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Will Fraud Charges Brought By SEC Be The Death Knell For Entity Sports Betting?

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The future of entity sports betting is becoming increasingly uncertain after the U.S. Securities and Exchange Commission (SEC) charged a defunct Nevada company with defrauding investors.

The SEC on Monday alleged Bettor Investments, LLC of Reno, Nevada and its sole employee, Matthew C. Stuart of Post Falls, Idaho, illegally collected about $145,000 from around 70 investors by selling stakes in a sports betting entity, constituting an unregistered sale of securities.

The SEC filed its complaint in federal district court in Las Vegas.

Nevada passed legislation in 2015 that allows out-of-state gamblers to establish betting accounts with entity wagering operators such as Bettor Investments.

Frequently described as a sports betting mutual fund, entity wagering enables companies to collect money from investors to make bets on sporting events.

In exchange for surrendering their input on bets, the gamblers or investors share the revenue produced by the entity's wagering pool.

In the four years since being legalized in Nevada, entity wagering companies continue to struggle to make a significant impact on the sports betting market.

Moreover, this was not the first time an entity sports betting operation in Nevada has been accused of running afoul of SEC regulations.

In November, 2016, the SEC issued subpoenas for business records from Bettor Investments, Contrarian Investments and Nevada Sports Investment Group.

The subpoenas led to charges in September 2018 by the SEC against Contrarian Investments and Nevada Sports Investment Group for allegedly violating federal securities laws.

Both cases were settled out of court.

"There are a lot of people who think they're good at sports betting, but there aren't many entity betting companies actually willing to make the investment necessary to make sure they are complying with federal securities laws," said Dennis Gutwald, a Las Vegas gaming attorney and partner at the firm of McDonald Carano.

"It takes a good $80,000 to $100,000 to get that work done," Gutwald said. "Even then, the answer might be 'Maybe,' instead of 'OK.'"

Before beginning operations, entity betting companies also should partner with a sports betting book to make sure their wagers will be accepted, Gutwald said.

The 2015 entity sports betting law in Nevada gained approval after an intense lobbying effort by CG Technology of Las Vegas.

"The Nevada Gaming Control Board and the Nevada Gaming Commission weren't particularly excited about being told that they had to make regulations to facilitate (entity sports betting)," Gutwald said.

"So when they created the regulations, essentially they said, 'Hey, casinos, you can take these bets but if you do and something goes wrong, it's on you.'"

As a result, Gutwald said, most Nevada casinos have been reluctant to embrace entity sports betting.

Bettor Investments, the company cited in the SEC complaint on Monday, ceased doing business in November 2016 after Stuart, its lone employee, shut it down.

The SEC claimed Bettor Investments and Stuart knew they had lost a significant portion of their investors' assets and could not reasonably expect to pay them back.

“I commend the SEC for working to ensure that no one goes out of bounds when conducting entity wagering,” said A.G. Burnett, a former NGCB chairman who also is a partner at McDonald Carano but works in the firm’s office in Reno.

“We always indicated that federal laws must also be complied with, and this is a great example,” Burnett said.

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