

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2017

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SENATE BILL 589\*

Short Title: Fantasy Sports Regulation. (Public)

Sponsors: Senators Gunn, Blue, Lee (Primary Sponsors); Smith-Ingram and Waddell.

Referred to: Rules and Operations of the Senate

April 5, 2017

1 A BILL TO BE ENTITLED  
2 AN ACT TO REQUIRE REGISTRATION OF FANTASY SPORTS CONTEST  
3 OPERATORS WITH THE DEPARTMENT OF THE SECRETARY OF STATE.

4 The General Assembly of North Carolina enacts:

5 **SECTION 1.** The General Statutes are amended by adding a new Chapter to read:

6 **"Chapter 78E.**

7 **"Fantasy Sports Contests.**

8 **"§ 78E-1. Title.**

9 This Chapter shall be known and may be cited as the "Fantasy Sports Contests Act."

10 **"§ 78E-2. Definitions.**

11 In this Chapter, unless the context otherwise requires, the following definitions shall apply:

- 12 (1) Department. – The Department of the Secretary of State.
- 13 (2) Entry fee. – Cash or cash equivalent that is required to be paid by a  
14 participant to an operator in order to participate in a fantasy contest.
- 15 (3) Fantasy contest. – An online fantasy or simulated game or contest in which  
16 an entry fee is charged and all of the following conditions apply:  
17 a. The value of all prizes and awards offered to winning participants is  
18 established and made known to the participants in advance of a  
19 contest that is open to the general public.  
20 b. All winning outcomes reflect the relative knowledge and skill of the  
21 participants and shall be determined by accumulated statistical results  
22 of the performance of individuals, including athletes in the case of  
23 sports events.  
24 c. No winning outcome is based on the score, point spread, or any  
25 performance of any single actual team or combination of teams or  
26 solely on any single performance of an individual athlete or player in  
27 any single actual event.
- 28 (4) Location percentage. – The percentage for the operator, rounded to the  
29 nearest tenth of a percent (1/10 of 1%), of the total amount of entry fees  
30 collected from players located in this State, divided by the total entry fees  
31 collected by the operator from all players.
- 32 (5) Net revenue. – The amount equal to the total of all entry fees that an operator  
33 collects from all players, less the total of all sums paid out as winnings to all  
34 players, multiplied by the location percentage. The term includes the value  
35 of any promotional tickets and credits.



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- 1           (6)   Operator. – A person or entity that offers fantasy contests to members of the  
2           public. The term does not include an Internet service provider or a provider  
3           of mobile data services merely as a result of that entity's transporting general  
4           traffic that may include a fantasy contest.
- 5           (7)   Player. – A person who participates in a fantasy contest offered by an  
6           operator.
- 7           (8)   Principal stockholder. – Any person who individually, or in concert with the  
8           person's spouse and immediate family members, (i) beneficially owns or  
9           controls, directly or indirectly, at least fifteen percent (15%) of the equity  
10           ownership of an operator or (ii) has the power to vote or cause the vote of at  
11           least fifteen percent (15%) of an operator.

12   **§ 78E-3. Application for registration; expiration and renewal.**

13           (a)   No fantasy contest shall be offered in this State unless the operator has been  
14           registered with the Department.

15           (b)   An applicant for registration shall be registered by the Department if the applicant  
16           meets all of the following requirements:

- 17           (1)   Submission of an application, on a form to be prescribed by the Department,  
18           that contains all of the following information:
- 19           a.   The name and principal address of the applicant.  
20           b.   The address of any offices of the applicant in this State and its  
21           registered agent within this State. If the applicant does not maintain  
22           an office in this State, the name and address of the person having  
23           custody of its financial records.  
24           c.   The location and date the applicant was legally established and the  
25           form of its organization.  
26           d.   The names and addresses of the officers, directors, trustees, and  
27           principal salaried executive staff officer.  
28           e.   The name and address of each principal stockholder of the applicant,  
29           if any.  
30           f.   Any information the Department deems necessary to ensure  
31           compliance with the provisions of this Chapter.
- 32           (2)   Submission of evidence satisfactory to the Department that the operator has  
33           established commercially reasonable procedures for fantasy contests that are  
34           intended to do the following:
- 35           a.   Prevent the operator and its employees and their immediate family  
36           members living in the same household from competing in any public  
37           fantasy contest offered by the operator in which a cash prize is  
38           offered.  
39           b.   Prevent the sharing of information by fantasy contest players that has  
40           the potential to affect fantasy that is obtained as a result of or by  
41           virtue of a person's employment and that is not publicly available.  
42           c.   Verify that a player is at least 18 years of age.  
43           d.   Ensure that players participating in a fantasy contest are restricted  
44           from entering any fantasy contest where the outcome is determined,  
45           in whole or part, on the accumulated statistical results of a team of  
46           individuals in which such players are participants.  
47           e.   Allow individuals, upon request, to restrict themselves from entering  
48           a fantasy contest and take reasonable steps to prevent those  
49           individuals from entering the operator's fantasy contests.  
50           f.   Disclose the maximum number of entries a single fantasy contest  
51           player may submit to each fantasy contest and take reasonable steps

- 1 to prevent any player from submitting more than the maximum  
2 allowable number.
- 3 g. Segregate player funds from operational funds in separate accounts  
4 and maintain a reserve in the form of cash, cash equivalents,  
5 irrevocable letter of credit, bond, credit card and payment processor  
6 accounts and receivables, or a combination thereof, in an amount  
7 sufficient to pay all prizes and awards offered to winning  
8 participants.
- 9 h. Prevent fantasy contests based on the performances of participants in  
10 collegiate, high school, or youth athletic competitions.
- 11 (3) Submission of an initial registration fee equal to ten percent (10%) of the  
12 operator's gross fantasy contest revenues from the previous calendar year;  
13 provided, however, that the fee shall not be less than two thousand five  
14 hundred dollars (\$2,500) or more than ten thousand dollars (\$10,000).
- 15 (c) Registrations issued pursuant to this Chapter shall expire five years after issuance or  
16 renewal. The Department shall renew the registration of an operator that submits a completed  
17 application in accordance with subsection (b) of this section and a renewal fee equal to the  
18 lesser of five thousand dollars (\$5,000) or ten percent (10%) of the operator's net revenue from  
19 the previous calendar year.
- 20 (d) An operator applying for registration who has been in continuous operation in this  
21 State for at least 180 days as of the effective date of this act may continue to offer fantasy  
22 contests to persons located in the State until 60 days after applications for registration are  
23 published by the Department. Operators who have applied for registration during that 60-day  
24 period may continue to operate while the registration is pending. Operators who have not  
25 registered shall cease operations within this State by the expiration of the 60-day period.
- 26 (e) An operator applying for registration or renewal of a registration may operate during  
27 the application period unless the Department has reasonable cause to believe that the operator is  
28 or may be in violation of the provisions of this Chapter and the Department requires the  
29 operator to suspend all fantasy contests until registration or renewal of registration is issued or  
30 denied.
- 31 (f) The Department shall issue a registration within 60 days of receipt of the application  
32 for registration. If the registration is not issued, the Department shall provide the operator with  
33 the justification for not issuing such registration with specificity.
- 34 **§ 78E-4. Denial, revocation, or suspension of registration; hearings; civil penalties.**
- 35 (a) The Department may deny, revoke, or suspend a registration upon determination  
36 that an operator, or any officer, partner, principal stockholder, or director of the operator, has  
37 done any of the following:
- 38 (1) Knowingly made a false statement of material fact or has deliberately failed  
39 to disclose any information requested.
- 40 (2) Committed an illegal, corrupt, or fraudulent act, practice, or conduct in  
41 connection with any fantasy contest in any jurisdiction, or has been  
42 convicted of a felony, a crime of moral turpitude, or any criminal offense  
43 involving dishonesty or breach of trust within 10 years prior to the date of  
44 application for registration.
- 45 (3) Knowingly failed to comply with the provisions of this Chapter or of any  
46 requirements of the Department.
- 47 (4) Defaulted in the payment of any obligation or debt due to the State.
- 48 (5) Fails to be qualified to do business in this State or is not subject to the  
49 jurisdiction of the courts of this State.
- 50 (b) After a hearing with 30 days' notice, the Department may suspend or revoke an  
51 operator's registration where a violation of this Chapter has been found by a preponderance of

1 the evidence. In addition, the Department may assess a civil penalty not in excess of one  
2 thousand dollars (\$1,000) for any violation of this Chapter demonstrated by a preponderance of  
3 the evidence; provided, however, that the penalty shall not exceed ten thousand dollars  
4 (\$10,000) for a continuing violation. The clear proceeds of any civil penalty assessed under this  
5 section shall be remitted to the Civil Penalty and Forfeiture Fund in accordance with  
6 G.S. 115C-457.2. After a hearing, the Department may revoke a registration if it finds that facts  
7 not known by it at the time it considered the application indicate that such registration should  
8 not have been issued. For the purposes of this section, a single act or omission by an operator  
9 that affects one or more players shall be treated as a single violation.

10 (c) If the Department determines that a violation of this Chapter has occurred and  
11 emergency action is required to protect the public health, safety, and welfare, the Department  
12 may suspend any registration for a period of not more than seven business days pending a  
13 hearing and final determination. The Department shall notify the operator of the date, time, and  
14 place of the hearing at least five business days prior to the hearing.

15 (d) If the Department denies, suspends, or revokes a registration, or assesses a civil  
16 penalty in accordance with this Chapter, the Department shall issue written notice to the  
17 operator. An operator aggrieved by the Department's action may seek review in accordance  
18 with Chapter 150B of the General Statutes.

19 **"§ 78E-5. Reporting and audit requirements.**

20 A registered operator shall do all of the following:

- 21 (1) File an annual report with the Department indicating compliance with this  
22 Chapter.
- 23 (2) Conduct an independent financial audit and submit to the Department a copy  
24 of the independent financial audit report no less frequently than every two  
25 years. The audit shall be consistent with the standards established by the  
26 American Institute of Certified Public Accountants and may be part of a  
27 national audit conducted by a certified public accountant.
- 28 (3) Notify and update the Department of any material change to the information  
29 provided in the application for registration under G.S. 78E-4.
- 30 (4) Notify the Department if the operator ceases to offer fantasy contests in this  
31 State.

32 **"§ 78E-6. Change of ownership or acquisition of interest in operator.**

33 If any person acquires a controlling interest of a registered operator, that person shall  
34 register with the Department in accordance with this act. The operator may continue to operate  
35 during the registration period unless the Department has reasonable cause to believe that person  
36 is or may be in violation of the provisions of this Chapter. The Department may require the  
37 operator to suspend the operation of any fantasy contest until registration is issued or denied.

38 **"§ 78E-7. Powers and duties of the Department.**

39 (a) The Department shall have all powers and duties necessary to carry out the  
40 provisions of this Chapter. The Department may, in accordance with Chapter 150B of the  
41 General Statutes, adopt rules necessary to carry out the provisions of this Chapter.

42 (b) The Department may apply to the superior court for an injunction to restrain any  
43 person from violating the provisions of this Chapter or its rules. Actions under this section shall  
44 be brought in the county where the operator maintains its principal place of business or where  
45 the alleged acts occurred.

46 (c) Whenever the Department has reasonable cause to believe that a violation of any of  
47 the provisions of this Chapter may have occurred, the Department may, upon its own motion or  
48 upon complaint of any person, investigate any operator to determine whether a violation has  
49 occurred.

50 **"§ 78E-8. Confidential information.**

1 Reports, data, or documents submitted to the Department pursuant to the audit requirements  
2 of this Chapter and records submitted to the Department as part of an application for  
3 registration or renewal that contain information about the character or financial responsibility  
4 of the operator or its principal stockholders are confidential and shall not be considered public  
5 records within the meaning of Chapter 132 of the General Statutes.

6 **"§ 78E-9. Fantasy contests not considered gambling.**

7 Fantasy contests conducted pursuant to this Chapter do not constitute gambling, lotteries,  
8 gaming, or any activity or enterprise subject to or prohibited by Chapter 14, 16, or 19 of the  
9 General Statutes, or any other provision of law. The award of prize money for any fantasy  
10 contest shall not be deemed to be part of any gaming contract prohibited pursuant to Chapter 16  
11 of the General Statutes.

12 **"§ 78E-10. Operator control of contests.**

13 Nothing in this Chapter shall be construed to limit the ability of an operator to control or  
14 conduct its contests or to provide a uniform gameplay platform for players in multiple  
15 jurisdictions."

16 **SECTION 2.** G.S. 18B-500 reads as rewritten:

17 **"§ 18B-500. Alcohol law-enforcement agents.**

18 ...

19 (b) Subject Matter Jurisdiction. – After taking the oath prescribed for a peace officer, an  
20 alcohol law-enforcement agent shall have authority to arrest and take other investigatory and  
21 enforcement actions for any criminal offense. The primary responsibility of an agent shall be  
22 enforcement of the ABC and lottery ~~laws~~ laws, as well as the enforcement of the provisions of  
23 Chapter 78E of the General Statutes.

24 (c) Territorial Jurisdiction. – An alcohol law-enforcement agent is a State officer with  
25 jurisdiction throughout the State.

26 (d) Service of ~~Commission~~ Orders. – Alcohol law-enforcement agents may serve and  
27 execute notices, orders, or demands issued by the Secretary of State, pursuant to Chapter 78E  
28 of the General Statutes, the Alcoholic Beverage Control Commission or the North Carolina  
29 State Lottery Commission for the surrender of permits or relating to any administrative  
30 proceeding. While serving and executing such notices, orders, or demands, alcohol  
31 law-enforcement agents shall have all the power and authority possessed by law-enforcement  
32 officers when executing an arrest warrant.

33 ...."

34 **SECTION 3.** This act becomes effective January 1, 2018.