

CALIFORNIA HORSE RACING BOARD  
1010 HURLEY WAY, SUITE 300  
SACRAMENTO, CA 95825  
(916) 263-6000  
FAX (916) 263-6042



## EXCHANGE WAGERING AD HOC COMMITTEE MEETING

of the California Horse Racing Board will be held on Thursday, February 9, 2012, commencing at 9:30 a.m., in the Baldwin Terrace Room at the Santa Anita Park Race Track, 285 West Huntington Drive, Arcadia, California. Non-committee Board members attending the committee meeting may not participate in the public discussion, official committee vote or committee closed session. The audio portion only of the California Horse Racing Board regular meeting will be available online through a link at the CHRB website ([www.chrb.ca.gov](http://www.chrb.ca.gov)) under "Webcasts."

### AGENDA

1. Opening remarks from Commissioner Israel.
2. Discussion and presentations from California racing industry representatives on exchange wagering and the proposed rules regulating exchange wagering in California.

#### ADVANCE DEPOSIT WAGERING PROVIDERS

- BetFair/TVG
- TwinSpires

#### RACING ASSOCIATIONS

- Stronach Group (Santa Anita, Golden Gate Fields and Xpressbet)
- Del Mar Thoroughbred Club

#### HORSEMEN'S ORGANIZATIONS

- California Thoroughbred Trainers (CTT)
- California Thoroughbred Horsemen's Association (CTHA)

#### BETTING EXCHANGE PROVIDER

- Global Betting Exchange

#### OTHER PERSPECTIVES

- CHRIMS
  - Jockeys' Guild
  - Horseplayer's Association of North America (HANA)
3. Discussion and action by the committee regarding the proposed addition of Article 27, Exchange Wagering and the proposed CHRB Rules governing exchange wagering in California.
  4. Discussion and presentation from CHRB enforcement and audit staff regarding enforcement plans for monitoring exchange wagering in California.
  5. **Public Comment:** The committee affords an opportunity to members of the public to address the committee on items of interest that are within the committee's jurisdiction.

Additional information regarding this meeting may be obtained from Jacqueline Wagner at the CHRB Administrative Office, 1010 Hurley Way, Suite 300, Sacramento, CA 95825; telephone (916) 263-6000; fax (916) 263-6042. A copy of this agenda can be located on the CHRB website at [www.chrb.ca.gov](http://www.chrb.ca.gov). \*Information for requesting disability related accommodation for persons with a disability who require aids or services in order to participate in this public meeting, should contact Jacqueline Wagner.

#### EXCHANGE WAGERING AD HOC COMMITTEE

Commissioner David Israel  
Commissioner Richard Rosenberg  
Kirk E. Breed, Executive Director

CALIFORNIA HORSE RACING BOARD

FEBRUARY 9, 2012  
EXCHANGE WAGERING  
AD HOC COMMITTEE MEETING

There is no board package material for Item 1

CALIFORNIA HORSE RACING BOARD

FEBRUARY 9, 2012  
EXCHANGE WAGERING  
AD HOC COMMITTEE MEETING

There is no board package material for Item 2

STAFF ANALYSIS  
DISCUSSION AND ACTION BY THE COMMITTEE REGARDING  
THE PROPOSED ADDITION OF ARTICLE 27, EXCHANGE WAGERING  
AND THE PROPOSED CHRB RULES GOVERNING  
EXCHANGE WAGERING IN CALIFORNIA

Ad Hoc Exchange Wagering Committee Meeting  
February 9, 2012

## BACKGROUND

Senate Bill (SB) 1072, Chapter 283, Statutes of 2010, added Business and Professions code section 19604.5 to provide that the Board has full power to prescribe rules, regulations and conditions under which exchange wagering may be conducted in California. Exchange wagering is a relatively new form of wagering which was introduced in the United Kingdom in 2000. Exchange wagering uses a "stock market model" to operate sports wagering. Exchange wagering account holders may buy and sell, or "back" and "lay" the outcome of horse races in a manner much like day trading on a stock exchange. Business and Professions Code section 19604.5(a)(7) defines exchange wagering as a form of pari-mutuel wagering in which two or more persons place identically opposing wagers in a given market.

Business and Professions Code section 19604.5(e)(2) provides that prior to the Board promulgating rules, regulations and conditions under which exchange wagering may be conducted in California, it shall consider studies or comments submitted by interested parties on the impact of exchange wagering on pari-mutuel wagering and the economics of the California horse racing industry. On August 2, 2011, the Board published a notice of intent to promulgate exchange wagering rules. The notice solicited written comments and studies concerning the impact of exchange wagering, and advised that all written materials would be used to develop rules and regulations that are in the best interest of the public and the California horse racing industry. The 45-day public notice period closed on September 26, 2011. Substantive comments were received from TVG-Betfair (TVG); Christensen Capital Advisors LLC; Global Betting Exchange; Los Angeles Turf Club/Pacific Racing Association (LATC/PRA); Churchill Downs Incorporated; Thoroughbred Owners of California (TOC); California Thoroughbred Horsemen's Foundation; and CHRIMS, Inc. Several individuals also wrote to express opinions regarding exchange wagering. TVG, Christensen Capital Advisors LLC, Global Betting Exchange, and CHRIMS, Inc. offered positive comments and suggested exchange wagering regulations. LATC/PRA, Churchill Downs Incorporated and TOC questioned whether exchange wagering would benefit California horse racing. All comments were taken into consideration and used in drafting the proposed exchange wagering regulations that constitute the proposed addition of article 27, Exchange Wagering.

## ANALYSIS

Article 27, Exchange Wagering, is comprised of 26 proposed regulations governing the conduct of exchange wagering in California. The proposed regulations are:

Rule 2086, Definitions, provides definitions of exchange wagering terms used in Article 27.

Rule 2086.5, Application for License to Operate Exchange Wagering, requires the exchange wagering applicant to submit an application for consideration of approval to operate as a California exchange wagering provider.

Rule 2086.6, Operating Plan Required, requires that an exchange wagering applicant submit an operating plan detailing its proposed method of operation as an exchange with any application for a new or renewal license.

Rule 2086.7, Exchange Wagering Data, requires the exchange operator to enter into an agreement with the nonprofit horse racing data base for the purposes of pari-mutuel accounting and analysis of data related to exchange wagering.

Rule 2086.8, Monitoring Systems and Notification, provides that the exchange provider will furnish full access to its monitoring system and that the provider shall automatically notify the Board of any wagering anomalies and agreed upon thresholds. The rule also requires the provider to establish and distribute criteria for anti-money laundering procedures and thresholds.

Rule 2086.9, Financial and Security Integrity Audits Required, requires that the exchange provider undergo specified yearly audits, which shall be submitted to the Board as required.

Rule 2087, Suspending Markets, describes the circumstances under which an exchange provider may suspend markets and states requirements for notification of the Board when a market is suspended. The rule also requires the exchange provider to settle the market as appropriate after the conclusion of an investigation.

Rule 2087.5, Antepost Market, states what constitutes an antepost market.

Rule 2087.6, Cancellation of Matched Wagers, sets the conditions in which a matched wager may be cancelled or voided by an exchange provider, and requires notification of the Board, as specified.

Rule 2088, Declared Entries, requires the exchange provider to void matched wagers on declared entries, except in an antepost market.

Rule 2088.5, Correcting Matched Wager Errors, states that an exchange provider assumes liability for matched wager errors, must correct such matched wagers; as well as what constitutes an improperly placed matched wager.

Rule 2088.6, Cancellation of Unmatched Wagers, allows cancellation of an unmatched wager by the exchange provider.

Rule 2089, Errors in Payments of Exchange Wagers, sets the procedures for the exchange provider to remedy errors in payment of exchange wagers.

Rule 2089.5, Requirements to Establish an Exchange Wagering Account, states what is necessary for a person to establish an exchange wagering account. The regulation also requires the exchange provider to comply with Internal Revenue Service reporting requirements, and requires the recording and retention of specified transactions and conversations.

Rule 2089.6, Deposits to an Exchange Wagering Account, describes how deposits may be made to an exchange wagering account and the conditions relating to those deposits.

Rule 2090, Posting Credits for Winnings from Exchange Wagers, sets basic requirements for the posting of credits for winnings from matched wagers.

Rule 2090.5, Debits to an Exchange Wagering Account, provides instruction for the debiting of exchange wagering accounts.

Rule 2090.6, Withdrawals by Account Holder, describes how withdrawals from exchange wagering accounts will be completed by an account holder.

Rule 2091, Closing an Inactive Exchange Wagering Account, provides for the closing of inactive accounts and the return of any remaining funds to the account holder.

Rule 2091.5, Suspending an Exchange Wagering Account, states the circumstances under which an account may be suspended and requirements for notifying the Board when an account is suspended.

Rule 2091.6, Powers of the Board to Review and Audit Records, describes the Board's authority to access records and financial information of exchange wagering providers.

Rule 2092, Distribution of Exchange Revenues, requires exchange providers to enter into certain agreements prior to accepting exchange wagers and provides for the distribution of revenue from such wagers in accordance with the agreements.

Rule 2092.5, Exchange Wagers Placed After the Start of a Race, provides the requirements for placing exchange wagers after a race has begun, including required approvals for such wagering to take place. The rule also states wagering after the conclusion of a race, or on a previously run race, is prohibited.

Rule, 2092.6, Prohibitions on Wagers to Lay a Horse to Lose, prohibits certain classes of licensee from placing wagers to lay a horse to lose, prohibits others from making such wagers on behalf of such licensees, and provides that only the owner of an account may use his account to place such a wager.

Rule 2092.7, Suspension of Occupational License, provides that the Board may suspend the license of any person if it determines there is good cause to believe such person may have committed acts of fraud in connection with exchange wagering.

Rule 2093, Certain Practices Related to Exchange Wagering, as required under Business and Professions Code section 19604.5(e)(3)(A), describes actions an exchange provider may or must take in relation to an account holder and the displaying of exchange wagers.

#### RECOMMENDATION

This item is presented for Ad Hoc Committee discussion and action.



ARTICLE 27. EXCHANGE WAGERING.  
PROPOSED REGULATIONS

Exchange Wagering Ad Hoc Committee Meeting  
February 9, 2012

RULE

2086. Definitions

2086.5. Application for License to Operate Exchange Wagering

2086.6. Operating Plan Required

2086.7. Exchange Wagering Data

2086.8. Monitoring Systems and Notification

2086.9. Financial and Security Integrity Audits Required

2087. Suspending Markets

2087.5 Antepost Market

2087.6. Cancellation of Matched Wagers

2088. Declared Entries

2088.5. Correcting Matched Wager Errors

2088.6. Cancellation of Unmatched Wagers

2089. Errors in Payments of Exchange Wagers

2089.5. Requirements to Establish an Exchange Wagering Account

2089.6. Deposits to an Exchange Wagering Account

2090. Posting Credits for Winnings from Exchange Wagers

2090.5. Debits to an Exchange Wagering Account

2090.6. Withdrawals by Account Holder

2091. Closing an Inactive Exchange Wagering Account

2091.5. Suspending an Exchange Wagering Account

2091.6. Powers of the Board to Review and Audit Records

2092. Distribution of Exchange Revenues

2092.5. Exchange Wagers Placed After the Start of a Race

2092.6. Prohibitions on Wagers to Lay a Horse to Lose

2092.7. Suspension of Occupational License

2093. Certain Practices Related to Exchange Wagering

CALIFORNIA HORSE RACING BOARD  
TITLE 4. CALIFORNIA CODE OF REGULATIONS  
ARTICLE 27. EXCHANGE WAGERING  
PROPOSED ADDITION OF  
RULE 2086. DEFINITIONS

Exchange Wagering Ad Hoc Committee Meeting  
February 9, 2012

2086. Definitions

As used in this article:

- (a) “Back” means to wager on a selected outcome occurring in a given market.
- (b) “Confidential information” means the following:
- (1) the amount of money credited to, debited from, or present in any particular account holder's exchange wagering account;
  - (2) the amount of money wagered by a particular account holder on any races or series of races;
  - (3) the exchange wagering account number and personal identification number of an account holder;
  - (4) the identities of particular entries on which the account holder is wagering or has wagered; and
  - (5) unless otherwise authorized by the account holder, the name, address, and all other information in possession of the exchange provider that would identify the account holder to anyone other than the Board or the exchange provider.

(c) “Corrective wager” means an exchange wager placed by the exchange provider in a given market, under circumstances approved by the Board, to address the impact on that market of the cancellation or voiding of a given matched wager or a given part of a matched wager.

(d) “Credits” means all positive inflow of money to an exchange wagering account.

(e) “Debits” means all negative outflow of money from an exchange wagering account related to a wager placed from such account.

(f) “Declared Entry” means a horse withdrawn from a race in which its entry has been accepted.

(g) “Deposit” means a credit of money to an exchange wagering account from an account holder.

(h) “Exchange” means a system operated by an exchange provider in which the provider maintains one or more markets in which account holders may back or lay a selected outcome.

(i) “Exchange revenues” means all charges, fees, income, payments, revenues, and deductions of any kind assessed or collected by, or paid or delivered to, an exchange provider in connection with the submission of any exchange wagers to the exchange provider by account holders.

(j) “Exchange wagers” means wagers submitted to an exchange provider to be posted in a market on an exchange.

(k) “Exchange wagering” means a form of pari-mutuel wagering in which two or more persons place identically opposing wagers in a given market, as provided under Business and Professions Code section 19604.5.

(l) “Exchange wagering account,” “account” means the account established with an exchange provider by a natural person participating in exchange wagering. An account may only be established or maintained with an exchange provider by a natural person.

(m) “Exchange wagering agreement,” “agreement” means a written agreement by and among the applicable exchange provider, the applicable racing association or racing fair conducting live racing in this state, and the horsemen’s organization responsible for negotiating purse agreements for the breed on which exchange wagers are accepted, provided that the terms and conditions for the permitted use of signal by the exchange provider, and the compensation to the applicable racing association or racing fair and the horsemen’s organization, include provisions for, but are not limited to all of the following:

(1) Calculation of any and all amounts earned and payable to the applicable racing association or racing fair and horsemen’s organization.

(2) Audit rights and conditions.

(3) Duration terms.

(4) Contractual remedies.

(n) “Exchange wagering license applicant,” “applicant” means any entity including, but not limited to, corporations, partnerships, limited liability companies, limited

partnerships, or individuals that file an application with the Board to conduct exchange wagering.

(o) “Exchange wagering license application” means the application form CHRB 229 (New 2/12), Application for License to Operate Exchange Wagering.

(p) “Exchange wagering licensee,” “exchange provider” means a person located within or outside of California that is authorized to offer exchange wagering to residents of California pursuant to Business and Professions Code section 19604.5 and this article.

(q) “Identically opposing wagers” means wagers in which one or more persons offer to lay a selected outcome at the same price at which one or more persons offer to back that same outcome, with the amount subject to the lay being proportionately commensurate to the amount subject to the back.

(r) “Lay” means to wager on a selected outcome not occurring in a given market.

(s) “Market” means, in relation to a given horse race or a given set of horse races, a particular outcome that is subject to exchange wagering as determined by an exchange provider.

(t) “Matched wager” means the wager that is formed when two or more persons are confirmed by the exchange provider as having placed identically opposing wagers in a given market on the exchange.

(u) “Means of personal identification” means the unique number, code, or other secure technology designated by an exchange wagering account holder to assure that only that account holder has access to his account.

(v) “Natural person” means a living, breathing human being, as opposed to a legal entity.

(w) “Net winnings” means the aggregate amounts payable to a person as a result of that person’s winning matched wagers in a pool less the aggregate amount paid by that person as a result of that person’s losing matched wagers in that pool.

(x) “Operating plan” means the plan submitted to the Board by an exchange provider detailing the proposed method of operation of the exchange.

(y) “Other electronic media” means any electronic communication device or combination of devices including, but not limited to, personal computers, the Internet, private networks, interactive television and wireless communication technologies, or other technologies approved by the Board.

(z) “Person” means any individual, partnership, corporation, limited liability company, or other association or organization.

(aa) “Pool” means the total of all matched wagers in a given market.

(bb) “Price” means the odds for a given exchange wager.

(cc) “Unmatched wager” means a wager or portion of a wager placed in a given market within an exchange that does not become part of a matched wager because there are not one or more available exchange wagers in that market with which to form one or more identically opposing wagers.

(dd) “Withdrawal” means a payment from an exchange wagering account by the exchange provider to an account holder.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5(a),  
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD  
TITLE 4. CALIFORNIA CODE OF REGULATIONS  
ARTICLE 27. EXCHANGE WAGERING  
PROPOSED ADDITION OF  
RULE 2086.5. APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING

Exchange Wagering Ad Hoc Committee Meeting  
February 9, 2012

2086.5. Application for License to Operate Exchange Wagering.

(a) Prior to any exchange wagers being accepted, the applicant for license to operate exchange wagering must obtain a license from the Board.

(b) An applicant must complete CHRB form 229 (New 02/12) Application for License to Operate Exchange Wagering, hereby incorporated by reference, which shall be available at the Board's headquarters office. The application must be filed not later than 90 days in advance of the scheduled start of operation. A certified check in the amount of \$1,400,000 payable to the California Horse Racing Board, or an amount to be determined by the Board to fulfill Business and Professions Code section 19604.5(e)(6), a detailed operating plan as described under Rule 2086.6, Operating Plan Required, and proof of the applicant's compliance with labor provisions of Business and Professions Code section 19604.5(f), must accompany the application.

(c) The term of the exchange wagering License shall be not more than 2 years from the date the exchange wagering license is issued, unless otherwise determined by the Board.

(d) The Board shall notify the applicant in writing within 30 calendar days from the receipt date if the application is deficient. No later than 90 calendar days following the receipt of the application, the Board shall make a final determination on the application. The Board may approve the application if, after reasonable investigation and inspection, as it deems appropriate, it determines that the applicant has demonstrated that exchange wagers placed through the exchange will be accurately processed and that there will be sufficient safeguards to maintain the



integrity of the horse racing industry in this state. If the Board denies an application, the applicant has 30 calendar days, from the receipt of the Board's denial notification, to request a reconsideration of the Board's decision. The request must be in writing and sent to the Board's headquarters office. The Board shall respond in writing to the reconsideration request within 30 working days from the receipt date of the request. If reconsideration is denied, the applicant may file for judicial review in accordance with Government Code section 11523.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.  
Section 11523, Government Code.

STATE OF CALIFORNIA  
CALIFORNIA HORSE RACING BOARD (CHRB)  
APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING  
CHRB-229 (New 2/12)

Application is hereby made to the California Horse Racing Board (CHRB) for approval to conduct exchange wagering in accordance with the California Business and Professions Code section 19604.5, Chapter 4, Division 8, Horse Racing Law, and the California Code of Regulations, Title 4, Division 4, CHRB Rules and Regulations.

Application must be filed not later than 90 days in advance of the date scheduled to conduct exchange wagering.

The applicant must supply complete responses. The information is to be provided as of the date of this application unless otherwise specified. The applicant may refer to an exhibit/attachment in response to a question; however, you must specify the page number and line in which the text is responsive.

NOTICE – By submitting the application the applicant consents to the jurisdiction of California courts and the application of California law as to all California wagers and operations.

No application for a license to operate exchange wagering shall be granted unless the applicant has deposited with the Board a certified check in the amount of \$1,400,000 payable to the California Horse Racing Board, or an amount to be determined by the Board to fulfill Business and Professions Code section 19604.5 (e)(6), which provides that the Board may recover any costs associated with the licensing or regulation of exchange wagering from the exchange wagering licensee by imposing an assessment on the exchange wagering licensee in an amount that does not exceed the reasonable costs associated with the licensing or regulation of exchange wagering. Funds received pursuant to this subdivision shall be deposited in the Horse Racing Fund, to be available upon appropriation by the Legislature for the sole purpose of regulating exchange wagering.

1. APPLICANT INFORMATION

Company name:

Facility address:

City:

State:

Zip Code:

Phone:

Fax:

Website:

County:

**CHRB CERTIFICATION**

Application received:

Hearing date

Cashier check received:

Approved date:

Reviewed:

License number:

**2. CONTACT PERSON (authorized representative)**

Name and title of contact: \_\_\_\_\_

Business name and address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_ County: \_\_\_\_\_

Email address: \_\_\_\_\_

**3. CALIFORNIA AGENT FOR RECEIPT OF SERVICE OF PROCESS**

Name and title of contact: \_\_\_\_\_

Business name and address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_ County: \_\_\_\_\_

Email address: \_\_\_\_\_

**4. MANAGEMENT PERSONNEL**

**NOTICE TO APPLICANT:** All management personnel responsible for the California operations must be CHRB licensed. Business and Professions Code section 19604.5 (e) (5) provides the Board may reasonably require licensure or registration of officers or directors of any exchange wagering licensee.

List name, title, email address, phone and license number for all management personnel directly involved in management of exchange wagering. Identify which management staff is responsible for California operations:

<u>Name and title</u>	<u>Email address</u>	<u>Phone</u>	<u>License No.</u>	<u>Responsible for California Operations</u>
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No

**5. DATE OF OPERATION**

**NOTICE TO APPLICANT:** CHRB Rule 2086.5 provides the term of the exchange wagering license shall not be more than two years from the date the exchange wagering license is issued, unless otherwise determined by the Board.

A. Dates applicant is proposing to conduct exchange wagering:  
Beginning date: \_\_\_\_\_ Ending date: \_\_\_\_\_

B. Dates exchange wagering will not be conducted:

C. Indicate the days and hours exchange wagering will be conducted below:

<u>Days:</u>	<u>Hours:</u>
<u>Sunday</u>	
<u>Monday</u>	
<u>Tuesday</u>	
<u>Wednesday</u>	
<u>Thursday</u>	
<u>Friday</u>	
<u>Saturday</u>	

6. BUSINESS STRUCTUREA. Identify your business structure (below):

- Corporation (complete subsection B and E)  
 LLC (complete subsection C and E)  
 Other (Specify and complete subsection D and E)

B. CORPORATION

1. Registered name of the corporation:
2. State and/or country where incorporated:
3. Registry or file number for the corporation:
4. Names of all officers and directors, titles, and the number of shares of the corporation held by each:
5. Names (true names) of all persons, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each:
6. Number of outstanding shares in the corporation:
7. Are the shares listed for public trading?     Yes     No  
If yes, on what exchange and how is the stock listed:
8. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation:
9. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:

A. Is parent and/or paired corporation or entity a publically traded or privately held company that guarantees the obligation of the applicant? If no, proceed to section E.

If yes, answer questions 10-17.       Yes       No

10. Registered name of the corporation:

11. State and/or country where incorporated:

12. Registry or file number for the corporation:

13. Names of all officers and directors, titles, and the number of shares of the corporation held by each:

14. Names (true names) of all persons, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each:

15. Number of outstanding shares in the corporation:

16. Are the shares listed for public trading?       Yes       No

17. If yes, on what exchange and how is the stock listed:

18. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation:

19. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

### C. LLC

1. Registered name of the LLC:

2. State and/or country where articles of organization are filed:

3. Registry or file number for the LLC:

4. Attach a list of the names of all members (including individuals (true names), corporations, other LLCs and or foreign entities), titles, and the number of shares of the LLC held by each:

5. Are the shares listed for public trading?       Yes       No  
If yes, on what exchange and how is the stock listed:

6. If more than 50% of the shares are held by a parent corporation or are paired with any

other corporation or entity, give the name of the parent and/or paired corporation or entity:

A. Is parent and/or paired entity either a publically traded or privately held company that guarantees the obligation of the applicant? If no, proceed to section E. If yes, answer questions 7-13

Yes       No

7. Registered name of the LLC/Corporation:
8. State and/or country where articles of organization are filed:
9. Registry or file number for the LLC:
10. Attach a list of the names (true names) of all members (members may include individuals, corporations other LLCs and foreign entities), titles, and the number of shares of the LLC held by each:
11. Are the shares listed for public trading?  Yes       No
12. If yes, on what exchange and how the stock is listed:
13. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

#### D. OTHER

1. Name(s) of partners/sole proprietor:
2. If a partnership, attach partnership agreement.
3. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

#### E. FINANCIAL INFORMATION \*

1. Attach the most recent audited annual financial statement or financial report for the applicant. Attach a separate audited annual financial statement for the applicants California operations. The financial statement or financial report shall include all relevant financial information specific to the applicant including:
  - Statement of Financial Position: also referred to as a balance sheet. Statement should report on applicant's assets, liabilities, contingent liabilities and ownership equity as of the date of the prepared statement.
  - Statement of Comprehensive Income: also referred to as Profit and Loss ("P&L") Statement. Statement should include report on applicant's income, expenses, and profits.

- Profit and Loss statement for prior two years and Profit and Loss statement for projected year.
  - Statement of Changes in Equity: to include the changes of the applicants' equity through the reporting period.
  - Statement of Cash Flows: to include a report of the applicant's cash flow activity, particularly its operating investing and financing activities during the reporting period.
  - Copy of a report made during the preceding 12 months to shareholders in the corporation and/or the Securities and Exchange Commission and/or the California Corporations Commission.
2. Provide certification from the Chief Financial Officer that the account holders' funds will not be commingled with any other funds pursuant to CHRB rule 2086.6.

\*NOTICE TO APPLICANT: The financial information provided pursuant to subsection (E) above is exempt from disclosure pursuant to Government Code section 6254(k) and non-disclosable to the public.

## 7. ORGANIZATIONAL INFORMATION

- A. Provide a detailed organizational chart for the applicant company and parent company if applicable.
- B. List all jurisdictions inside and outside of the United States in which you offer exchange wagering to patrons.
- C. Does the applicant or parent company hold a financial interest in the following (*mark all that apply*):
- Race track
  - Casino
  - Advance deposit wagering

If you have indicated you have an interest in any of the above identify name and address of business interest.

- D. What contributions is the applicant making to the California horse racing industry?
- E. Has there been any action initiated against the applicant its parent, any of its directors, partners, officers or subsidiary corporation this year, or in the last year, by any court or regulatory agency? If so, please identify the issue.

## 8. TRACK AGREEMENT AND HORSEMEN ORGANIZATION APPROVAL

### EXCHANGE WAGERING LICENSING REQUIREMENTS

Business and Professions Code section 19604.5, identifies specific provisions that must be met before an exchange wagering provider may accept thoroughbred wagers on horse races from persons whose primary residence address is in the northern and central/southern zone of California; and specific requirements for quarter and standardbred wagers accepted from a resident whose primary residence address is in California:

Business and Professions Code section 19604 (b)(4) provides an exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, conducted within or outside of this state, to persons whose primary residence address is in the northern zone of this state if it has an exchange wagering agreement with the racing association/fair located in the northern zone authorized by the Board when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the northern zone of this state, and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

Business and Professions Code section 19604.5 (b)(5) provides an exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, conducted within or outside of this state, to persons whose primary residence address is in the central/southern zone of this state if it has an exchange wagering agreement with the racing association or racing fair located in the central/southern zone authorized by the Board, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the central/southern zone of this state, and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

Business and Professions Code section 19604 (b)(6) provides an exchange wagering licensee may only offer exchange wagering on quarter horse races, conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with the racing association or racing fair located in the state authorized by the Board to conduct a live quarter horse racing meeting, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and the horsemen's organization responsible for negotiating purse agreements for the live quarter horse racing meeting.

Business and Professions Code section 19604 (b)(7) provides an exchange wagering licensee may only offer exchange wagering on standardbred horse races, conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with the racing association or racing fair located in the state authorized by the board to conduct a live standardbred racing meeting, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and the horsemen's organization responsible for negotiating purse agreements for the live standardbred racing meeting.

Business and Professions Code section 19604 (k) provides exchange wagers placed on a market after the start of a race shall be lawful if authorized by the Board, racing association, or racing fair conducting the races, and the horsemen's organization responsible for negotiating purse agreements for the breed on which the exchange wager is made.

Identify the breed of races (8A through 8E) on which exchange wagering will be offered. Attach a copy of each agreement permitting these wagers.

(\* If you do not have the required agreements permitting you to accept wagers in compliance with Business and Professions code section 19604.5, you must attach a letter addressing the status of the outstanding document(s). Please reference section 8 and the title of the outstanding agreement you are addressing. The letter must include the status of negotiations and the outstanding issues that need to be resolved and an estimated completion date for each outstanding agreement.

If the information required in response to 8A through 8E is in one agreement provide a single copy of the document.

- A.  Thoroughbred wagers from persons whose primary residence address is in the



northern zone of California.

1. Do you have an agreement with a racing association or fair that allows you to accept thoroughbred wagers in the northern zone?  Yes  No
  - a. If yes, identify which thoroughbred association or fair the agreement is with and provide a copy: \_\_\_\_\_
  - b. If no, see above instructions (\*).
2. Do you have an agreement with the horsemen's organization that allows you to accept thoroughbred wagers in the northern zone?  Yes  No
  - a. If yes, provide a copy of the agreement.
  - b. If no, see above instructions (\*).

B.  Thoroughbred wagers from persons whose primary residence address is in the central/southern zone of California.

1. Do you have an agreement with a racing association or fair that allows you to accept thoroughbred wagers in the central/southern zone?  Yes  No
  - a. If yes, identify which thoroughbred association or fair the agreement is with and provide a copy: \_\_\_\_\_
  - b. If no, see above instructions (\*).
2. Do you have an agreement with the horsemen's organization that allows you to accept thoroughbred wagers in the central/southern zone?  
 Yes  No
  - a. If yes, provide a copy of the agreement.
  - b. If no, see above instructions (\*).

C.  Quarter wagers from persons whose primary residence address is in California.

1. Do you have an agreement with a racing association or fair that allows you to accept quarter horse wagers in California?  Yes  No
  - a. If yes, identify which quarter association or fair the agreement is with and provide a copy: \_\_\_\_\_
  - b. If no, see above instructions (\*).
2. Do you have an agreement with the horsemen's organization that allows you to accept quarter horse wagers in California?  Yes  No
  - a. If yes, provide a copy of the agreement.
  - b. If no, see above instructions (\*).

D.  Standardbred wagers from persons whose primary residence address is in California.

1. Do you have a contract and/or agreement with a racing association, fair that allows you to accept standardbred wagers in California?  Yes  No

- a. If yes, identify which standardbred association/fair the agreement is with and provide a copy: \_\_\_\_\_
  - b. If no, see above instructions (\*).
2. Do you have an agreement with the horsemen's organization that allows you to accept standardbred horse wagers in California?  Yes  No
    - a. If yes, provide a copy of the agreement.
    - b. If no, see above instructions (\*).
- E.  Wagers will be accepted after the start of the race.
1. Do you have an agreement that allows you to accept wagers after the start of the race with a racing association or fair that conducts the races?  Yes  No
    - a. If yes, identify which association/fair the agreement is with and provide a copy: \_\_\_\_\_
    - b. If no, see above instructions (\*).
  2. Do you have a contract and/or agreement with the horsemen's organization that allows you to accept wagers after the start of the race?  Yes  No
    - a. If yes, provide a copy of the agreement.
    - b. If no, see above instructions (\*).

## 9. LABOR ORGANIZATION

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (f) (1) provides the Board shall not approve an application for an original or renewal license as an exchange wagering provider unless the entity, if requested in writing by a bona fide labor organization no later than ninety days prior to licensing, has entered into a contractual agreement with that labor organization.

- A. Do you have a labor agreement for the applied term of the application?  Yes  No
  1. If yes, answer questions B – D.
  2. If no, answer question E.
- B. If yes, what is the name of the bona fide labor organization?
- C. What is the term of the agreement? (Begin date): \_\_\_\_\_ (End date): \_\_\_\_\_
- D. Provide a copy of the labor agreement.
- E. If no, have you been in contact with a labor organization?  Yes  No
  1. If yes, what was the date of contact?
  2. Include a letter with your application titled (Labor Status) addressing the status of the current labor negotiations. Include, date of last negotiation contact, remaining issues that need to be resolved and an estimated completion date.

**10. ESTABLISHING EXCHANGE WAGERING ACCOUNTS**

**NOTICE TO APPLICANT:** CHRB Rule 2089.5 provides that specific provisions must be met to establish an exchange wagering account. Business and Professions Code section 19604.5 (c) provides in part only natural persons with valid exchange wagering accounts may place wagers through an exchange. To establish an exchange wagering account, a person shall be at least 18 years of age and a resident of California or of another jurisdiction within which the placement of exchange wagers would not be unlawful under United States federal law or the law of that jurisdiction.

- A. Provide a detailed listing of the procedures to be used for establishing an account (must comply with rule 2089.5):
- B. Provide a copy of the form and terms of agreement used to establish an account for an account holder.
- C. Name and address of the third party you will use to verify identity, residence and age verification:

**11. LOCATION AND PHYSICAL PLANT**

- A. Do you have a call center to accept verbal wagers? Yes No  
If so, what is the name, address and phone number of the location?
- B. What is the website address available for patrons to place wagers:
- C. Do you have a location in which patrons can place a wager in person: Yes No  
If so, what is the name, address and phone number of the location?

**12. OPERATION OF EXCHANGE WAGERING ACCOUNTS**

- A. Submit a copy of your detailed operating plan pursuant to CHRB Rule 2086.6. Plan must include all items outlined in CHRB Rule 2086.6 including:
  - 1. a detailed report of the daily operation of the exchange
  - 2. a description of policy to prevent commingling of account holders' funds with any other funds.
  - 3. management policy of customer accounts including deposit, withdrawals, debits and credits.
- B. List the type of deposits you will accept:
- C. Identify any fees or transaction-related charges and the amount that will be assessed:

**13. SECURITY POLICY**

**NOTICE TO APPLICANT:** Business and Professions Code section 19604.5 (d) provides in part the Board shall approve, as part of the exchange wagering licensee's application for an exchange wagering license, security policies and safeguards to ensure player protection and integrity, including, but not limited to, provisions governing the acceptance of electronic applications for persons establishing exchange wagering accounts, location and age verification confirmation for persons establishing exchange wagering accounts, the use of identifying factors to ensure security of individual accounts, and the requirements for management of funds in exchange wagering accounts. An exchange wagering licensee may not accept a wager, or series of wagers, if the results of the wager or

wagers would create a liability for the exchange wagering account holder that is in excess of the funds on deposit in the exchange wagering account of that holder.

- A. Attach your security access policy and safeguards pursuant to Business and Professions Code section 19604.5 (d). Policy must include the following:
  - 1. Description of the technology to ensure identity, residence, and age verification when an account is established:
  - 2. Description of the technology to ensure confidentiality of the means of personal identification:
  - 3. Methods available for account holders to withdraw funds from their account:
  
- B. Attach a copy of your information security incident management policy.
  - 1. Have you had any computer related security issues this year, or in the last year, with data, data storage or hardware? Yes No
  - 2. If yes, please identify the issue.
  
- C. Provide the name, address, phone number and hours of operation of the location in which the physical and electronic data will be will be stored:

**14. ENFORCEMENT OVERSIGHT**

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (d) provides in part the Board shall approve, as part of the exchange wagering licensee's application for an exchange wagering license, security policies and safeguards to ensure player protection and integrity. CHRB Rule 2091.5 (b) states the exchange provider shall immediately notify the Board if it suspends an account due to probable fraud in connection with exchange wagering. The provider shall also submit to the Board a written account of the suspension.

- A. Identify the physical location of the applicant's security oversight operation.
  
- B. Attach an organizational chart including chain of command and contact information (phone number and email address) for key members of the applicant's security oversight operation.
  
- C. Describe what forensic and analytical tools will be used for the oversight/enforcement of exchange wagering security.

**15. CONTRACTS AND AGREEMENTS**

- A. List name, address and phone number of all organizations you will contract with to facilitate exchange wagering:

<u>Company name, address and phone:</u>	<u>Describe services:</u>

16. ADVERTISING

- A. Name and address of the advertising agency you will use:
- B. Describe marketing strategies planned for exchange wagering:
- C. What marketing contribution is the applicant making to the California horse racing industry?
- D. What innovative programs have been created by the applicant to help invigorate the California horse racing industry?
- E. Will there be rebate programs offered? If so, identify the programs.

17. CERTIFICATION

I hereby certify under penalty of perjury that I have examined this application, that all of the foregoing statements in this Application are true and correct, and that I am authorized to attest to this application.

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print Title

\_\_\_\_\_  
Date

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PROPOSED ADDITION OF  
RULE 2086.6. OPERATING PLAN REQUIRED

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2086.6. Operating Plan Required.

As part of the exchange wagering license application, and any renewal application, the applicant shall submit a detailed operating plan in a format and containing such information as required by the Board. At a minimum, the operating plan shall address the following:

(a) A detailed report of the daily operation of the exchange.

(b) Management of customer accounts including deposits, withdrawals, debits and credits. This shall include:

(1) A policy to prevent commingling of funds; and

(2) Evidence of an established account with an Federal Deposit Insurance Corporation (FDIC) insured bank in which all funds of the account holders will be deposited. This shall include evidence that account holder's funds are segregated and held in a separate FDIC insured bank account of the exchange provider.

(c) Technology and hardware and software systems information, which shall include a data security policy, as well as a policy for the notification of the Board and account holders of any unauthorized access that may compromise account holders' personal information.

(d) Financial information that demonstrates the financial resources to operate an exchange and a detailed budget that shows anticipated revenue, expenditures and cash flows by month projected for the term of the license.

(e) Document retention policies including those related to account holder personal information and wagering information.

(f) A customer complaint and conflict resolution process.

(g) Programs for responsible wagering.

(h) The requirements for exchange wagering accounts established and operated for persons whose principal residence is outside of the state.

(i) The operating plan submitted pursuant to this regulation, and any subsequent updates or changes to such operating plan, shall be exempt from disclosure pursuant to Government Code section 6254(k) and non-disclosable to the public.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5(e)(4),  
Business and Professions Code.  
Section 6254(k),  
Government Code.

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RULE 2086.7. EXCHANGE WAGERING DATA

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2086.7. Exchange Wagering Data.

(a) For the purposes of pari-mutual accounting and settlement of exchange revenues according to contract, as well as reporting and analysis of data related to exchange wagering, the exchange provider shall enter into an agreement with the nonprofit horse racing data base, as designated by the Board. The exchange provider shall furnish the nonprofit horse racing data base with the following data interface in a format agreed upon by the exchange provider and the nonprofit horse racing data base:

(1) A daily reconciliation of the amounts settled by the exchange provider and its account holders, including but not limited to:

(A) Race date, event, race number, wagering interests, breed type;

(B) Post time of race, start time of race, finish time of race;

(C) Winning, losing and net wagers;

(D) Wagers by type before race; by winning, losing, and net wagers, odds, amounts, backer, layer;

(E) Wagers by type during race; by winning, losing and net wagers, odds, amounts, backer, layer;

(F) Cancellations of wagers made by customers on betting interest, or interests during one event;



(G) Zip code of each account holder;

(H) Percentage or flat fee paid to source of event;

(I) Percentage or flat fee rebated to each account holder.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.

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PROPOSED ADDITION OF  
RULE 2086.8. MONITORING SYSTEMS AND NOTIFICATION

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2086.8. Monitoring Systems and Notification.

(a) Pursuant to an agreement between the exchange provider and the Board, or its designee, the exchange provider shall:

(1) Furnish the Board and its designee full access to the provider's monitoring system, including online documentation and training;

(2) Provide automatic notification to the Board and its designee of any unusual wagering patterns;

(3) Provide automatic notification to the Board and its designee of when certain predetermined and agreed upon thresholds occur;

(4) Establish and distribute criteria for anti money laundering procedures and thresholds.

(5) Establish and distribute criteria for monitoring telephone records of account holders.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.

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PROPOSED ADDITION OF  
RULE 2086.9. FINANCIAL AND SECURITY INTEGRITY AUDITS REQUIRED

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Rule 2086.9. Financial and Security Integrity Audits Required.

(a) Ninety days after the end of each calendar year the exchange provider shall submit to the Board an annual financial statement for its California operations.

(b) On a calendar year basis the provider shall undergo the Statement on Standards for Attestation Engagements 16 (SSAE 16) audits:

(1) Service Organization Controls I (SOC I) and;

(2) Service Organization Controls II (SOCII) reports.

The SOC I and SOC II reports shall be submitted to the Board ninety days after the end of the calendar year.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.

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PROPOSED ADDITION OF  
RULE 2087. SUSPENDING MARKETS

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2087. Suspending Markets.

(a) An exchange provider may suspend a market at any time, including after the race is declared official but before winning wagers are credited, if the provider has reason to suspect that fraud or any other action or inaction by any person connected with the race raises questions about the integrity and fairness of the market.

(b) The provider shall immediately notify the Board by means of electronic mail any time a market is so suspended. Upon settlement of the market the provider shall submit to the Board a written account of the suspension that at a minimum provides the following information:

- (1) The market suspended;
- (2) The date and time of the suspension;
- (3) The reason for suspending the market;
- (4) The results of the investigation;
- (5) How the market was settled.

(c) Upon the completion of an investigation, the exchange provider shall settle the market as appropriate.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5(k),  
Business and Professions Code.

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PROPOSED ADDITION OF  
RULE 2087.5. ANTEPOST MARKET

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2087.5. Antepost Market.

(a) Antepost market wagers are authorized and are wagers where one single wager is made on an outcome that includes both:

(1) that the selected horse will run the race; and

(2) that the selected horse will finish the race in the selected position of win, place, or

show.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.

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RULE 2087.6. CANCELLATION OF MATCHED WAGERS

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2087.6. Cancellation of Matched Wagers.

(a) An exchange provider may cancel or void a matched wager if required by law or where, in its sole discretion, it determines:

- (1) there is a technological failure and the market must be voided; or
- (2) there is good cause to suspect that a person placing a wager through the exchange has breached any term of the person's agreement with the exchange provider; or
- (3) it is in the interest of maintaining integrity and fairness in a particular market; or
- (4) human error by the exchange wagering provider in recording an exchange wager.

(b) If a matched wager is canceled or voided due situations described in subparagraphs (a)(2) and (a)(3) of this regulation, the exchange provider shall notify the Board in writing of its actions and the circumstances that resulted in such action.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5(k),  
Business and Professions Code.

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PROPOSED ADDITION OF  
RULE 2088. DECLARED ENTRIES

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2088. Declared Entries.

Except for in an antepost market, matched wagers on declared entries shall be voided  
by the exchange provider.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5(k),  
Business and Professions Code.

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RULE 2088.5. CORRECTING MATCHED WAGER ERRORS

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2088.5. Correcting Matched Wager Errors.

An exchange provider assumes liability for any improperly placed matched wagers and shall offset the impacts of such wagers on the market by offering corrective wagers in the market. For purposes of this rule only, improperly placed shall mean:

(a) breach of the terms of the account agreement with the exchange provider;

(b) one side of a matched wager must be cancelled by the exchange provider based on a reasonable determination by the provider of a breach of integrity and fairness in a particular market;

(c) technological failure; or

(d) human error by the exchange provider in recording an exchange wager.

Authority: Sections 19420, 19440, 19590 and 19604.5, Business and Professions Code.

Reference: Sections 19593 and 19604.5(k), Business and Professions Code.



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RULE 2088.6. CANCELLATION OF UNMATCHED WAGERS

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2088.6. Cancellation of Unmatched Wagers.

An unmatched wager may be cancelled by the exchange provider at any time before it is matched by the provider to form one or more identically opposing wagers.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5(j),  
Business and Professions Code.

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PROPOSED ADDITION OF  
RULE 2089. ERRORS IN PAYMENTS OF EXCHANGE WAGERS

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2089. Errors in Payments of Exchange Wagers.

If an error occurs in the payment of amounts for exchange wagers, the following shall apply:

(a) In the event the error results in an over-payment to the individuals wagering, the exchange provider shall be responsible for such payment.

(b) In the event the error results in an under-payment:

(1) The exchange provider shall accept timely claims for such under-payment, shall investigate such claims and shall pay each claim, or a part thereof, which it determines to be valid, and shall notify the claimant in writing if his claim is rejected as invalid.

(3) Any claim not filed with the exchange provider within 30 calendar days inclusive of the date on which the alleged under-payment was discovered shall be deemed waived and the exchange provider shall have no further liability therefore.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.

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RULE 2089.5. REQUIREMENTS TO ESTABLISH AN EXCHANGE WAGERING  
ACCOUNT

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2089.5. Requirements to Establish an Exchange Wagering Account.

(a) An exchange wagering account is necessary to place exchange wagers. An account may be established in person, by mail, telephone, or other electronic media including but not limited to the Internet. An account shall not be assignable or otherwise transferable.

(b) The information required to establish an account shall include:

(1) The prospective account holder's full legal name.

(2) The principal residence address of the prospective account holder. Such address shall be deemed the address of record for mailing checks, withdrawals, statements, if any, of the account, notices, or other correspondence or materials. It is the responsibility of the account holder to notify the exchange provider of any address change.

(3) Telephone number.

(4) Social Security Number or Individual Tax Identification Number.

(5) Certification or other proof that the applicant is at least 18 years of age.

(c) An exchange provider shall employ electronic verification with respect to each prospective account holder's name, principal residence address, date of birth and social security number at the time of the account establishment by a Board-approved national, independent, individual reference company or another independent technology approved by the Board which

meets or exceeds the reliability, security, accuracy, privacy and timeliness provided by individual reference service companies.

(d) An exchange provider may refuse to establish an account, or may cancel or suspend a previously established account, without notice, if it is found that any information supplied by the prospective account holder is untrue or incomplete.

(e) If an exchange provider or an affiliate of such provider is also licensed by the Board to conduct advance deposit wagering, the exchange provider may offer holders of existing advance deposit wagering accounts held with such exchange provider or such affiliate a convenient method of establishing an exchange wagering account by verifying information on file for the existing advance deposit wagering account.

(f) The exchange provider shall have the right to suspend or close any account at its discretion.

(g) The account applicant shall supply the exchange provider with a means of personal identification to be used by the account holder to access his account. Exchange wagering accounts are for the use only of the account holder and the account holder is responsible to maintain the secrecy of the account number and means of personal identification. The account holder must immediately notify the exchange provider of any breach of security for the account.

(h) Each account shall have a unique identifying account number. The exchange provider shall inform the account holder of the assigned account number and provide a copy of the exchange provider's exchange wagering procedures, terms, and conditions, as well as any information that pertains to the operation of the account.

(i) Each exchange provider shall, at all times, comply with Internal Revenue Service (IRS) requirements for reporting and withholding proceeds from exchange wagers by account

holders and shall, following the credit to an account for a winning exchange wager, send to any account holder who is subject to IRS reporting or withholding a Form W2-G summarizing the information for tax purposes. Upon written request by an account holder, the exchange provider shall provide the account holder with summarized tax information on exchange wagering activities.

(j) All wagering conversations, transactions or other wagering communications through the exchange wagering system, verbal or electronic, shall be recorded by means of electronic media, and the tapes or other records of such communications shall be kept by the entity for at least 180 days, unless otherwise directed by the Board. These tapes and other records shall be made available to the Board upon request or order by the Executive Director.

(k) Upon request of the account holder the exchange provider shall provide a statement detailing account activity for the immediate 30 days prior to the request. Unless the exchange provider receives written notice disputing the statement within 14 calendar days of the date a statement is forwarded, it shall be deemed to be correct.

(l) No employee or agent of the exchange provider shall divulge any confidential information related to the placing of any exchange wager or any confidential information related to the operation of the exchange wagering system without the consent of the account holder, except to the account holder as required by this article, the Board, and as otherwise required by state or federal law.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.

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RULE 2089.6. DEPOSITS TO AN EXCHANGE WAGERING ACCOUNT

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2089.6. Deposits to an Exchange Wagering Account.

Deposits to an exchange wagering account shall be made, in person, by mail, by telephone, or by other electronic media, as follows:

(a) The account holder's deposits to the account shall be submitted by the account holder to the exchange provider and shall be in the form of one of the following:

(1) cash given to the exchange provider;

(2) check, money order, negotiable order of withdrawal, or wire or electronic transfer, payable and remitted to the exchange provider; or

(3) charges made to an account holder's debit or credit card upon the account holder's direct and personal instruction, which instruction may be given by telephone communication or other electronic media to the exchange provider or its agent by the account holder if the use of the card has been approved by the exchange provider.

(4) the name and billing address for any credit card, debit card, bank account, or other method of payment through which an account holder funds or transfers from an account shall be the same as the account holder's registered name and address.

(b) Funds in an account shall bear no interest to the account holder.

(c) The account holder may be liable for any charges imposed by the transmitting or receiving entity involved in a wire or electronic transfer, and such charges may be deducted from the account holder's account.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD  
TITLE 4. CALIFORNIA CODE OF REGULATIONS  
ARTICLE 27. EXCHANGE WAGERING  
PROPOSED ADDITION OF  
RULE 2090. POSTING CREDITS FOR WINNINGS FROM EXCHANGE WAGERS

Exchange Wagering Ad Hoc Committee Meeting  
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2090. Posting Credits for Winnings from Exchange Wagers.

(a) Credit for winnings from matched wagers placed with funds in an account shall be posted to the account by the exchange provider after the race is declared official.

(b) Where the outcome of a matched wager can be determined with certainty by the exchange provider prior to the time that the race is declared official, the exchange provider may settle such matched wager as soon as that outcome is determined with certainty.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.



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PROPOSED ADDITION OF  
RULE 2090.5. DEBITS TO AN EXCHANGE WAGERING ACCOUNT

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2090.5. Debits to an Exchange Wagering Account.

Debits to an exchange wagering account shall be made as follows:

(a) Upon receipt by the exchange provider of an exchange wager properly placed, the provider shall determine whether there are sufficient funds in the account holder's wagering account to cover the maximum amount the account holder could be liable for based on the wager. If so, the wager shall be accepted. The exchange provider will debit the account holder's account the total maximum amount which the account holder could be liable for based on all exchange wagers placed by the account holder on races which have not yet been declared official.

(b) Wagers shall be accepted only during days and times designated as operating by the exchange provider.

(c) The exchange provider may at any time declare the system closed for receiving any wagers on any race or closed for all exchange wagering.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.

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PROPOSED ADDITION OF  
RULE 2090.6. WITHDRAWALS BY ACCOUNT HOLDER

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2090.6. Withdrawals by Account Holder.

(a) Withdrawals shall be completed within five business days after the exchange provider receives a request from an account holder by mail, by telephone, or other electronic media, accompanied by the valid account number and a means of personal identification or, if by mail, a signed completed withdrawal form. In the case of any withdrawal requested by mail, by telephone, or by other electronic media:

(1) If sufficient funds are available, the exchange provider shall send a check payable to the account holder in the amount of the requested withdrawal to the address of record.

(2) If sufficient funds are not available, the exchange provider shall, within five business days of receipt, provide notification to the account holder of insufficient funds and send a check payable to the account holder in the amount of the funds available to the address of record.

(3) A wire or electronic funds transfer, including but not limited through the automated clearing house system, may be used in lieu of a check, at the discretion of the account holder and the exchange provider, to deliver funds withdrawn from an exchange wagering account to a monetary account controlled by the account holder. The account holder may be liable for any charges imposed by the transmitting or receiving entity involved in a wire or electronic transfer, and such charges may be deducted from the account holder's account.

(b) Exchange wagering account holders may make withdrawals in person with such identification as required by the exchange provider, the valid account number, and a means of personal identification.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD  
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ARTICLE 27. EXCHANGE WAGERING  
PROPOSED ADDITION OF  
RULE 2091. CLOSING AN INACTIVE EXCHANGE WAGERING ACCOUNT

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2091. Closing an Inactive Exchange Wagering Account.

The exchange provider may close any exchange wagering account that has remained inactive for six months or longer. When an account is closed the exchange provider shall return any funds remaining in the account to the account holder at the address of record within five business days of closing the account.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.

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PROPOSED ADDITION OF  
RULE 2091.5. SUSPENDING AN EXCHANGE WAGERING ACCOUNT

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2091.5. Suspending an Exchange Wagering Account.

(a) An exchange provider may suspend any exchange wagering account if the provider has reason to believe that the account holder may have committed acts of fraud in connection with exchange wagering or any other action or inaction which threatens the integrity or fairness of any exchange wagering, or is otherwise ineligible to hold the account.

(b) The exchange provider shall immediately notify the Board by electronic mail if it suspends an account due to fraud in connection with exchange wagering or any other action or inaction which threatens the integrity or fairness of any exchange wagering. The provider shall also submit to the Board a written account of the suspension that at minimum states:

- (1) The name of the person whose account was suspended;
- (2) The date and time of the suspension;
- (3) The reason for suspending the account;
- (4) The results of any investigation associated with the suspension of the account.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.

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PROPOSED ADDITION OF  
RULE 2091.6. POWERS OF THE BOARD TO REVIEW AND AUDIT RECORDS.

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2091.6. Powers of the Board to Review and Audit Records.

The Board shall have access for review and audit, to all records and financial information of an exchange provider. The information shall be made available upon notice from the Board, at all reasonable times to the extent such disclosure is not prohibited by law. Board access to and use of information concerning exchange wagering transactions and account holders shall be considered proprietary to the exchange provider and shall not be disclosed publicly except as may be required by law.

Authority: Sections 19420, 19440, 19433, 19590 and 19604.5, Business and Professions Code.

Reference: Sections 19593 and 19604.5(e)(4), Business and Professions Code.

CALIFORNIA HORSE RACING BOARD  
TITLE 4. CALIFORNIA CODE OF REGULATIONS  
ARTICLE 27. EXCHANGE WAGERING  
PROPOSED ADDITION OF  
RULE 2092. DISTRIBUTION OF EXCHANGE REVENUES

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2092. Distribution of Exchange Revenues.

Prior to accepting exchange wagers on any race conducted in California, or from a resident of California, and pursuant to the terms of Business and Professions Code section 19604.5, an exchange provider shall first enter into an exchange wagering agreement allowing those wagers.

Each exchange provider shall distribute all moneys in each pool, net of any fees, charges, or deductions of any kind assessed or collected by the exchange provider in connection with matched wagers in that pool, after any races associated with that pool are declared official, or as provided in Rule 2090(b) of this article. Each exchange provider shall distribute the portions of the exchange provider's exchange revenues as may be required pursuant to the exchange wagering agreement pursuant to Business and Professions Code sections 19604.5(b)(2) to (7), inclusive. Fifty percent of the amounts received by a racing association or racing fair from exchange wagering shall be paid to horsemen participating in the meetings conducted by that racing association or racing fair in the form of purses. The allocation of amounts received by a racing association or racing fair from exchange wagering between that racing association or racing fair and the horsemen participating in the meetings conducted by that racing association or racing fair may be modified by a written agreement between those entities.

Authority: Sections 19420, 19440, 19590 and 19604.5, Business and Professions Code.

Reference: Sections 19593 and 19604.5,  
Business and Professions Code.



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ARTICLE 27. EXCHANGE WAGERING  
PROPOSED ADDITION OF  
RULE 2092.5. EXCHANGE WAGERS PLACED AFTER THE START OF A RACE

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2092.5. Exchange Wagers Placed After the Start of a Race.

(a) As reflected in the exchange provider's operating plan, and as approved by the Board, an exchange provider may accept wagers placed on a market after the start of a live race but before the results of that race have been declared official.

(b) No exchange wagers shall be placed on a market after the conclusion of a live race.

(c) Exchange wagering on previously run races is prohibited.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5(k),  
Business and Professions Code.

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 PROPOSED ADDITION OF  
RULE 2092.6. PROHIBITIONS ON WAGERS TO LAY A HORSE TO LOSE

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2092.6. Prohibitions on Wagers to Lay a Horse to Lose.

(a) No exchange wager that lays a horse to lose may be made by a person who owns such horse in whole or in part, nor shall an exchange wager to lay the horse to lose be made by:

- (1) The trainer or assistant trainer who trains the horse;
- (2) The authorized agent who represents the owner of the horse;
- (3) The jockey or driver who rides or drives the horse;
- (4) The jockey agent who represents the jockey who rides the horse;
- (5) The valet who attends the jockey; or
- (6) Any stable employee of the trainer who trains the horse.

(b) Nor shall any of the persons named in subsection (a) of this regulation instruct another person to lay a horse to lose on their behalf, or receive the whole or any part of any proceeds of such a lay.

(c) No exchange wagering account shall be used to lay a horse to lose, except by the account holder. All wagers that lay a horse to lose will be presumed to be effected by, and for the benefit of, the account holder.

Authority: Sections 19420, 19440, 19590 and 19604.5,  
Business and Professions Code.

Reference: Sections 19593 and 19604.5(e)(3)(A),  
Business and Professions Code.

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PROPOSED ADDITION OF  
RULE 2092.7. SUSPENSION OF OCCUPATIONAL LICENSE

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2092.7. Suspension of Occupational License.

(a) The Board may suspend the license of any person if it determines during the course of its investigation that there is good cause to believe that such person may have committed acts of fraud in connection with exchange wagering or any other action or inaction which threatens the integrity or fairness of any exchange wagering.

(b) Such suspension of license shall be for the duration of such investigation, unless otherwise determined by the Board.

Authority: Sections 19420, 19440, 19460, 19461, 19590 and 19604.5, Business and Professions Code.

Reference: Sections 19461, 19593 and 19604.5, Business and Professions Code.

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ARTICLE 27. EXCHANGE WAGERING  
PROPOSED ADDITION OF  
RULE 2093. CERTAIN PRACTICES RELATED TO EXCHANGE WAGERING

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2093. Certain Practices Related to Exchange Wagering.

(a) The exchange provider shall provide an account holder with information on the race, including the track where the race will take place and the names of the participating horses before the account holder may place an exchange wager.

(b) The exchange provider shall require the account holder making the exchange wager to select the specific race and horse for the wager. The exchange provider may not offer automatic, quick-pick, or similar features to aid in the placing of an exchange wager.

(c) The exchange provider shall not display the results of an exchange wager through the use of video or mechanical reels or other slot machine or casino game themes, including, but not limited to, dice games, wheel games, card games, and lotto.

Authority: Sections 19420, 19440, 19590 and 19604.5, Business and Professions Code.

Reference: Sections 19593 and 19604.5(e)(3), Business and Professions Code.

CALIFORNIA HORSE RACING BOARD

FEBRUARY 9, 2012  
EXCHANGE WAGERING  
AD HOC COMMITTEE MEETING

There is no board package material for Item 4