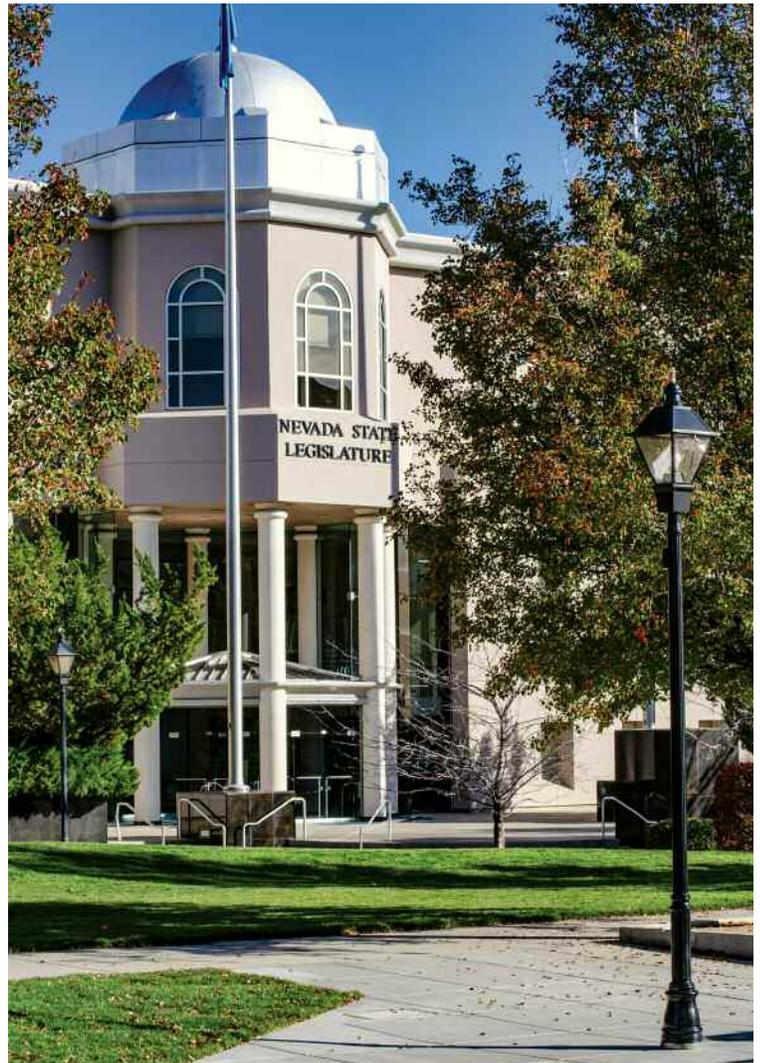


CASINO SYSTEMS REGULATION

By A.C. Ansani

Over the last several years, developments in technology applicable to gaming equipment and new gaming channels have advanced at a rapid pace.

Legislative and regulatory responses to these technological developments followed, resulting in the deployment of new gaming options and markets available in Nevada. Some of these new laws and regulations, and the processes behind their enactment, generated great interest from gaming industry observers, investors, and media.



For instance, in 2011, the Nevada State Legislature passed Assembly Bill (AB) 258, or an “Act related to gaming; requiring the Nevada Gaming Commission to adopt regulations relating to the licensing and operation of interactive gaming...”¹ AB 258, in turn, led to the promulgation of Nevada Gaming Commission (NGC) Regulation 5A, which provides the regulatory framework for online gaming in Nevada.² Although AB 258 authorized only online poker in Nevada, the regulatory process drew a great deal of gaming media and industry attention.

Another example of new gaming laws and regulations that attracted a lot of attention occurred during 2015 and 2016 related to skill-based gaming. In 2015, Governor Sandoval signed Nevada Senate Bill 9 into law, which created a new form of gaming for Nevada casinos based on skill or a combination of skill and chance.³ Subsequently, in September 2015, NGC Regulation 14 was amended to include provisions governing conduct of games of skill and hybrid games of chance and skill.⁴

These examples are a few highlights of the “latest and greatest” in terms of gaming technology developments,

and it follows that the process of regulatory change needed to commercialize the new technology would attract attention. However, the basic framework for operating a casino in Nevada remains fairly static with long-standing NGC regulations governing such operations continuing to be enhanced and enforced without much fanfare. Casino systems are an example of a longstanding, critical piece of technology for casino operations within this description.

In particular, regulations governing casino systems are critical to Nevada casino licensees and manufacturers providing such systems, due to the necessary financial reporting and security functions a casino system provides. Yet, casinos systems regulations in Nevada do not seem to attract as much attention (outside of compliance professionals) in comparison to regulations bringing potential new gaming technologies to the public.

In its most basic function, a casino system is installed at a gaming location in order to monitor and provide accounting functionality for all of the electronic gaming devices in operation on a casino floor. Simply put, the casino system is the “back-of-the-house” server room

where all data related to slot machines is reported and recorded in accordance with applicable NGC Regulations and Technical Standards and also must provide adherence to casino Minimum Internal Controls for unrestricted licensees.

A casino system in Nevada falls under the definition of “associated equipment” meaning “any equipment or mechanical, electromechanical or electronic contrivance, component or machine used remotely or directly in connection with gaming or mobile gaming that would not otherwise be classified as a gaming device, ... which affects the proper reporting of gross revenue, ... or computerized systems for monitoring slot machines and devices or weighing or counting money.”⁵ In contrast to more newly enacted Nevada gaming laws and regulations, this definition remains similar to the original text enacted in 1985.⁶



Considering that in normal-course life today a web search engine can provide the answers to life’s deepest questions in a matter of seconds, it would not seem that a casino system should be all that difficult to install or otherwise develop. However, the technological requirements of an online slot system in Nevada are rigorous. For an on-line slot monitoring system connected to all slot machines on a casino floor, the system must be able to generate documentation indicating particular information by slot machine, by denomination and in total, and further, this information shall be available for those slot machines on a per day, per month, year to date basis, for at least a previous two year cumulative basis.⁷ In addition to having requirements to produce and maintain comprehensive slot machine archival data, the regulations set out numerous slot machine metering requirements that must be reported and maintained by the casino system. For instance, with

regard to slot machine performance alone, NGC Technical Standard 3.140 requires a casino system to record and report the following information:

(a) By machine or socket ID:

- (1) Denomination or an indication that the machine is a multi-denomination machine;
- (2) Slot machine number and game type;
- (3) Coin In;
- (4) Metered or actual drop;
- (5) Actual jackpot payout slips issued;
- (6) Actual fill slips issued;
- (7) Win;
- (8) Theoretical Hold Percentage;
- (9) Actual hold percentage;
- (10) Percentage variance (theoretical vs. actual hold); and
- (11) Projected dollar variance (i.e., coin in times the percentage variance).

(b) By denomination and in total:

- (1) Weighted average theoretical hold (i.e. floor par);
- (2) Combined actual hold percentage (all win divided by all coin in);
- (3) Percentage variance (floor par vs. combined actual hold percentage); and
- (4) Projected dollar variance (i.e. total coin in times the percentage variance).⁸

While this is a lot of data to record from a slot machine, it is not unfamiliar metering reports for those experienced with slot floor operations. Recording a slot machine’s win, theoretical hold, and actual hold percentages are common functions. In the context of a casino system. However, having all of the listed data set forth in Technical Standard 3.140(2) is not something that is easily accomplished for a large, nonrestricted casino licensee’s floor. A typical large casino licensee in Las Vegas will operate around 1,500 slot



machines, with some of the very large neighborhood casinos and casinos on the Las Vegas strip operating nearly twice that amount.

Each casino will also have slot machines from numerous manufacturers on its floor. In most instances, the large casinos will have slot machines from possibly up to ten or more manufacturers. Each manufacturer's slot machines will have their own internal computer code and protocols, differing from all of the other manufacturers. To make the equation even more complicated, each manufacturer's slot machines will very likely be of differing age, operating system, and cabinet style, which may or may not have continuity over the years. The casino system must be able to accurately communicate with all of these different types of gaming machines.

Despite the fact that all of these complex variables exist on the floor of every large casino operation in Nevada, the regulations and technical standards for an on-line monitoring system are clear. The back-of-the-house system must be able to report all of the data required with accuracy and veracity. The challenge created for any casino system manufacturer that wants to sell its product in Nevada becomes obvious. A casino floor is not a static entity, games are added and removed frequently, new gaming machines are added sometimes replacing older machines, sometimes not, and the slot machine vendors may change with frequency. Despite all of these variables, there are no exemptions or "do-overs" for a casino system vendor. The system must be able to accommodate all of these requirements or it is not compliant and cannot be installed in a Nevada location.

The technical standards cited above are only part of the requirements under NGC Technical Standard 3.140 for a casino system to measure and maintain with accuracy for every slot machine on a casino floor. For even more technical complexity, most casino system manufacturers have developed a design of a base system product format for a cashless wagering system. These requirements are contained in NGC Technical Standard 3.150 and become

an additional requirement for a cashless system to operate in a Nevada casino.⁹ A detailed recitation and analysis of all of the applicable casino system standards is not a critical point here; what is a critical point is to form an understanding of the depth of regulations for a casino system and the numerous challenges for a manufacturer of associated equipment to meet these challenges.

In sum, the regulatory framework for casino systems in Nevada has not generated as much interest as recent regulations for new gaming technologies, such as skill-based gaming. However, casino systems are and will be a backbone of casino operations. Whether a licensee in Nevada is operating an on-line slot monitoring system or a cashless wagering system, that licensee has a burden of meeting all required reporting and operational requirements under NGC Regulations; further, that licensee's casino system needs to operate in compliance with applicable regulations and technical standards. As challenging as it may seem to create new gaming products and accompanying regulations, developing and operating a compliant casino system encompasses far more variables and complexity than meets the eye.



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¹ 2011 Stat. of Nev., at 1668-1673 (ch. 308, AB 258).

² Nev. Gaming Comm'n Reg. 5A, *et seq.*

³ NRS 463.15997(4).

⁴ Nev. Gaming Comm'n Regs. 14.010(10), 14.010(14).

⁵ NRS 463.0136

⁶ *Id.*

⁷ Nev. Gaming Comm'n Technical Standard 3.140; *see also* Version 8 Minimum Internal Control Standards.

⁸ *Id.*, at 3.140(2)

⁹ Nev. Gaming Comm'n Technical Standard 3.150.



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