Approval.

Section 12323 would set forth the requirements for submission of a request for formal approval of a transaction.

- Subsection (a) would require that a processing fee of \$1000 accompany the request for a formal transaction review and approval. This fee is necessary to fund the processing of the request and is set in the same amount as the fee to process an owner-licensee application.
- Subsection (b) would require a cover letter with a summary of the transaction. This cover letter is necessary for the Bureau to clearly understand the transaction and to aid in the processing and investigation of the transaction.
- Subsection (c) would require that a copy of all final transaction documents and any supporting documents be included with the request in order for the Bureau and Commission to fully review the transaction for approval. These documents are necessary to ensure that the provisions that are required by Section 12321 are included, as applicable, and that the final transaction is in compliance with the Act and the regulations of the Commission and Bureau.
- Subsection (d) would require the inclusion of documents showing the sources of all money used to fund a lending activity for persons lending funds that are not institutional investors. This is necessary for the Bureau to confirm that the funding is adequately supported through legitimate means.
- Subsection (e) would require that the appropriate license or registration application be submitted with the request for transaction approval for each party that requires licensure or registration. If a party requires licensure or registration to participate in the transaction, it is necessary to include the appropriate application so that both the transaction and the license/registration application can be processed and approved simultaneously.

# ***DRAFT***

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

## *Adopt Section 12324. Transaction Formal Approval Processing Times.*

Section 12324 would establish the submission and processing times for a request for formal approval of a transaction.

- Subsection (a) would set forth the submission timelines for a formal approval request.
  - Paragraph (1) would specify that, when any party to the transaction requires licensure or registration, the request for formal approval shall be submitted with the required license or registration applications. This is necessary to confirm that all parties requiring licensure/registration are appropriate to participate in controlled gambling when approving a transaction. The most efficient means to license/register the parties and approve the transaction is to perform the approvals for each concurrently. Therefore, it is necessary for the timeline to approve a transaction follow the same processing timeline as the applicable license or registration application.
  - Paragraph (2) would specify that, if all parties to the transaction are either currently licensed or registered or do not require licensure or registration, the licensee shall submit the request for formal approval at least 150 days prior to transaction's proposed closing date. This time period is necessary to allow the Bureau to review and investigate the transaction and for the Commission to place the matter on a noticed Commission meeting agenda.
- Subsection (b) would set forth the processing timelines for a transaction formal approval request.
  - Paragraph (1) would provide that the Bureau shall notify the licensee in writing within 30 days after the request has been assigned 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.
  - Paragraph (3) would specify that a request for formal approval of a transaction is complete when the Bureau is in receipt of all required documents and fees. This provision establishes the point in time that an application is considered complete. Further, it requires the Bureau to process the application using the corresponding timelines associated with applications submitted pursuant to Sections 12203, 12223, or 12342, as applicable. It is necessary that the transaction be reviewed concurrently with the licensing or registration application to determine if all parties are eligible to

# **DRAFT**

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

- participate in a transaction connected with controlled gambling. The licensing timeline would also provide the Bureau additional time to review the transaction.
- Paragraph (4) would provide that the Bureau may include a recommendation pursuant to subdivision (a) of Business and Professions Code section 19826. This provision is necessary to clearly state what information is optional for the Bureau to provide to the Commission upon the conclusion of the investigation.
  - Subsection (c) would provide that the Commission shall consider the transaction and any licensure or registration applications once the Bureau's background reports, when required, have been received. This provision is necessary to clearly state the Commission's portion of the processing timeline.

### Adopt Section 12325. Transaction Amendments or Subsequent Assignments.

Section 12325 would establish requirements and procedures for any amendments or subsequent assignments to a previously approved transaction.

- Subsection (a) would require that any substantive amendment to an approved transaction or any subsequent assignment of an approved transaction shall require compliance with this article, notice to the Bureau, and formal approval by the Commission, as applicable, as if it were a new transaction. This is necessary to evaluate the substantive amendments or new parties in light of the transaction as a whole. This subsection places with the Bureau the authority to determine what is substantive and what is non-substantive.
- Subsection (b) provides when an amendment would be considered substantive. Should the Bureau determine that an amendment is substantive, it would require prior approval by the Commission as if it were a new transaction.
- Subsection (c) would provide that terms in a renewed transaction that are substantially similar to those in the previously approved transaction, or transactions required by law, will be considered non-substantive. This is necessary to allow licensees to continue to conduct business and to minimize the workload on the Bureau when a transaction is an annually renewed transaction or a transaction required by law.

### Adopt Section 12326. Notice and Reporting of Transactions.

Section 12326 would establish a report 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.

- Subsection (a) would require that all transactions, or series of transactions entered into with the same party, with an aggregate value of \$25,000 or more within a licensee's fiscal year shall be reported within 30 days after the end of the calendar quarter in which the transaction is consummated. A transaction is considered consummated the earlier of the contract date or the date the cash, property, credit, guaranty, benefit, or security is

# ***DRAFT***

DESCRIPTION OF PROPOSED REGULATORY ACTION  
APPROVAL OF TRANSACTIONS  
CGCC-GCA-2016-0#-R

received. This threshold would provide a means to review a licensee's business transactions at a level deemed to be appropriate to balance both the need to regulate transactions for inappropriate activity and minimize the burden upon the licensee. Finally, this provision also creates a minimum procedure for licensees to exercise effective control over their internal fiscal affairs in accordance with Business and Professions Code section 19841. This subsection would also exclude individual patron chip transactions, extensions of credit, and check cashing, unless otherwise provided in statute or regulation.

- Subsection (b) would list the information to be provided in the report for each transaction and require any applicable independent contractor transactions to be included. This subsection would also list the disclosures to be included in the report, including the affiliation of any person listed on the report to the licensee, any known joint ownership between the persons listed on the report and the licensee, and the identification of any employee performing services beyond those reasonably related to the employee's position or classification. These disclosures are necessary to monitor activities connected with controlled gambling that create the greatest risk of corruptive elements.
- Subsection (c) would require a licensee to submit a payroll report concurrently with the licensee's annual financial reports required by Section 12313. The payroll report shall list all employees by name, position or classification, and total annual earnings. For this purpose, total annual earnings would be the wages, tips, and all other compensation reported on the employee's Internal Revenue Service Form W-2 Wage and Tax Statement or the independent contractor's 1099-MISC. This payroll report is necessary to create a comprehensive list that would allow the Bureau to be aware of all persons working for a licensee, even those not in positions requiring a work permit, license, or registration.
- Subsection (d) would provide that the Bureau shall review the documents submitted under this section for compliance with the Act and any conditions applicable to the licensee.
- Subsection (e) would allow the Bureau to direct the licensee to follow the formal approval process set forth in Section 12323, if the Bureau believes that formal approval by the Commission is necessary. This subsection also provides that the Bureau shall make its determination on an individual case-by-case basis.
- Subsection (f) would require a gambling enterprise, TPPPS company, or gambling business to provide a summary of the noticed transactions to the Bureau with the licensee's application for renewal. The Bureau must then provide a summary of the noticed transactions to the Commission with the licensee's application for renewal. This is necessary to ensure that the Commission has all relevant information to enable it to make an informed decision regarding renewal of the license.