

Nevada's Online Gaming Regulations

Changes Adopted December 22, 2011

Center for Gaming Research, December 2011

Executive Summary

On December 22, 2011, the Nevada Gaming Commission adopted amendments to its regulations that make possible the licensing and operation of online gambling operations within the state. Specifically, these regulations were amended:

- **Regulation 3** (Licensing): Adds "operator of interactive gaming" and "service provider" to the list of entities that have to report "qualifying employees" to the Board.
- **Regulation 4** (Applications): Creates three new categories of gaming license: manufacturer of interactive gaming systems, operator of interactive gaming, and service provider.
- **Regulation 5** (Operations): Adds a new section, **5.240 Service Providers**, to the regulations that currently govern the gaming operations; creates classes of service providers, defines them, and elucidates the disciplinary framework
- **Regulation 5A** (Operations): A new regulation that outlines exactly how online gaming will be conducted in Nevada.
- **Regulation 8** (Ownership): Adds "operator of interactive gaming license, or a service provider license" to the list of licensees who must report loan/lease transactions to the Board.
- **Regulation 14** (Manufacturers, Distributors, Operators): Adds language about interactive gaming systems to the devices covered and mandates that games display the rake and wagering limits.

Background

On December 22, 2011, the Nevada Gaming Commission adopted regulations that will pave the way for online poker play--for real money--in the state. The legislation authorizing online gaming, which passed during the 2011 legislative session, directed the Gaming Commission to pass regulations governing online play by January 31.

On December 22, the Gaming Commission discussed and approved rule changes that provide a framework for the licensing and operation of online gambling in Nevada. As a refresher, gambling in Nevada is governed by the Gaming Control Act and its amendments, which are enshrined as state law in the [Nevada Revised Statutes](#), and the Regulations of the Nevada Gaming Commission and State Gaming Control Board. There are 30 regulatory chapters, each covering an aspect of gambling, from initial licensing (Regulation 1) to the operation of gambling establishments (Regulation 5) to ownership structures (Regulations 8, 9, 15, and 16). Many of these regulations have subchapters as well (e.g., Regulations 15, 15A, and 15B, which cover different classes of corporate licensees).

Essentially, the rule changes that the Commission passed involve amendments to 6 regulations: 3, 4, 5, 5A, 8, and 14.

The following pages contain a breakdown of each individual regulation change and an explanation of what each change means.

Regulation 3 (Licensing: Qualifications)

In section 3.100, "Employee report," adds "operator of interactive gaming" and "service provider" to the list of entities that have to report "qualifying employees" to the Board semi-annually. This list has grown incrementally, with manufacturers and distributors joined over the years by operator of a slot machine route, of a mobile gaming system, of an inter-casino linked system, and pari-mutuels. This covers everything from Wide Area Progressive like Megabucks to Cantor and Leroy's mobile betting apps, and the change adds those who operate and provide online gaming services.

The rule change means that, for certain employees, the Gaming Control Board will require semi-annual submission of reports.

[Read the complete text of the changes here](#) (pdf)

Regulation 4 (Applications: Procedure)

To section 4.030, Classification of licenses, and other commission actions for which applications must be made, adds 3 new sections (3, 7, and 18), adding three new classifications of license:

1. A **manufacturer of interactive gaming systems license**, which allows the holder to manufacture, assemble or produce an interactive gaming system
2. An **operator of interactive gaming license**, which lets the holder to, from Nevada, run an online gambling establishment, taking bets online.
3. A **service provider license**, which allows the holder to act as a service provider and includes an interactive gaming service provider license

Who would fall under the different categories? If IGT (or Bwin) built a software package that it wanted to sell to Nevada casinos, it would have to apply for a manufacturer's license. If, for example, the Palms bought such a system from IGT and wanted to start taking bets, it would need an operator's license. But what if the Palms doesn't want to run its own online casino? It could then hire a service provider—most likely one of the manufacturers or someone like Cantor Gaming—who would need a service provider's license that allowed them to run the site for the casino.

Those applying for these licenses are bound by all of the same regulatory and statutory requirements as other licenses (manufacturer, operator, distributor, etc) covered by this regulation.

[Read the complete text of the changes here](#) (pdf)

Regulation 5 (Operation of Gaming Establishments)

This amendment adds a new section, **5.240 Service Providers**, to the 32 pages of regulations that currently govern the operation of gaming establishments. It establishes three classes of service providers:

- **Class 1:** Anyone who provides interactive gaming, receives payments based on earnings or profits from a game, or anyone else the chairman of the Gaming Commission believes should have a Class 1 license. This license is governed by the same regulations that govern non-restricted licenses (i.e., casinos).
- **Class 2:** Anyone who doesn't have a Class 1 or Class 3 license, This license is governed by the same regulations that govern restricted licenses (i.e., locations with 15 or fewer slot machines).
- **Class 3:** This is a probationary licensee, and includes anyone who acts as a marketing affiliate for an operator

This section also describes the licensing procedures. The highlights include:

- Completing the application form
- Authorizing the Board to investigate
- Fingerprinting
- A \$150 application fee and \$2,500 investigative fee

Also, the Commission can terminate a Class 3 license with a 30-day written notice, with no right of appeal, and any licensee must allow Board and Commission agents access to their operations at all times. Failure to comply with this regulation is an unsuitable method of operation that is grounds for disciplinary action, up to the revocation of the license.

The changes create the framework for the licensing of interactive service providers and provide a mechanism for their accountability to regulators.

[Read the complete text of the changes here](#) (pdf)

Regulation 5A (Operation of Interactive Gaming)

This change creates a new regulation, Regulation 5A, that outlines exactly how online gaming will be conducted in Nevada. Amounting to 16 pages of new regulations, this is the meat of the December 22 changes. The 24 sections of the regulation cover several areas, including:

- **General Scope and Definitions:** Who needs a license, how to get one.
- **Internal Controls and House Rules:** Specifically, what do you need to do to get licensed:
 1. Maintain online security and confidentiality of player accounts
 2. Register players and verify their identities. The procedures must be "robust and redundant" to mitigate the risks of non-face-to-face transactions. Registration can be in person or remotely.
 3. Ensuring play is between humans only (no bots)
 4. Preventing collusion among human players
 5. Allowing players to self-exclude
 6. Procedures for a data security breach
 7. Measure to detect fraud, money laundering, and other criminal activities
 8. Adopting and adhering to a set of house rules that explain all rules; these need to be submitted to the Board for approval
- **Player Registration:** When registering, a player must provide:

1. Proof of identity
 2. A date of birth to prove age over 21
 3. Physical address
 4. Social Security Number, if a U.S. resident
 5. Proof that not previously excluded, or on the Commission's banned list (the Black Book)
 6. Before registering, a player must affirm:
 - a) They provided true and accurate information about the above
 - b) They have been told the house rules
 - c) They are prohibited from letting anyone else use their account
 - d) They can't gamble from a jurisdiction where it is illegal to do so
 - e) If the operator cannot verify their identity, they forfeit all winnings and are refunded all deposits
 - f) Consent to monitoring—all transactions are recorded
- **Compensation:** This limits the rake to 10% of the pot
 - **Wagers:** Players can only have one seat in a game at a time. They can't set up multiple accounts with fictitious names, but they don't have to use their real name at the table. Operators can't use shell accounts. Players can't transfer money to each other. There is to be no credit given, either through the site or via the operator's affiliates.
 - **Reserve Requirements:** AKA, the "we don't want the DOJ calling our operation a pyramid scheme" section. All operators must maintain a cash, credit, or bond reserve equal to the sum of all of the funds in player accounts.
 - **Must be Displayed on Site:** Full name and address of operator; license number; warning that those in jurisdictions where gambling is illegal should not play; links to dispute resolution and problem gambling information, the Gaming Control Board, the house rules, and a self-exclusion site.
 - **Suspicious Wagering Reports:** Operators must report anything that looks suspicious, regardless of the amount involved; they are not to tell the people involved in the transaction.
 - **Dispute Resolution:** If a player has a dispute with an operator, the operator can freeze their account until the dispute is resolved. If a player isn't satisfied with the operator's dispute resolution, they can appeal to the Board. Disputes between players that don't escalate to the Board are the sole responsibility of operators.
 - **Commission Authority:** If operators don't comply with this regulation, they are subject to disciplinary action up to license revocation. The Commission can also waive certain provisions and provide alternatives.

These are, in a nutshell, the rules that will govern how online poker in Nevada works. Those wishing to open a player's account should give them at least a cursory read to familiarize themselves with the nature of the system that has been created.

[Read the complete text of the changes here](#) (pdf)

Regulation 8 (Transfers of Ownership: Loans)

This amendment adds “operator of interactive gaming license, or a service provider license” to the list of licensees who must report transactions involving a variety of loans and leases to the Gaming Control Board.

[Read the complete text of the changes here](#) (pdf)

Regulation 14 (Manufacturers, Distributors, Operators)

This adds language about interactive gaming systems to the categories of devices that are covered by this regulation. The most interesting section defines an interactive gaming system as:

“The collective hardware, software, communications technology, and proprietary hardware and software specifically designed or modified for, and intended for use in, the conduct of interactive gaming. The core components of an interactive gaming system, including servers and databases running the games on the interactive gaming system and storing game and interactive gaming account information, must be located in the State of Nevada except as otherwise permitted by the chairman or his designee.”

The key points are that all of the servers and databases must be located within Nevada. If a company located in another jurisdiction wants to be licensed in Nevada, they need to locate their servers here.

Additionally, “proprietary software or hardware” is added to the definition of gaming devices and systems.

Finally, the changes expand the information a game must display. Before, it was simply the rules of play and the payoff schedule. Now it also includes the rake or fee charged to play and any wagering limits placed on games that simulate live gambling games—in other words, the minimum and maximum wagers allowed.

[Read the complete text of the changes here](#) (pdf)

Taken together, these regulatory changes create a comprehensive regulatory framework for the operation of interactive gaming in Nevada—a first in the United States.

Questions? Contact the Center for Gaming Research at (702) 895-2234 or special.collections@unlv.edu

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