

Use only for **FINAL** and **EMERGENCY RULES**

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Use Only:

Effective Date _____ Code Number _____

Name of Agency Arkansas Racing Commission

Department Department of Finance and Administration

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Statutory Authority for Promulgating Rules Amendment 100 to Arkansas Constitution

Rule Title: Rule 7 Transfers of Ownership, Loans

Date _____

Legal Notice Published 01-15-19

Final Date for Public Comment 02-21-19

Reviewed by Legislative Council 02-25-19

Adopted by State Agency 02-21-19

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03-01-19

Contact Person

E-mail Address

Date _____

I Hereby Certify That The Attached Rules Were Adopted
In Compliance with the Arkansas Administrative Act. (ACA 25-15-201 et. seq.)

Byron Ireland
Signature

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Attorney for Arkansas Racing Commission

Title

03-01-19

Date _____

RULE 7
TRANSFERS OF OWNERSHIP; LOANS

- 7.010 General.**
- 7.020 Transfer of interest among licensees.**
- 7.030 Transfer of interest to stranger to license.**
- 7.040 Duties of corporations and agents.**
- 7.050 Escrow required.**
- 7.060 Participation in operations.**
- 7.070 Emergency situations.**
- 7.080 Application for permission to participate.**
- 7.090 Permission to participate.**
- 7.100 Extent of participation permitted.**
- 7.110 Application for license.**
- 7.120 Effect of permission to participate; withdrawal.**
- 7.130 Transaction reports.**
- 7.135 Finding of suitability of a person holding an option to acquire an interest in a general partnership licensee.**

7.010 General.

1. No person shall sell, purchase, assign, lease, grant or foreclose a security interest, hypothecate or otherwise transfer, convey or acquire in any manner whatsoever any interest of any sort whatever in or to any licensed gaming operation or any portions thereof, or enter into or create a voting trust agreement or any other agreement of any sort in connection with any licensed gaming operation or any portion thereof, except in accordance with law and these Rules.

2. No licensee shall permit any person to make any investment whatever in, or in any manner whatever participate in the profits of, any licensed gaming operations, or any portion thereof, except in accordance with law and these Rules.

3. No person shall transfer or convey in any manner whatsoever any interest of any sort whatever in or to any licensed gaming operation, or any portion thereof, to, or permit any investment therein or participation in the profits thereof by, any person acting as agent, trustee or in any other representative capacity whatever for or on behalf of another person without first having fully disclosed all facts pertaining to such representation to the Commission. No person acting in any such representative capacity shall hold or acquire any such interest or so invest or participate without first having fully disclosed all facts pertaining to such representation to the Commission and obtained written permission of the Commission to so act.

4. Rule 7 shall apply to transfers of interest in corporations subject to these Rules, but shall not apply to transfers of interest in corporations subject to these Rules.

7.020 Transfer of interest among licensees. If a person who is the owner of an interest in a licensed gaming operation proposes to transfer any portion of his or her interest to a person who is then the owner of an interest in such licensed gaming operation, both parties shall give written notice of such proposed transfer to the Commission, including the names and addresses of the parties, the extent of the interest proposed to be transferred and the consideration therefore. In addition, the proposed transferee shall furnish to the Commission a sworn statement setting forth the source of funds to be used by the proposed transferee in acquiring such interest; and the proposed transferee also shall furnish to the Commission such further information as it or the

Commission may require. The Commission shall conduct such investigation pertaining to the transaction as it or the Commission may deem appropriate and shall report the results thereof to the Commission. If the Commission does not give notice of disapproval of the proposed transfer of interest within 30 days after the receipt by it of the report of the Commission, the proposed transfer of interest will be deemed approved and the transfer of interest may then be effected in accordance with the terms of transfer as submitted to the Commission. The parties shall immediately notify the Commission when the transfer of interest is actually affected.

7.030 Transfer of interest to stranger to license.

1. Except as and to the extent provided in these Rules pertaining to emergency situations, no individual who is the owner of any interest in a licensed gaming operation shall in any manner whatsoever transfer any interest therein to any person, firm or corporation not then an owner of an interest therein, and no such transfer shall become effective for any purpose until the proposed transferee or transferees shall have made application for and obtained all licenses required by the Amendment and these Rules, or have been found to be individually qualified to be licensed, as appropriate.

2. Applications for a transfer of interest to a stranger to the license, except the granting of a possessory security interest in equity securities of a licensee or of a holding company subject to these Rules, shall be made by the transferee applying for licensing or registration under the regulations thereunder as appropriate, as provided in these Rules.

3. Evidence of the transferor's agreement to transfer the interest applied for must accompany the application. Licensing or registration of the transferee shall be deemed to constitute approval of the transfer by the Commission.

4. Applications for approval of the granting of a possessory security interest shall be made in writing to the Commission. The application shall set forth all material facts relating to the transaction and be accompanied by copies of the documents evidencing the transaction. An application will not ordinarily be granted unless such documents include the following:

(a) The physical location of the certificates evidencing the transaction shall at all times remain within the territorial boundaries of the State of Arkansas.

(b) The holder of said certificates shall not surrender possession of the securities without the prior approval of the Commission.

☐ An approval of the granting of a possessory security interest shall be deemed to constitute approval of the transfer by the Commission. No such approval, however, shall constitute permission to foreclose without a further order of the Commission.

7.040 Duties of corporations and agents. No licensee or holding company, or officer, director or transfer agent thereof, shall cause or permit any stock certificate or other evidence of beneficial interest therein to be registered in its books or records in the name of any nominee, agent, trustee or any other person other than the true and lawful owner of the beneficial interest therein without written permission of the Commission to do so.

7.050 Escrow required. Except as and to the extent provided in these Rules pertaining to emergency situations, no money or other thing of value constituting any part of the consideration for the transfer or acquisition of any interest in a licensed gaming operation, in a licensee or in a holding company shall be paid over, received or used until complete compliance has been had with

all prerequisites set forth in the law and these Rules for the consummation of such transaction; but such funds may be placed in escrow pending completion of the transaction. Any loan, pledge or other transaction between the parties or with other parties may be deemed an attempt to evade the requirements of this Rule and, as such, in violation of this Rule.

7.060 Participation in operations.

1. Except as provided in these Rules pertaining to emergency situations or on approval of the Commission, no person who proposes to acquire an interest in any licensed gaming operation; in a licensee; or in a holding company shall take any part whatsoever, as an employee or otherwise, in the conduct of such gaming operations or in the operation of the establishment at which such gaming operations are conducted while the person's application for a license or for approval to acquire such interest is pending.

2. An employee subject to these Rules may be employed at the licensed gaming operation, licensee, or holding company pending the Commission's decision on the employee's application for a license or for approval to acquire an interest in the licensed gaming operation, licensee, or holding company if, when the employee files his or her application or becomes so employed, the employee requests permission from the Commission to continue to be so employed pending Commission action on the employee's application.

3. The Commission may grant, deny, limit, restrict or condition a request for administrative approval pursuant to this section for any cause the Commission deems reasonable, or refer the request for administrative approval to the full Commission for consideration. If the Commission, acting in the Commission's sole and absolute discretion, does not within thirty (30) days deny the request to continue employment, or provide written notification to the employee that the request is being referred to the full Commission for consideration, the employee's request to participate shall be deemed approved.

4. An employee's employment by a licensed gaming operation, licensee, or holding company, pursuant to these Rules, is limited to observing and learning the operations of the licensed location, licensee, or holding company, unless otherwise specified by the Commission, and the employee is prohibited from exerting or taking control of a licensed gaming operation, licensee, or holding company until approved by the Commission unless the employee has otherwise been licensed or found suitable to do so.

7.070 Emergency situations. If a transfer of an interest in a licensed gaming operation, in a licensee or in a holding company, is contemplated and, in the opinion of the Commission, the exigencies of the situation require that the proposed transferee or transferees be permitted to take part in the conduct of gaming operations or in the operation of the establishment wherein such gaming operations are conducted, or to make available funds or credit for use in connection with such licensed gaming operation or establishment during the pendency of an application for license or to be permitted to acquire such interest, the Commission or any three members thereof may waive the requirements of Rules 7.050 and 7.060, or either of them, in accordance with the procedures hereinafter set forth.

7.080 Application for permission to participate.

1. A proposed transferee of an interest who desires to participate in any manner, whether financially or otherwise, in the operation of the licensed establishment or games prior to actual

completion of the transfer of interest in accordance with the foregoing Rules shall make written application to the Commission for permission to so participate, setting forth, under oath, facts showing the necessity of such participation, together with the following information to be given under oath:

(a) The extent to which and the manner in which the proposed transferee desires to participate pending completion of the proposed transfer.

(b) A complete financial statement and a statement showing sources of all funds to be used in connection with the proposed transfer of interest and in the participation prior to transfer.

(c) A full and complete statement of the proposed plan for affecting the proposed transfer of interest, including:

- (1) The extent of the interest to be transferred;
- (2) The date on which it is desired to complete the transfer;
- (3) The total consideration to be paid and the time and manner of payment thereof;
- (4) Details of any other financial arrangements between all parties involved; as well as
- (5) Details of all other pertinent arrangements between the parties.

(d) Full, true and correct copies of all documents pertaining to the proposed transaction or transactions, including all agreements between the parties, leases, notes, mortgages or deeds of trusts, and pertinent agreements or other documents with or involving third parties.

(e) The names and addresses of all persons with whom the proposed transferee expects to be associated in connection with the operation of the licensed games or establishment, or both, both as to the period pending completion of the transfer and thereafter.

(f) A full and complete statement of any proposed changes in manner or method of operation of the licensed establishment and any proposed changes of or additions to supervisory personnel, both as to the period pending completion of the transfer and thereafter.

2. If two or more individuals desire to participate in the operation of a licensed establishment or games as a group, whether as individuals or as stockholders, officers or directors of a corporation or other business entity, joint application may be made in accordance with these Rules.

3. If the emergency requiring immediate participation consists of the actual or threatened insolvency of a licensee or holding company, and the interest to be transferred or issued is a financial participation, the application will not be granted unless the applicant demonstrates the immediate and unqualified availability of sufficient funds and credit to cure such emergency to the same extent that such funds and credit would be required in connection with an application for licensing or registration not involving actual or threatened insolvency.

4. The Commission may require an applicant for permission to participate to furnish such additional information as it may desire before acting on the application.

7.090 Permission to participate. After receipt of a proper application for permission to participate and such additional information as the Commission may require, and after such investigation as the Commission deems necessary, the Commission or any three members thereof may grant emergency permission for a proposed transferee to participate in the operation of the licensed games or establishment, licensee or holding company, subject to joint management with the existing licensee or licensees or managing officers of a corporate licensee or holding company.

7.100 Extent of participation permitted.

1. Pending final action on the application of a proposed transferee, the existing licensee or licensees will be held responsible for the conduct of the licensed games or establishment, for all license fees payable, and for all acts or omissions of proposed transferees participating in the operation.

2. Except as hereinafter provided, no proposed transferee who has been granted such emergency permission to participate shall be permitted to withdraw or receive any portion of the profits of such establishment or licensee or holding company derived for gaming until final approval of the proposed transfer of interest has been granted by the Commission. If granted, such approval shall be retroactive to the date of emergency permission to participate.

3. A proposed transferee who has been granted emergency permission to participate and who actually renders services may be paid a salary or otherwise be compensated for such actual services, but such salary or other compensation shall not exceed the usual and customary compensation in the industry for similar services.

7.110 Application for license. Any proposed transferee to whom emergency permission to participate has been granted shall, within 10 days thereafter if the transferee has not already done so, make formal application for licensing, registration, or approval as required by law and these Rules.

7.120 Effect of permission to participate; withdrawal.

1. The granting of emergency permission to participate is a revocable privilege, and is not to be a finding on the part of the Commission that the proposed transferee is qualified or suitable to hold a state Casino license or to be registered or to be approved. Such permission will be without prejudice to any action that the Commission may take with respect to any application for final approval of the proposed transfer of interest.

2. Emergency permission to participate may be withdrawn summarily at any time in the uncontrolled discretion of the Commission, without notice or hearing or other proceedings of any kind.

3. Upon receipt of notice that emergency permission to participate has been withdrawn the proposed transferee shall be immediately disassociated from any participation whatever in the operation of the licensed establishment, licensee or holding company. Any money or other thing of value which may have been invested or made use of in the operation of the licensed establishment, licensee or holding company shall be forthwith returned to the proposed transferee or deposited in escrow in compliance with these Rules. Any participation whatever on the part of a proposed transferee after notice of withdrawal of emergency permission to participate may be deemed to be in violation of law and these Rules and, as such, grounds for denial of the application of the proposed transferee and also grounds for revocation or suspension of the existing license, registration or approval.

7.130 Transaction reports. As used in this section, "licensee" means any person to whom a valid Casino license, mobile gaming system, or an inter-casino linked system, manufacturer's, distributor's, or disseminator's license, or a service provider license has been issued. The term does not include a person licensed solely as a holder of a security or other ownership interest in,

as an officer, director or key employee of, or due to any other relationship with, a licensed operation.

1. Any licensee that receives, accepts, or makes use of any cash, property, credit, guaranty, benefit or any form of security loaned to, leased to, or provided for or on behalf of the licensee or an officer, director, agent, employee or stockholder of the licensee, in a transaction required to be reported under these Rules, must report the transaction to the Commission in the manner required by these Rules within 30 days after the end of the calendar quarter in which the transaction is consummated. A transaction is considered consummated the earlier of the contract date or the date the cash, property, credit, guaranty, benefit or security is received.

2. Except as provided in these Rules, each of the following transactions must be reported to the Commission, if the dollar amount of the transaction or the fair market value of the assets involved exceeds \$300,000 or the average monthly payment exceeds \$30,000:

- (a) Leases, including leaseback transactions and capital leases.
- (b) Deposits received by the licensee pursuant to an arrangement for use of space at the licensee's establishment.
- (c) Installment purchase contracts.
- (d) Property donated to the licensee.

3. Except as provided in these Rules, each of the following transactions must be reported to the Commission, if the dollar amount of the transaction exceeds \$30,000:

- (a) Loans, mortgages and trust deeds.
- (b) Capital contributions and loans by a person who is a stockholder, partner or proprietor of the licensee.
- (c) Safekeeping deposits which:
 - (1) Are made by an individual beneficially owning, directly or indirectly, a 10 percent or greater interest in the licensee;
 - (2) Are commingled with the licensee's funds;
 - (3) Are left for more than 10 days; and
 - (4) At any time during that period, aggregate to an amount greater than 25 percent of cash in the cage.
- (d) Lines of credit.
- (e) Accounts payable and accrued expenses due to unaffiliated persons where the payment terms or actual length of payments exceed 12 months.
- (f) Conversions of accounts payable, accrued expenses or other liabilities to notes payable.
- (g) Debts forgiven by a lender.
- (h) Guaranties received by the licensee.
- (i) Accruals of salary due to an individual directly or indirectly owning an interest in the licensee where the accrual period exceeds 90 days.

4. Those transactions specified in these Rules which occur no more than 7 days apart from a single source shall be considered a single transaction if they exceed the dollar amounts specified in these Rules.

5. The following transactions need not be reported to the Commission regardless of the dollar amount of the transaction, fair market value of the assets involved, or average monthly payment:

- (a) Draws against a previously reported extension of credit.

(b) Except for items specifically described in these Rules goods or services which are exchanged for other goods or services of an affiliate of the licensee.

(c) Short-term cash loans which have a payback period of less than 7 days and are provided to the licensee on a regularly recurring basis, provided the terms and conditions of the arrangement have not changed, and provided the initial loan or financing arrangement has been reported.

(d) Loans and other financing activities that were reviewed during an investigation which resulted in Commission action, provided the terms and conditions of the arrangements have not changed.

(e) Financing of gaming devices or associated equipment installed and used during a trial period authorized pursuant to these Rules.

(f) Funds received by the licensee in satisfaction of accounts or notes receivable.

(g) Purchases or leases of gaming devices and associated equipment where the seller or lessor is a licensed manufacturer or distributor, and the financing is not provided by a third party.

(h) Cash, property, credit, services, guaranty, benefit or any form of security loaned to or provided for or on behalf of the licensee by a licensed affiliate, licensed subsidiary or registered parent of the licensee. However, such financing from a stockholder, partner, unlicensed affiliate or proprietor of the licensed operation must be reported.

(i) Assessments for property taxes or other improvements by, or accruals for taxes due to, a government entity.

(j) Payments of gaming winnings over time to patrons.

(k) Deposits or payments received by the licensee in conjunction with a convention or similar event.

(l) Leases, including leaseback transactions and capital leases, where the lease term, including any extensions or renewals, does not exceed 90 days.

(m) Financing activity that has been filed and administratively approved by the Commission pursuant to these Rules.

6. All renewals, changes or modifications to the terms or conditions of transactions previously reported under this section must be reported.

7. The report to the Commission required by this section must include the names and addresses of all parties to the transaction, the amount and source of the funds, property or credit received or applied, the nature and amount of security provided by or on behalf of the licensee, the purpose of the transaction, and any additional information the Commission may require. For transactions reported pursuant to requirements of these Rules, the report must also identify the dates of each loan or contribution. The report must be made on a form provided or approved by the Commission, accompanied by a fully executed copy of the financing agreement, and signed by an owner or key employee as defined in these Rules.

8. In the event a party to any transaction reportable pursuant to this Rule is a person other than the reporting licensee or a financial institution or related subsidiary, or a publicly traded company, the report must be accompanied by a supplemental filing which must include that person's federal tax identification number or social security number and date of birth, banking references, and source of funds, and any additional information the Commission may require.

9. If, after such investigation as the Commission deems appropriate, the Commission finds that a reported transaction is inimical to the public health, safety, morals, good order or general welfare of the people of the State of Arkansas, or would reflect, or tend to reflect, discredit upon

the State of Arkansas or the gaming industry, it may order the transaction rescinded within such time and upon such terms and conditions as it deems appropriate.

10. A bankruptcy filing by a licensee does not relieve that licensee of the reporting requirements of this Rule.

11. The Commission or the Commission's designee may waive one or more of the provisions of this section or require a report of a transaction not otherwise addressed in this section or a supplemental filing, upon a finding that the waiver, reporting requirement or supplemental filing is consistent with the public policy of the State of Arkansas.

7.135 Finding of suitability of a person holding an option to acquire an interest in a general partnership licensee.

1. No person shall acquire or be granted an option to purchase an interest in a general partnership licensee without first notifying the Commission, on such forms as may be required by the Commission, of the terms and conditions upon which the option was granted or acquired.

2. The Commission may, upon a recommendation by the Commission, require the application of any person for a determination of suitability to hold an option to purchase or otherwise obtain an interest in a general partnership licensee.

End – Rule 7