(2) Has at least 5,000 enrollees or 1,500 enrollees if it serves a primarily rural area as defined in §417.413(b)(3);
(3) Has at least 75 Medicare enrollees or has an acceptable plan to achieve this Medicare membership within 2 years;
(4) Satisfies CMS that it can bear the potential losses of a risk contract; and
(5) Has not previously terminated or failed to renew a risk contract within the preceding 5 years, unless CMS determines that circumstances warrant special consideration.

(f) Requirements for a reasonable cost contract. An HMO or CMP may enter into a reasonable cost contract if it meets one of the following:
(1) The HMO or CMP qualifies for a risk contract, but chooses a reasonable cost contract.
(2) The HMO or CMP meets the conditions for entering into a risk contract specified in paragraph (e) of this section except that CMS does not judge the HMO or CMP capable of bearing the potential losses of a risk contract.

(g) Regulations on reasonable cost and risk reimbursement are set forth in subparts O and P of this part.

§417.412 Qualifying condition: Administration and management.
The HMO or CMP must demonstrate that it—
(a) Has sufficient administrative capability to carry out the requirements of the contract; and
(b) Does not have any agents or management staff or persons with ownership or control interests who have been convicted of criminal offenses related to their involvement in Medicaid, Medicare, or social service programs under title XX of the Act.

§417.413 Qualifying condition: Operating experience and enrollment.
(a) Condition. The HMO or CMP must demonstrate that it has operating experience and an enrolled population sufficient to provide a reasonable basis for establishing a prospective per capita reimbursement rate or a reasonable cost reimbursement rate, as appropriate.
(b) Standard: Enrollment and operating experience for HMOs or CMPs to contract on a risk basis. To be eligible to contract on a risk basis—
(1) A nonrural HMO or CMP must currently have the following:
(i) At least 5,000 enrollees; and
(ii) At least 75 Medicare enrollees or a plan acceptable to CMS for achieving a Medicare enrollment of 75 within 2 years from the beginning of its initial contract period.
(2) A rural HMO or CMP must currently have—
(i) At least 1,500 enrollees; and
(ii) At least 75 Medicare enrollees or a plan acceptable to CMS for achieving a Medicare enrollment of 75 within 2 years from the beginning of its initial contract period.
(3) For purposes of this paragraph, an HMO or CMP is considered rural if at least 50 percent of its enrollees reside in nonmetropolitan areas. A nonmetropolitan area is an area—
(i) No part of which is within a metropolitan statistical area (MSA) as designated by the Executive Office of Management and Budget; and
(ii) That does not contain a city whose population exceeds 50,000 individuals.
(4) A subdivision or subsidiary of an HMO or CMP that meets the requirements of paragraph (b)(1) or (b)(2) of this section need not demonstrate that it meets those requirements as an independent unit if the HMO or CMP assumes responsibility for the financial risk, and adequate management and supervision of health care services furnished by its subdivision or subsidiary.
(c) Standard: Enrollment and operating experience for HMOs or CMPs to contract on a cost basis. To be eligible to contract on a reasonable cost basis, an HMO or CMP must currently have enrollees sufficient in number to provide a reasonable basis for entering into a contract, as follows:
(1) At least 1,500 enrollees.
(2) At least 75 Medicare enrollees, or a plan acceptable to CMS for achieving—