

**205 CMR 238.00: ADDITIONAL UNIFORM STANDARDS OF ACCOUNTING PROCEDURES AND INTERNAL CONTROLS FOR SPORTS WAGERING**

Section

238.12 Reserve Requirement

238.12: Reserve Requirement

(1) A system of Internal Controls submitted by a Sports Wagering Operator in accordance with 205 CMR 238.02 shall include a plan to maintain and protect sufficient cash and other supplies to conduct Sports Wagering at all times through a reserve in the amount necessary to ensure the security of funds held in Sports Wagering Accounts and the ability to cover the outstanding Sports Wagering liability, including the amounts accepted by the Sports Wagering Operator on Sports Wagers whose outcomes have not been determined and amounts owed but unpaid on winning Sports Wagering tickets or vouchers. The reserve may be in the form of Cash, Cash Equivalents, payment processor reserves, payment processor receivables, an irrevocable letter of credit, a bond, or a combination thereof; provided that the amount of the reserve intended to cover the Sports Wagering liability must be in the form of, or backed up by, an irrevocable letter of credit approved by the Commission and which may be drawn by the Commission in the event of cessation of Sports Wagering Operations in accordance with 205 CMR 258.00.

(2) A system of Internal Controls submitted by a Sports Wagering Operator in accordance with 205 CMR 238.02 shall ensure funds in Sports Wagering Accounts, including pending withdrawals, are either ~~held~~:

- (a) ~~In~~Held in trust for the patron in a Segregated Account managed in accordance with 205 CMR 248.00; ~~or~~
- (b) ~~In a special purpose Segregated Account that is maintained and controlled by a properly constituted corporate entity that is not the Sports Wagering Operator and whose governing board includes one or more corporate directors who are independent of the Sports Wagering Operator and any affiliated Gaming Licensee and of any corporation related to or controlled by either. Said corporate entity must require a unanimous vote of all corporate directors to file bankruptcy and must have articles of incorporation that prohibit the commingling of its funds with those of the Sports Wagering Operator except as necessary to reconcile the Sports Wagering Accounts. Said special purpose corporate entity must also be:~~
  - ~~1. Restricted from incurring debt other than to patrons~~
- (c) Backed up by an irrevocable letter of credit approved by the Commission;  
or
- (d) A combination of the forms described in 205 CMR 238.12(2)(a)-(c).

The amount held pursuant to ~~the rules that govern the patrons'~~this section 205 CMR 238.12 shall be an amount equal to 110% of the total funds held in Sports Wagering Accounts;

- ~~2. Restricted from taking on obligations of the Sports Wagering Operator other than obligations to patrons pursuant to the rules that govern the patrons' Sports Wagering Accounts; and~~
- ~~3. Prohibited from dissolving, merging or consolidating with another company (other than a special purpose corporate entity established by another Sports Wagering Operator that meets the requirements of this section) while there~~

~~are unsatisfied obligations to patrons.~~ as estimated and reported the most recent quarter of the Fiscal Year.

- (3) A system of Internal Controls submitted by a Sports Wagering Operator in accordance with 205 CMR 238.02 shall implement procedures that are reasonably designed to:
  - (a) Ensure that the funds in the Segregated Account or cash held in reserve do not belong to the Sports Wagering Operator and are not available to creditors other than the patron whose funds are being held; and
  - (b) Prevent commingling of funds in the Segregated Account or cash held in reserve with other funds including, without limitation, funds of the Sports Wagering Operator.
  - (c) Ensure that letters of credit approved by the Commission pursuant to 205 CMR 238.12(2)(c) are not available to creditors of the Sports Wagering Operator, except than as set forth in such letters of credit.
- (4) A Sports Wagering Operator must have access to all Sports Wagering Accounts and Sports Wager data to ensure the amount of its reserve is sufficient. Unless otherwise directed by the Commission, a Sports Wagering Operator must file a monthly attestation with the Commission, in the form and manner prescribed by the Commission, that funds have been safeguarded in accordance with 205 CMR 238.12.
- (5) The Commission may audit a Sports Wagering Operator's reserve at any time and may direct a Sports Wagering Operator to take any action necessary to ensure the purposes of 205 CMR 238.12 are achieved, including but not limited to, requiring the Sports Wagering Operator to modify the form of its reserve or increase the amount of its reserve.