

NEVADA GAMING COMMISSION AMENDS REGULATION 5 TO PERMIT OUT-OF-STATE HOSTING CENTERS

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The Nevada Gaming Commission (“Commission”) recently amended Commission Regulation 5 to (i) allow hosting centers located outside of Nevada to house Nevada-regulated gaming equipment provided they register with the Gaming Control Board (“Board”) and satisfy certain additional criteria; and (ii) expand the scope of Nevada-regulated gaming equipment that may be housed at hosting centers. Such changes were sought by the gaming industry as technology has evolved (and continues to evolve) at a dramatic pace and the amendments will allow multi-jurisdictional gaming licensees to, among other things, consolidate certain technology in a central location.

Prior to the amendment, only hosting centers located within the State of Nevada were eligible to register with the Board. Additionally, hosting centers were only permitted to house “certain parts of computer systems or associated components of games, gaming devices, cashless wagering systems or race books or sports pool operations”.¹ Now, hosting centers are permitted to be located outside of Nevada and house associated equipment (in addition to cashless wagering systems, games, gaming devices and race book operations and sports pool operations).²

Importantly, a hosting center, regardless of whether it is located in the State of Nevada or, as newly approved, outside the state, must be registered with the Board before it can house Nevada-regulated gaming equipment. In other words, Nevada gaming licensees may only store their Nevada-regulated equipment at hosting centers with active registrations.

In order to register as a hosting center, the hosting center, along with certain owners, operators and key employees must undergo an investigation by the Board. Such persons will have to complete a short personal background form along with series of releases and submit fingerprint cards. Additionally, the company will have to register and provide a series of descriptions relating to the facility and services which includes but is not limited to, a detailed location description outlining items such as the floor plan, power capabilities, telecommunication reliability, security descriptions relating to alarms, surveillance and access controls, disaster recovery capabilities and internal control procedures. A full list of such requirements can be found in Commission Regulation 5.230(4)(c). Additionally, introduced as a new requirement, hosting centers will have to be in compliance with, and continue to remain in compliance with all applicable standards of the International Organization for Standardization, including, without limitation, ISO/IEC 27001, 27002, and 27017, or the equivalent.

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Hosting centers located outside of Nevada will not be registered with the Board until they satisfy the burden of establishing the suitability for the subject jurisdiction, which includes, but is not limited to, demonstrating that the jurisdiction's laws, regulations and ordinances, and policies do not in any way limit or infringe on the power and authority of the Board and Commissions; and the transactions to be processed at the hosting center will not violate the laws of the subject jurisdiction and will not violate the laws of the country, territory, or other recognized regional or tribal government where the hosting center is located and operated. Lastly, the Board and Commission will hold absolute power and authority over any registered hosting center regardless of being located outside of Nevada.

Currently, the investigation process is expected to take approximately six months with investigative fees set at \$10,000. However, the cost of the investigation may increase to accommodate travel expenses for out-of-state companies. Barring any issues, such registration approvals is expected to be obtained administratively. While there is no annual renewal fee, there is an initial \$1,000 application fee.

Once registered, the hosting center will be subject to several ongoing requirements, including but not limited to:

- maintaining approved security features (access controls, alarm systems, surveillance, etc.) and approved Internal Control Procedures (visitor access, maintenance and access logs, due diligence performed on contractors and staff, emergency access procedures, etc.)
- providing Board agents with immediate and unfettered access to any Nevada-regulated gaming equipment that is located at the hosting center.

Moreover, at the beginning of each calendar year, each registered hosting center must inform the Board in writing of any changes in the information provided in its application for registration, and the applications for registration of any owner, operator, or person having significant involvement with the hosting center, or provide the Board with an affirmative statement indicating that there have been no changes to that information. If such information or statement is not timely filed with the Board the hosting center's registration, and the registrations of each owner, operator, and person having significant involvement with the hosting center will lapse.

To date, only two hosting centers are registered in Nevada – Switch and Flexential. However, the amendments to Commission Regulation 5 will undoubtedly see an influx of hosting centers apply for registration.

If you require assistance navigating the licensing requirements for hosting centers both inside and outside the state of Nevada, Lewis Roca will strive to work personally with the Board and Commission in order to obtain successful results and limit the number of potential applications.

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1. Reg 1.137

2. Reg 1.137

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