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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2020

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A N A C T

RELATING TO STATE AFFAIRS AND GOVERNMENT -- RHODE ISLAND ECONOMIC
GROWTH BLOCKCHAIN ACT

Introduced By: Representatives Place, and Filippi

Date Introduced: March 11, 2020

Referred To: House Corporations

It is enacted by the General Assembly as follows:

1 SECTION 1. Title 42 of the General Laws entitled "STATE AFFAIRS AND
2 GOVERNMENT" is hereby amended by adding thereto the following chapter:

3 CHAPTER 64.34

4 RHODE ISLAND ECONOMIC GROWTH BLOCKCHAIN ACT

5 **42-64.34-1. Short title.**

6 This chapter shall be known and may be cited as the "Rhode Island Economic Growth
7 Blockchain Act."

8 **42-64.34-2. Legislative Findings.**

9 The general assembly finds and declares:

10 (1) It is declared to be the policy of the state to promote a vigorous and growing economy,
11 to prevent economic stagnation, and to encourage the creation of new job opportunities in order to
12 ameliorate the hazards of unemployment and underemployment, reduce the level of public
13 assistance, increase revenues to the state and its municipalities, and to achieve a stable diversified
14 economy.

15 (2) The state of Rhode Island understands that to compete in the twenty-first century
16 economy, Rhode Island must offer one of the best business environments in the United States for
17 blockchain and technology innovators, and should offer a comprehensive regulatory technology
18 sandbox for these innovators to develop the next generation of digital products and services in

1 Rhode Island:

2 (3) Building a more robust public-private partnership framework is mandatory for
3 economic success;

4 (4) The state of Rhode Island understands that further developing technology industries
5 within a robust public-private partnership brings better efficiency, trust, and accountability between
6 Rhode Island state government, businesses, and residents.

7 (5) The state understands a public-private partnership developing an immutable
8 interagency-industry-operability blockchain filing system is vital and redevelopment investment in
9 opportunity zones that shall install, maintain, and organize within the system of blockchain records
10 throughout the state is advantageous.

11 (6) Financial and health technology is undergoing a transformational period in which new
12 technologies are providing greater automation, connectivity and transparency for provenance of
13 products and services:

14 (i) Existing legal frameworks are restricting technology innovation because these
15 frameworks were largely established at a time when technology was not a fundamental component
16 of products and services;

17 (ii) Technology innovators require a supervised, flexible regulatory sandbox to test new
18 products and services using waivers of specified statutes and rules under defined conditions;

19 (iii) Jurisdictions which establish regulatory sandboxes are more likely to provide a
20 welcoming business environment for technology innovators and may experience significant
21 business growth;

22 (iv) Other jurisdictions have enacted, or are considering, regulatory sandboxes for financial
23 technology innovators in their jurisdictions;

24 (v) Other jurisdictions have enacted, or are considering public-private partnerships for
25 health technology innovators in their jurisdictions;

26 (vi) Other jurisdictions have enacted or are considering blockchain track and trace
27 identifiers for highly regulated products and industry such as hemp; while recognizing there are
28 legitimate concerns on implementing a widespread hemp industry in the state, necessitating
29 incremental rollout of newly licensed and credentialed entities to best ensure public health and
30 safety: Rhode Island seeks to establish a best in the nation blockchain technology hub for twenty-
31 first century commerce that will increase economic opportunity; including highly regulated
32 industries that otherwise left unchecked could cause continued harm to public health and safety.

33 (7)(i) The rapid innovation of blockchain technology including the growing use of virtual
34 currency and other digital assets has resulted in many blockchain innovators being unable to access

1 secure and reliable banking services thereby hampering development of blockchain services and
2 products in the marketplace;

3 (ii) Federally insured financial institutions are not generally permitted to manage accounts
4 in virtual currency or hold other digital assets;

5 (iii) Blockchain innovators have greater compliance challenges with federal customer
6 identification, anti-money laundering and beneficial ownership requirements because of the
7 complex nature of these obligations and the unfamiliarity of regulators with blockchain innovators'
8 businesses;

9 (iv) These intricate obligations have resulted in many financial institutions in Rhode Island
10 and across the United States refusing to provide banking services to blockchain innovators and also
11 refusing to accept deposits in United States currency obtained from the sale of virtual currency or
12 other digital assets;

13 (v) Compliance with applicable federal and state laws is critical to ensuring the future
14 growth and reputation of the blockchain and technology industries as a whole;

15 (vi) Most financial institutions today do not have the requisite expertise or familiarity with
16 the challenges facing blockchain innovators which is required to provide secure and reliable
17 banking services to these innovators;

18 (vii) A new type of Rhode Island financial payments and depository institution that has
19 expertise with customer identification, anti-money laundering and beneficial ownership
20 requirements could seamlessly integrate these requirements into its operating model; and

21 (viii) Authorizing special purpose depository institutions to be chartered in Rhode Island
22 will provide a necessary and valuable service to blockchain innovators, emphasize Rhode Island's
23 partnership with the technology and financial industry and safely grow this state's developing
24 financial sector.

25 **42-64.34-3. Definitions.**

26 As used in this chapter the following words and phrases shall have the following meanings,
27 unless the context otherwise requires:

28 (1) "Agency" or "public body" means any executive, legislative, judicial, regulatory,
29 administrative body of the state, or any political subdivision thereof: including, but not limited to,
30 any department, division, agency, commission, board, office, bureau, authority, any school, fire, or
31 water district, or other agency or quasi-public agency of Rhode Island state or local government
32 which exercises governmental functions or any other public or private agency, person, partnership,
33 corporation, or business entity acting on behalf of any public agency.

34 (2) "Bank" means any corporation, excluding national banks, having a place of business

1 within this state which engages in banking business, and includes a special purpose depository
2 institution, subject to the limitations set forth in § 42-64.34-9.

3 (3) "Batch" means a specific quantity of real or digital product that is part of a regulated
4 industry, such as hemp or vital records.

5 (4) "Blockchain" means a digital ledger or database which is chronological, consensus-
6 based, decentralized and mathematically verified in nature.

7 (5) "Bureau" means an office or department in charge of administering any agency or bank
8 regulated by the provisions of this chapter.

9 (6) "Commercial hemp activity" means and includes the cultivation, possession,
10 manufacture, distribution, processing, storing, laboratory testing, packaging, labeling,
11 transportation, delivery, or sale of hemp and hemp products as provided for in this division.

12 (7) "Commissioner" means the state banking commissioner.

13 (8) "Compassion Center" as defined under § 21-28.6-12 in chapter 28.6 of title 21 entitled
14 "The Edward O. Hawkins and Thomas C. Slater Medical Marijuana Act".

15 (9) "Consumer" means a person, whether a natural person or a legal entity, in Rhode Island
16 who purchases or enters into an agreement to receive an innovative financial product or service
17 made available through the financial technology sandbox;

18 (10) "Consumptive" means a circumstance when a token is exchangeable for, or provided
19 for the receipt of, services, software, content or real or tangible personal property, including rights
20 of access to services, content or real or tangible personal property.

21 (11) "Control" means:

22 (i) When used in reference to a transaction or relationship involving virtual currency, the
23 power to execute unilaterally or prevent indefinitely a virtual currency transaction; and

24 (ii) When used in reference to a person, the direct or indirect power to direct the
25 management, operations, or policies of the person through legal or beneficial ownership of twenty-
26 five percent (25%) or more of the voting power in the person or under a contract, arrangement, or
27 understanding.

28 (12) "Cultivation" means any activity involving the planting, growing, harvesting, drying,
29 curing, grading, or trimming of hemp.

30 (13) "Cultivation site" means a location where hemp is planted, grown, harvested, dried,
31 cured, graded, or trimmed, or a location where any combination of those activities occurs.

32 (14) "Custodial services" means the safekeeping and management of customer currency
33 and digital assets through the exercise of fiduciary and trust powers under this section as a
34 custodian, and includes fund administration and the execution of customer instructions.

1 (15) "Customer" means a natural person twenty-one (21) years of age or older or a natural
2 person eighteen (18) years of age or older who possesses a physician's recommendation, or a
3 primary caregiver.

4 (16) "Database" means a set of data held on a secured computer software program or
5 encrypted electronic storage system providing an immutable distributed ledger of records.

6 (17) "Department" means the department of business regulation, division of banking.

7 (18) "Developer" means the person primarily responsible for creating an open blockchain
8 token or otherwise designing the token, including by executing the technological processes
9 necessary to create the token;

10 (19) "Digital asset" means a representation of economic, proprietary or access rights that
11 is stored in a computer readable format, and includes digital consumer assets, digital securities and
12 virtual currency;

13 (20) "Digital consumer asset" means a digital asset that is used or bought primarily for
14 consumptive, personal or household purposes and includes:

15 (i) An open blockchain token constituting intangible personal property as otherwise
16 provided by law; and

17 (ii) Any other digital asset which does not fall within the scope of this chapter.

18 (21) "Exchange," used as a verb, means to assume control of virtual currency from or on
19 behalf of a resident, at least momentarily, to sell, trade, or convert:

20 (i) Virtual currency for legal tender, bank credit, or one or more forms of virtual currency;
21 or

22 (ii) Legal tender or bank credit for one or more forms of virtual currency.

23 (22) "Facilitator" means a person who, as a business, makes open blockchain tokens under
24 this section available for resale to the public after a token has been purchased by an initial buyer.

25 (23) "Fees" means charge(s) imposed by the private entity of a qualifying project for use
26 of all or a portion of such qualifying project pursuant to a comprehensive agreement;

27 (24) "Financial investment" means a contract, transaction or arrangement where a person
28 invests money in a common enterprise and is led to expect profits solely from the efforts of a
29 promoter or a third party.

30 (25) "Financial product or service" means a product or service related to finance, including
31 banking, securities, consumer credit or money transmission, which is subject to statutory or rule
32 requirements identified in title 19 and is under the jurisdiction of the commissioner or secretary.

33 (26) "Financial technology sandbox" means the program created by this act which allows
34 a person to make an innovative financial product or service available to consumers during a

1 sandbox period through a waiver of existing statutory and rule requirements, or portions thereof,
2 by the commissioner or secretary.

3 (27) "Hemp" means marijuana and all parts of the plant of the genus hemp, whether
4 growing or not; the seeds thereof; the resin extracted from any part of the plant; and every
5 compound, manufacture, salt, derivative, mixture, or preparation of the plant, its seeds, or resin. It
6 does not include hemp, the mature stalks of the plant, fiber produced from the stalks, oil or cake
7 made from the seeds of the plant, or any other compound, manufacture, salt, derivative, mixture,
8 or preparation of the mature stalks (except the resin extracted from it), fiber, oil, or cake, or the
9 sterilized seed of the plant that is incapable of germination.

10 (28) "Hemp cultivation facility" means an entity that is licensed pursuant to chapter 26 of
11 title 2, to be exempt from state penalties for manufacturing hemp or hemp products, cultivating,
12 preparing, packaging, and selling hemp to a retailer, processor, or another hemp cultivation facility,
13 but not for selling hemp products or selling hemp to the general public.

14 (29) "Hemp processor" means an entity licensed pursuant to chapter 26 of title 2 to be
15 exempt from state penalties for purchasing hemp from hemp cultivation facilities, manufacturing
16 hemp products, and selling, giving, or transferring hemp products to a hemp retailer or a hemp
17 testing facility.

18 (29) "Hemp products" means all parts of the plant hemp sativa linnaeus, hemp indica, or
19 hemp ruderalis, whether growing or not.

20 (30) "Hemp testing facility" means an entity that is licensed pursuant to chapter 26 of title
21 2 to be exempt from state penalties for testing hemp and hemp products for potency and
22 contaminants.

23 (31) "Innovative" means new or emerging technology, or new uses of existing technology,
24 that provides a product, service, business model or delivery mechanism to the public and has no
25 substantially comparable, widely available analogue in Rhode Island including blockchain
26 technology.

27 (32) "Issuer" means a person that issues or proposes to issue a security

28 (33) "Legal tender" means a medium of exchange or unit of value, including the coin or
29 paper money of the United States, issued by the United States or by another government.

30 (34) "License" means a state license issued under this division, and includes both a
31 cultivation license and a medicinal use license, as well as a testing laboratory license.

32 (35) "Licensee" means any person holding a license under this division, regardless of the
33 license held, and includes the holder of a testing laboratory license.

34 (36) "Licensing authority" means the state agency responsible for the issuance, renewal, or

1 reinstatement of the license, or the state agency authorized to take disciplinary action against the
2 licensee.

3 (37) "Local jurisdiction" means a city, county, or city and county.

4 (38) "M-license" means a state license issued for commercial activity involving hemp or
5 medicinal cannabis.

6 (39) "M-licensee" means any person holding a license under this chapter for commercial
7 hemp activity involving hemp or medicinal cannabis.

8 (40) "Manufacture" means to compound, blend, extract, infuse, or otherwise make or
9 prepare a hemp product.

10 (41) "Manufacturer" means a licensee that conducts the production, preparation,
11 propagation, or compounding of hemp or hemp products either directly or indirectly or by
12 extraction methods or independently by means of chemical synthesis, or by a combination of
13 extraction and chemical synthesis at a fixed location that packages or repackages hemp or hemp
14 products or labels or relabels its container.

15 (42) "Medicinal cannabis" or "medicinal cannabis product" means cannabis or a cannabis
16 product, respectively, intended to be sold for use, pursuant to chapter 28.6 of title 21, by a medicinal
17 cannabis patient in Rhode Island who possesses a physician's recommendation.

18 (43) "Monetary value" means a medium of exchange, whether or not redeemable in money.

19 (44) "Nursery" means a licensee that produces only clones, immature plants, seeds, and
20 other agricultural products used specifically for the propagation and cultivation of hemp.

21 (45) "Open blockchain token" means a digital unit which is:

22 (i) Created in response to the verification or collection of a specified number of transactions
23 relating to a digital ledger or database;

24 (ii) Created by deploying computer code to a digital ledger or database, which may include
25 a blockchain, that allows for the creation of digital tokens or other units;

26 (iii) Created by using a combination of the methods specified in §§ 42-64.34-8 or 42-64.34-
27 9.

28 (iv) Recorded to a digital ledger or database, which may include a blockchain; or

29 (v) Capable of being traded or transferred between persons without an intermediary or
30 custodian of value.

31 (46) "Operation" means any act for which licensure is required under the provisions of this
32 division, or any commercial transfer of hemp or hemp products.

33 (47) "Opportunity zones" means designated areas included in the Tax cuts and Jobs Act of
34 2017. Rhode Island opportunity zones are located in twenty-five (25) census tracts spread across

1 the following fifteen (15) municipalities: Bristol, Central Falls, Cranston, Cumberland, East
2 Providence, Narragansett, Newport, North Providence, Pawtucket, Providence, South Kingstown,
3 Warren, West Warwick, Westerly, and Woonsocket.

4 (48) "Owner" means any of the following:

5 (i) A person with an aggregate ownership interest of twenty percent (20%) or more in the
6 person applying for a license or a licensee, unless the interest is solely a security, lien, or
7 encumbrance;

8 (ii) The chief executive officer of a nonprofit or other entity;

9 (iii) A member of the board of directors of a nonprofit;

10 (iv) An individual who will be participating in the direction, control, or management of the
11 person applying for a license.

12 (49) "Person" means and includes any individual, firm, partnership, joint venture,
13 association, corporation, limited-liability-company, estate, trust, business trust, receiver, syndicate,
14 or any other group or combination acting as a unit, and the plural as well as the singular.

15 (50) "Premises" means the designated structure or structures and land specified in the
16 application that is owned, leased, or otherwise held under the control of the applicant or licensee
17 where the commercial hemp activity will be or is conducted. The premises shall be a contiguous
18 area and shall only be occupied by one licensee.

19 (51) "Private entity" means any natural person, corporation, general partnership, limited
20 liability company, limited partnership, joint venture, business trust, public benefit corporation,
21 nonprofit entity, or one other private business entity.

22 (52) "Proposal" means a plan for a qualifying project with detail beyond a conceptual level
23 for which terms such as fixing costs, payment schedules, financing, deliverables, and project
24 schedules are defined.

25 (53) "Public record(s)" means all documents, papers, letters, maps, books, tapes,
26 photographs, films, sound recordings, or other material regardless of physical form or
27 characteristics made or received pursuant to law or ordinance or in connection with the transaction
28 of official business by any agency.

29 (54) "Purchaser" means the customer who is engaged in a transaction with a licensee for
30 purposes of obtaining hemp or hemp products.

31 (55) "Qualifying project" means:

32 (i) A facility or project that serves a public purpose, including, but not limited to, any ferry
33 or mass transit facility, vehicle parking facility, airport or seaport facility, rail facility or project,
34 transportation facilities, technology infrastructure, fuel supply facility, oil or gas pipeline, medical

1 or nursing care facility, or educational facility or other building or facility that is used or will be
2 used by a public educational institution, or any other public facility or infrastructure that is used or
3 will be used by the public at large or in support of an accepted public purpose or activity;

4 (ii) An improvement, including equipment, of a building that will be principally used by a
5 public entity or the public at large or that supports a service delivery system in the public sector;

6 (iii) A water, wastewater, or surface water management facility or other related
7 infrastructure; or

8 (iv) Notwithstanding any provision of this section, for projects that involve a facility owned
9 or operated by the governing board of a city or town, district, or hospital or health care system, or
10 projects that involve a facility owned or operated by an electric utility, only those projects that the
11 governing board designates as qualifying projects pursuant to this section.

12 (56) "Reciprocity agreement" means an arrangement between the department and the
13 appropriate licensing agency of another state that permits a licensee operating under a license
14 granted by the other state to engage in currency transmission business activity with or on behalf of
15 a resident.

16 (57) "Record" means information that is inscribed on a tangible medium or that is stored
17 in an electronic or other medium and is retrievable in perceivable form.

18 (58) "Registry" means the Nationwide Multistate Licensing System.

19 (59) "Regulated Products" means any raw materials, ingredients, pharmaceuticals,
20 fabricated devices, manufactured goods, media, health, finance, identification records, or other
21 goods and services requiring local, state, or federal regulatory compliance.

22 (60) "Resident" means a person that:

23 (i) Is domiciled in this state;

24 (ii) Is physically located in this state for more than one hundred eighty-three (183) days of
25 the previous three hundred sixty-five (365) days; or

26 (iii) Has a place of business in this state and includes a legal representative of a person that
27 satisfies subsection (60)(i) of this section.

28 (61) "Responsible individual" means an individual who has managerial authority with
29 respect to a licensee's currency transmission business activity with or on behalf of a resident.

30 (62) "Responsible public entity" means the state, a city, town, district, school board, or any
31 other political subdivision of the state; a public body corporate and politic; or a regional entity that
32 serves a public purpose and is authorized to develop or operate a qualifying project.

33 (63) "Revenue" means the income, earnings, user fees, lease payments, or other service
34 payments relating to the development or operation of a qualifying project, including, but no limited

1 to, money received as grants or otherwise from the federal government, a public entity, or an agency
2 or instrumentality thereof in aid of the qualifying project.

3 (64) "Sandbox period" means the period of time, initially not longer than twenty-four (24)
4 months, in which the commissioner or secretary has authorized an innovative financial product or
5 service to be made available to consumers, which shall also encompass any extension granted under
6 §§ 43-64.34-1 through 43-64.34-9.

7 (65) "Secretary" means the secretary of state;

8 (66) "Sell" or "sale" means any transaction whereby, for any consideration, title to hemp
9 or hemp products is transferred from one person to another, and includes the delivery of hemp or
10 hemp products pursuant to an order placed for the purchase of the same and soliciting or receiving
11 an order for the same, but does not include the return of hemp or hemp products by a licensee to
12 the licensee from whom the hemp or hemp product was purchased.

13 (67) "Seller" means a person who makes an open blockchain token available for purchase
14 to an initial buyer.

15 (68) "Service contract" means a contract between a public entity and the private entity
16 which defines the terms of the services to be provided with respect to a qualifying project.

17 (69) "Sign" means with present intent to authenticate or adopt a record, to execute or adopt
18 a tangible symbol or to attach to or logically associate with the record an electronic symbol, sound,
19 or process.

20 (70) "Special purpose depository institution" means a corporation operating pursuant to §
21 42-64.34-9;

22 (71) "State" means a state of the United States, the District of Columbia, Puerto Rico, the
23 United States Virgin Islands, or any territory or insular possession subject to the jurisdiction of the
24 United States.

25 (72) "Store," except in the phrase "store of value," means to maintain control of virtual
26 currency on behalf of a resident by a person other than the resident. "Storage" and "storing" have
27 corresponding meanings.

28 (73) "Supervisor of the regulatory body" means the chief or head of a section having
29 enforcement responsibility for a particular statute or set of rules and regulations within a regulatory
30 agency

31 (74) "System of vital records" means the registration, collection, preservation, amendment,
32 and certification of vital statistics records, and activities related to them including the tabulation,
33 analysis, and publication of statistical data derived from those records.

34 (75) "Transfer" means to assume control of virtual currency from or on behalf of a resident

1 and to:

2 (i) Credit the virtual currency to the account of another person;

3 (ii) Move the virtual currency from one account of a resident to another account of the
4 same resident; or

5 (iii) Relinquish control of virtual currency to another person.

6 (76) "Unique identifier" means an alphanumeric code or designation used for reference to
7 a specific plant on a licensed premises and any hemp or hemp product derived or manufactured
8 from that plant.

9 (77) "U.S. Dollar equivalent of virtual currency" means the equivalent value of a particular
10 virtual currency in United States dollars shown on a virtual currency exchange based in the United
11 States for a particular date or period specified in this chapter. Virtual currency or a digital security,
12 as defined in § 19-14.3-1.1(17), shall not constitute an open blockchain token as defined within §§
13 42-64.34-8; 42-64.34-9.

14 **42-64.34-4. Council established.**

15 There is hereby created a Rhode Island blockchain technology advisory council to consist
16 of thirteen (13) members: three (3) of whom shall be appointed by the governor, with two (2) of
17 those so appointed to be designated by the governor as co-chairs; six (6) of whom shall be directors
18 from the Rhode Island commerce corporation, as established by chapter 64 of title 42; four (4)
19 members shall be appointed by majority of the nine (9) members appointed by the governor and
20 Rhode Island commerce corporation; two (2) of the four members shall be appointed from the
21 private sector: with one holding expertise in complex financial services, and one with expertise in
22 cybersecurity; two (2) of the four members shall be appointed from academia: with one holding
23 expertise in financial systems, and one with expertise in computer engineering The membership of
24 said council shall receive no compensation for their services. The council shall support the state's
25 research institutions, promote entrepreneurial development, enable all organizations to become
26 more innovative, and perform any other advisory functions as the legislature may designate.

27 **42-64.34-5. Filing System.**

28 Relating to § 42-64.34-4; authorizing the thirteen (13) member council to develop and
29 implement a blockchain filing system specific only to record council actions; authorizing the
30 promulgation of rules; and providing for an effective date.

31 (a) Not later than December 31, 2021, the council may develop and implement an industry
32 leading filing system through which the council shall endeavor to use blockchain technology and
33 include an application programming interface as components of the filing system, as well as robust
34 security measures and other components determined by the secretary of state to be best practices

1 or which are likely to increase the effective and efficient administration of the laws of this state, if
2 adapted by future legislation. The council may create a blockchain for the purposes of this section
3 or contract for the use of a privately created blockchain to best meet its needs.

4 (b) The council may:

5 (i) Consult with all interested parties before developing the filing system specified by §§
6 42-64.34-5 through 4-64.34-11, including businesses, registered agents, attorneys, law enforcement
7 and other interested persons;

8 (ii) If possible, partner with technology innovators and private companies to develop
9 necessary components of the system.

10 **42-64.34-6. Coordination with existing programs.**

11 (a) To the maximum extent possible, the directors of the departments shall provide special
12 assistance to the council for review of blockchain and related technology, and provide opinions as
13 to how all the administrative powers and duties vested by law in the several state departments,
14 boards, divisions, bureaus, commissions, and other agencies vested in the following departments
15 and other agencies which are specified in this chapter might benefit from further innovation of
16 blockchain technology:

17 (1) Executive department (chapter 7 of this title);

18 (2) Department of state (chapter 8 of this title);

19 (3) Department of the attorney general (chapter 9 of this title);

20 (4) Treasury department (chapter 10 of this title);

21 (5) Department of administration (chapter 11 of this title);

22 (6) Department of business regulation (chapter 14 of this title);

23 (7) Department of children, youth and families (chapter 72 of this title);

24 (8) Department of corrections (chapter 56 of this title);

25 (9) Department of elderly affairs (chapter 66 of this title);

26 (10) Department of elementary and secondary education (chapter 60 of title 16);

27 (11) Department of environmental management (chapter 17.1 of this title);

28 (12) Department of health (chapter 18 of this title);

29 (13) Board of governors for higher education (chapter 59 of title 16);

30 (14) Department of labor and training (chapter 16.1 of this title);

31 (15) Department of behavioral healthcare, developmental disabilities and hospitals (chapter
32 12.1 of this title);

33 (16) Department of human services (chapter 12 of this title);

34 (17) Department of transportation (chapter 13 of this title);

1 [\(18\) Public utilities commission \(chapter 14.3 of this title\);](#)

2 [\(19\) Department of revenue \(chapter 142 of title 42\);](#)

3 [\(20\) Department of public safety \(chapter 7.3 of this title\);](#)

4 [This shall include, but not be limited to:](#)

5 [\(i\) Expedited processing;](#)

6 [\(ii\) Priority funding;](#)

7 [\(iii\) Program set asides.](#)

8 **42-64.34-7. Track and Trace.**

9 [\(a\) The council, in consultation with the governor, shall appoint the appropriate](#)
10 [departments to establish a track and trace program for reporting the movement of regulated](#)
11 [products. In order to facilitate a universal system that tracks payments and taxation accountability,](#)
12 [promotes public trust, protects public safety and health, the council shall establish a program to](#)
13 [utilize blockchain track and trace framework for the state's highly regulated industries. For](#)
14 [development purposes, the council will focus on establishing a program for hemp within this](#)
15 [section as defined under chapter 26 of title 2, entitled "Hemp Growth Act", and as related within](#)
16 [chapter 28.6 of title 21, "The Edward O. Hawkins and Thomas C. Slater Medical Marijuana Act",](#)
17 [as well as other regulated real or digital products throughout the distribution chain that utilizes a](#)
18 [unique identifier pursuant to § 42-64.34, secure packaging, and is capable of providing information](#)
19 [that captures, at a minimum, all of the following:](#)

20 [\(1\) The licensee receiving the product;](#)

21 [\(2\) The transaction date;](#)

22 [\(3\) The cultivator, manufacturer, or data exchange from which the product originates,](#)
23 [including the associated unique identifier pursuant to § 42-64.34-6.](#)

24 [\(b\) The department, in consultation with the general assembly and Rhode Island commerce](#)
25 [corporation, shall create an algorithm computerized electronic digital database information which](#)
26 [shall include:](#)

27 [\(1\) The variety and quantity or weight of products shipped;](#)

28 [\(2\) The estimated times of departure and arrival;](#)

29 [\(3\) The variety and quantity or weight of products received;](#)

30 [\(4\) The actual time of departure and arrival;](#)

31 [\(5\) A categorization of the product; and](#)

32 [\(6\) The license number and the unique identifier pursuant to § 42-64.34-6 issued by the](#)
33 [licensing authority for all licensees involved in the shipping process, including, but not limited to,](#)
34 [cultivators, manufacturers, distributors, and compassion centers.](#)

1 (c) The database shall be designed to flag irregularities for all licensing authorities in this
2 chapter to investigate. All licensing authorities pursuant to this chapter may access the database
3 and share information related to licensees under this chapter, including social security and
4 individual taxpayer identification numbers and other identifying information.

5 (d) The department shall immediately inform the bureau upon the finding of an irregularity
6 or suspicious finding related to a licensee, applicant, or commercial hemp activity for investigatory
7 purposes.

8 (e) Licensing authorities and state and local agencies may, at any time, inspect shipments
9 and request documentation for current inventory.

10 (f) The council shall have twenty four (24) hour access to the electronic database
11 administered by the department. The council shall have read access to the electronic database for
12 the purpose of taxation and regulation of hemp and hemp products.

13 (g) The department shall be authorized to enter into memoranda of understandings with
14 licensing authorities for data sharing purposes, as deemed necessary by the department.

15 (h) Information received and contained in records kept by the department or licensing
16 authorities for the purposes of administering this chapter are confidential and shall not be disclosed
17 pursuant to relevant Rhode Island general law except as necessary for authorized employees of the
18 state of Rhode Island or any city, county, or city and county to perform official duties pursuant to
19 this chapter or any related local ordinance.

20 (i) Upon the request of a state or local law enforcement agency, licensing authorities shall
21 allow access to or provide information contained within the database to assist law enforcement in
22 their duties and responsibilities pursuant to this chapter.

23 (j) The department, in consultation with the council shall ensure that the track and trace
24 program can also track and trace the amount of the cultivation tax due. The track and trace program
25 shall include an electronic seed to sale software tracking system with data points for the different
26 stages of commercial activity, including, but not limited to, cultivation, harvest, processing,
27 distribution, inventory, and sale.

28 (k) The department, in consultation with the council, shall ensure that licensees under this
29 chapter are allowed to use third-party applications, programs, and information technology systems
30 to comply with the requirements of the expanded track and trace program described in § 42-64.34-
31 7 to report the movement of hemp and hemp products throughout the distribution chain and
32 communicate the information to licensing agencies as required by law.

33 (l) Any blockchain software, database, or other information technology system utilized by
34 the department to implement the expanded track-and-trace program shall support interoperability

1 with third-party hemp business software applications and allow all licensee-facing system activities
2 to be performed through a secure application programming interface, (API), or comparable
3 technology that is well documented, bi-directional, and accessible to any third-party application
4 that has been validated and has appropriate credentials. The API or comparable technology shall
5 have version control and provide adequate notice of updates to third-party applications. The system
6 should provide a test environment for third-party applications to access that mirrors the production
7 environment.

8 (m) The track and trace blockchain shall be used to expand a hemp cultivation program to
9 be administered by the secretary. The secretary shall administer this section as it pertains to the
10 cultivation of hemp. For purposes of this chapter, hemp is an agricultural product.

11 (n) A person or entity shall not cultivate hemp without first obtaining a state license issued
12 by the department pursuant to this chapter.

13 (o) The department, in consultation with, but not limited to, the council, shall implement a
14 unique identification program for hemp and regulated products. In implementing the program, the
15 department shall consider issues including, but not limited to, water use and environmental impacts.
16 If the state finds, based on substantial evidence, that cultivation is causing significant adverse
17 impacts on the environment in a watershed or other geographic area, the department shall not issue
18 new licenses or increase the total number of plant identifiers within that watershed or area.

19 (p) The department shall establish a program for the identification of permitted hemp plants
20 at a cultivation site during the cultivation period. A unique identifier shall be issued for each hemp
21 plant. The department shall ensure that unique identifiers are issued as quickly as possible to ensure
22 the implementation of this chapter. The unique identifier shall be attached at the base of each plant
23 or as otherwise required by law or regulation.

24 (1) Unique identifiers shall only be issued to those persons appropriately licensed by this
25 section.

26 (2) Information associated with the assigned unique identifier and licensee shall be
27 included in the track and trace program specified in § 42-64.34-7.

28 (3) The department may charge a fee to cover the reasonable costs of issuing the unique
29 identifier, monitoring, tracking, and inspecting each hemp plant.

30 (4) The department may promulgate regulations to implement this section.

31 (r) The department shall take adequate steps to establish protections against fraudulent
32 unique identifiers and limit illegal diversion of unique identifiers to unlicensed persons.

33 (s) A city or town may administer and issue unique identifiers and associated identifying
34 information but those identifiers shall not supplant the department's track and trace program.

1 (t) This section applies to the cultivation of hemp in accordance with chapter 26 of title 2,
2 entitled the “Hemp Growth Act” and chapter 28.6 of title 21, entitled "The Edward O. Hawkins
3 and Thomas C. Slater Medical Marijuana Act"

4 (u) The secretary may enter into a cooperative agreement with other state or local agencies
5 to assist the department in implementing the provisions of this chapter related to administration,
6 investigation, inspection, fee collection, document management, education and outreach,
7 distribution of individual licenses approved by the secretary, and technical assistance pertaining to
8 the cultivation of hemp. The department shall pay compensation under a cooperative agreement
9 from fees collected and deposited pursuant to this chapter and shall provide reimbursement to the
10 state, or local agency for associated costs. The secretary shall not delegate through a cooperative
11 agreement, or otherwise, its authority to issue cultivation licenses to any local agency, or other state
12 agency. The secretary shall provide notice of any cooperative agreement entered into pursuant to
13 this chapter to other relevant state agencies involved in the regulation of hemp cultivation.

14 **42-64.34-8. Financial Sandbox -Financial technology sandbox waiver; applicability of**
15 **criminal and consumer protection statutes; referral to investigatory agencies; civil liability.**

16 (a) Notwithstanding any other provision of law, a person who makes an innovative
17 financial product or service available to consumers in the financial technology sandbox may be
18 granted a waiver of specified requirements imposed by statute or rule, or portions thereof, if these
19 statutes or rules do not currently permit the product or service to be made available to consumers.
20 A waiver under this subsection shall be no broader than necessary to accomplish the purposes and
21 standards set forth in this act, as determined by the commissioner or secretary.

22 (b) A person who makes an innovative financial product or service available to consumers
23 in the financial technology sandbox is:

24 (1) Not immune from civil damages for acts and omissions relating to this act; and

25 (2) Subject to all criminal and consumer protection laws, including, but not limited to,
26 violations of any provisions of title 11, title 19 and title 21.

27 (c) The commissioner or secretary may refer suspected violations of law relating to this
28 chapter to appropriate state or federal agencies for investigation, prosecution, civil penalties and
29 other appropriate enforcement actions, including, but not limited to, suspension or revocation of
30 any license or authorization granted under this chapter.

31 (d) If service of process, relative to any civil proceeding, on a person making an innovative
32 financial product or service available to consumers in the financial technology sandbox is not
33 feasible, service on the secretary of state shall be deemed service on the person.

34 (e) Financial technology sandbox application; standards for approval; consumer protection:

1 A person shall apply to the commissioner or secretary to make an innovative financial product or
2 service available to consumers in the financial technology sandbox, based on the office that
3 administers the statute, regulation, rule or portion thereof, for which a waiver is sought. If both the
4 commissioner and the secretary jointly administer a statute or regulation or rule, or if the
5 appropriate office is not known, an application may be filed with either the commissioner or the
6 secretary. If an application is filed with an office that does not administer the statute, regulation or
7 rule for which a waiver is sought, the receiving office shall forward the application to the correct
8 office. The person shall specify in an application the statutory or rule requirements for which a
9 waiver is sought and the reasons why these requirements prohibit the innovative financial product
10 or service from being made available to consumers. The application shall also contain the elements
11 required for authorization which are set forth in § 42-64.34-7. The commissioner and secretary
12 shall each, by rule, prescribe a method of application.

13 (f) A business entity making an application under this section shall be a domestic
14 corporation or other organized domestic entity with a physical presence, other than that of a
15 registered office or agent, in Rhode Island.

16 (g) Before an employee applies on behalf of an institution, firm or other entity intending to
17 make an innovative financial product or service available through the financial technology sandbox,
18 the employee shall obtain the consent of the institution, firm or entity before filing an application
19 under this section.

20 (h) The individual filing an application under this section and the individuals who are
21 substantially involved in the development, operation or management of the innovative financial
22 product or service shall, as a condition of an application, submit to a criminal history background
23 check with the department of attorney general.

24 (i) An application made under this section shall be accompanied by a fee of five hundred
25 dollars (\$500). The fee shall be deposited into the financial technology innovation account as
26 required by title 19.

27 (j) The commissioner or secretary, as applicable, shall authorize or deny a financial
28 technology sandbox application in writing within ninety (90) days of receiving the application. The
29 commissioner or secretary and the person who has made an application may jointly agree to extend
30 the time beyond ninety (90) days. The commissioner or secretary may impose conditions on any
31 authorization, consistent with this chapter. In deciding to authorize or deny an application under
32 this section, the commissioner or secretary shall consider each of the following:

33 (1) The nature of the innovative financial product or service proposed to be made available
34 to consumers in the sandbox, including all relevant technical details which may include whether

1 the product or service utilizes blockchain technology;

2 (2) The potential risk to consumers and methods which will be used to protect consumers
3 and resolve complaints during the sandbox period;

4 (3) A business plan proposed by the person, including proof of capital requirements;

5 (4) Whether the person has the necessary personnel, adequate financial and technical
6 expertise and a sufficient plan to test, monitor and assess the innovative financial product or service;

7 (5) Whether any person substantially involved in the development, operation or
8 management of the innovative financial product or service has been convicted of, or is currently
9 under investigation for, fraud, state or federal securities violations or any property based offense;

10 (6) A copy of the disclosures required under this chapter that will be provided to
11 consumers;

12 (7) Any other factor that the commissioner or secretary determines to be relevant.

13 (k) If an application is authorized under subsection (j) of this section, the commissioner or
14 secretary shall specify the statutory or rule requirements, or portions thereof, for which a waiver is
15 granted and the length of the initial sandbox period. The commissioner or secretary shall also post
16 notice of the approval of a sandbox application under this section, a summary of the innovative
17 financial product or service and the contact information of the person making the product or service
18 available through the sandbox on the Internet website of the commissioner or secretary.

19 (l) A person authorized under section (j) of this section to enter into the financial
20 technology sandbox shall post a consumer protection bond with the commissioner or secretary as
21 security for potential losses suffered by consumers. The bond amount shall be determined by the
22 commissioner or secretary in an amount not less than ten thousand dollars (\$10,000) and shall be
23 commensurate with the risk profile of the innovative financial product or service. The
24 commissioner or secretary may require that a bond under this subsection be increased or decreased
25 at any time based on risk profile. Unless the bond is enforced, the commissioner or secretary shall
26 cancel or allow the bond to expire two (2) years after the date of the conclusion of the sandbox
27 period.

28 (m) A person authorized under subsection (j) of this section to enter into the financial
29 technology sandbox shall be deemed to possess an appropriate license for the purposes of federal
30 law requiring state licensure or authorization.

31 (n) Authorization under subsection (j) of this section shall not be construed to create a
32 property right.

33 (o) Financial technology innovation account:

34 (1) There is created the financial technology innovation account. Funds within the account

1 shall only be expended by legislative appropriation. All funds within the account shall be invested
2 by the state treasurer and all investment earnings from the account shall be credited to the general
3 fund. The account shall be divided into two (2) subaccounts controlled by the commissioner and
4 secretary, respectively, for the purposes of administrative management. For the purposes of
5 accounting and investing only, the subaccounts shall be treated as separate accounts.

6 (2) Subject to legislative appropriation, application fees remitted to the account shall be
7 deposited into the subaccount controlled by the commissioner or secretary, as applicable, based on
8 the receiving official. These funds, and any additional funds appropriated by the legislature, shall
9 be used only for the purposes of administering this act, including processing of sandbox
10 applications and monitoring, examination and enforcement activities relating to this chapter.

11 (p) Operation of financial technology sandbox:

12 (1) Except as otherwise provided under chapter 14.3 of title 19, a person authorized under
13 this chapter to enter into the financial technology sandbox may make an innovative financial
14 product or service available to consumers during the sandbox period.

15 (2) The commissioner or secretary may, on a case by case basis, specify the maximum
16 number of consumers permitted to receive an innovative financial product or service, after
17 consultation with the person authorized under this chapter to make the product or service available
18 in the financial technology sandbox.

19 (3) Before a consumer purchases or enters into an agreement to receive an innovative
20 financial product or service through the financial technology sandbox the person making the
21 product or service available shall provide a written statement of the following to the consumer:

22 (i) The name and contact information of the person making the product or service available
23 to consumers;

24 (ii) That the product or service has been authorized to be made available to consumers for
25 a temporary period by the commissioner or secretary, as applicable, under the laws of Rhode Island;

26 (iii) That the state of Rhode Island does not endorse the product or service and is not subject
27 to liability for losses or damages caused by the product or service;

28 (iv) That the product or service is undergoing testing, may not function as intended and
29 may entail financial risk;

30 (v) That the person making the product or service available to consumers is not immune
31 from civil liability for any losses or damages caused by the product or service;

32 (vi) The expected end date of the sandbox period;

33 (vii) The name and contact information of the commissioner or secretary, as applicable,
34 and notification that suspected legal violations, complaints or other comments related to the product

1 or service may be submitted to the commissioner or secretary:

2 (viii) Any other statements or disclosures required by rule of the commissioner or secretary
3 which are necessary to further the purposes of this act.

4 (q) A person authorized to make an innovative financial product or service available to
5 consumers in the financial technology sandbox shall maintain comprehensive records relating to
6 the innovative financial product or service. The person shall keep these records for not less than
7 five (5) years after the conclusion of the sandbox period. The commissioner and secretary may
8 specify further records requirements under this subsection by rule.

9 (r) The commissioner or secretary, as applicable, may examine the records maintained
10 under by any depository or financial technology innovation account opened pursuant to this
11 chapter, with or without notice. All direct and indirect costs of an examination conducted under
12 this subsection shall be paid by the person making the innovative financial product or service
13 available in the financial technology sandbox. Records made available to the commissioner or
14 secretary under this subsection shall be confidential and shall not be subject to disclosure under the
15 Rhode Island public records act but may be released to appropriate state and federal agencies for
16 the purposes of investigation.

17 (s) Unless granted an extension pursuant to not less than thirty (30) days before the
18 conclusion of the sandbox period, a person who makes an innovative financial product or service
19 available in the financial technology sandbox shall provide written notification to consumers
20 regarding the conclusion of the sandbox period and shall not make the product or service available
21 to any new consumers after the conclusion of the sandbox period until legal authority outside of
22 the sandbox exists to make the product or service available to consumers. The person shall wind
23 down operations with existing consumers within sixty (60) days after the conclusion of the sandbox
24 period, except that, after the sixtieth day, the person may:

25 (1) Collect and receive money owed to the person and service loans made by the person,
26 based on agreements with consumers made before the conclusion of the sandbox period;

27 (2) Take necessary legal action; and

28 (3) Take other actions authorized by the commissioner or secretary by rule which are not
29 inconsistent with this subsection.

30 (t) The commissioner and the secretary may, jointly or separately, enter into agreements
31 with state, federal or foreign regulatory agencies to allow persons who make an innovative financial
32 product or service available in Rhode Island through the financial technology sandbox to make
33 their products or services available in other jurisdictions and to allow persons operating in similar
34 financial technology sandboxes in other jurisdictions to make innovative financial products and

1 services available in Rhode Island under the standards of this chapter.

2 (u) Revocation or suspension of financial technology sandbox authorization:

3 (1) The commissioner or secretary may, by order, revoke or suspend authorization granted

4 to a person under this chapter if:

5 (i) The person has violated or refused to comply with this chapter or any lawful rule, order

6 or decision adopted by the commissioner or secretary;

7 (ii) A fact or condition exists that, if it had existed or become known at the time of the

8 financial technology sandbox application, would have warranted denial of the application or the

9 imposition of material conditions;

10 (iii) A material error, false statement, misrepresentation or material omission was made in

11 the financial technology sandbox application; or

12 (iv) After consultation with the person, continued testing of the innovative financial

13 product or service would:

14 (A) Be likely to harm consumers; or

15 (B) No longer serve the purposes of this chapter because of the financial or operational

16 failure of the product or service.

17 (v) Written notification of a revocation or suspension order made under subsection (c) of

18 this section shall be served using any means authorized by law, and if the notice relates to a

19 suspension, include any conditions or remedial action which shall be completed before the

20 suspension will be lifted by the commissioner or secretary.

21 (w) Extension of sandbox period:

22 (1) A person granted authorization under subsection (j) of this section may apply for an

23 extension of the initial sandbox period for not more than twelve (12) additional months. An

24 application for an extension shall be made not later than sixty (60) days before the conclusion of

25 the initial sandbox period specified by the commissioner or secretary. The commissioner or

26 secretary shall approve or deny the application for extension in writing not later than thirty-five

27 (35) days before the conclusion of the initial sandbox period. An application for extension by a

28 person shall cite one of the following reasons as the basis for the application and provide all relevant

29 supporting information that:

30 (i) Statutory or rule amendments are necessary to conduct business in Rhode Island on a

31 permanent basis; or

32 (ii) An application for a license or other authorization required to conduct business in

33 Rhode Island on a permanent basis has been filed with the appropriate office and approval is

34 currently pending.

1 (x) Rules and orders; enforcement of bond; restitution:

2 (1) The commissioner and secretary shall each adopt rules to implement this act. The rules
3 adopted by the commissioner and secretary under this chapter shall be as consistent as reasonably
4 possible, but shall account for differences in the statutes and programs administered by the
5 commissioner and secretary.

6 (2) The commissioner or secretary may issue:

7 (i) All necessary orders to enforce this chapter, including, but not limited to, ordering the
8 payment of restitution and enforcement of these orders in any court of competent jurisdiction;

9 (ii) An order under subsection (x)(2)(i) of this section to enforce the bond or portion of the
10 bond posted under this chapter, and use proceeds from the bond to offset losses suffered by
11 consumers as a result of an innovative financial product or service.

12 (3) All actions of the commissioner or secretary under this chapter shall be subject to the
13 rules and regulations under title 19 and chapter 14 of title 42.

14 (y) Access to, and dissemination of, information:

15 (1) Criminal history record information shall be disseminated by criminal justice agencies
16 in this state, whether directly or through any intermediary, only to the banking commissioner or the
17 secretary of state for purposes of obtaining background information on persons applying for of a
18 financial technology sandbox authorization; provided, however, that all officers and directors
19 subsequently hired or appointed, shall be required to submit to a criminal history background check.

20 (z) State or national criminal history record information:

21 (1) The following persons shall be required to submit to fingerprinting in order to obtain
22 state and national criminal history record information:

23 (i) Applicants for a financial technology sandbox authorization:

24 (aa) General applicability:

25 (1) Section 42-64.34-7 applies to all banks in this state organized under this action and to
26 national banks where specifically provided by the text.

27 (bb) The financial technology sandbox definitions shall apply to this chapter.

28 (cc) Electronic records and signatures; applicability:

29 (1) This act modifies, limits, and supersedes the federal Electronic Signatures in Global
30 and National Commerce Act, but does not modify, limit, or supersede section 101(c) of that act (15
31 U.S.C. § 7001 (c)) or authorize electronic delivery of any of the notices described in section 103(b)
32 of that act (15 U.S.C. § 7003(b)). This chapter authorizes the filing of records and signatures, when
33 specified by provisions of this chapter or by a rule adopted or order issued under this chapter, in a
34 manner consistent with section 104(a) of that act (15 U.S.C. § 7004(a)).

1 (dd) Reservation of power to amend or repeal § 42-64.34-7; applicability:

2 (1) The legislature has power to amend or repeal all or part of § 42-64.34-7 at any time and
3 all domestic and foreign corporations subject to this act are governed by the amendment or repeal.

4 (2) Unless displaced by particular provisions of this chapter, the principles of law and
5 equity supplement § 42-64.34-7.

6 (3) The banking commissioner and the secretary of state shall adopt rules to implement §
7 42-64.34-7 on or before January 1, 2021.

8 **42-64.34-9. Special Depository Sandbox.**

9 (a) The legislature will create special purpose depository institutions as a new financial
10 institution; providing that special purpose depository institutions shall be corporations; requiring
11 that depositors be business entities; specifying compliance with applicable federal laws;
12 establishing procedures for the incorporation, chartering and operation of special purpose
13 depository institutions; establishing procedures for liquidation, conservatorship and voluntary
14 dissolution; requiring a surety bond or pledged investments and specified private insurance;
15 authorizing special purpose depository institutions to obtain federal deposit insurance; making
16 conforming amendments; authorizing positions; providing an appropriation; and providing for
17 effective dates.

18 (b) Applicability of other provisions. Except as otherwise provided in this section, if any
19 provision of law conflicts with this chapter, this chapter shall control.

20 (c) Special purpose depository institutions created as corporations; operating authority;
21 powers; prohibition on lending:

22 (1) Consistent with this chapter, special purpose depository institutions shall be organized
23 as corporations under chapter 1.2 of title 7, the Rhode Island business corporation act, to exercise
24 the powers set forth in this section;

25 (2) Each special purpose depository institution may:

26 (i) Make contracts as a corporation under Rhode Island law;

27 (ii) Sue and be sued;

28 (iii) Receive notes and buy and sell gold and silver coins and bullion as permitted by federal
29 law;

30 (iv) Carry on a non-lending banking business for depositors, consistent with subsection (d)
31 of this section;

32 (v) Provide payment services upon the request of a depositor;

33 (vi) Make an application to become a member bank of the Federal Reserve System;

34 (vii) Engage in any other activity that is usual or incidental to the business of banking,

1 subject to the prior written approval of the commissioner. The commissioner shall not approve a
2 request to engage in an incidental activity if he or she finds that the requested activity will adversely
3 affect the solvency or the safety and soundness of the special purpose depository institution or
4 conflict with any provision of this chapter;

5 (viii) Exercise powers and rights otherwise authorized by law which are not inconsistent
6 with this chapter.

7 (d) Except as otherwise provided in this subsection, a special purpose depository institution
8 shall not make loans, including the provision of temporary credit relating to overdrafts. A special
9 purpose depository institution may purchase debt obligations consistent with provisions of title 19.

10 (e) A special purpose depository institution shall maintain its principal operating
11 headquarters and the primary office of its chief executive officer in Rhode Island.

12 (f) As otherwise authorized by this section, the special purpose depository institution may
13 conduct business with depositors outside this state.

14 (g) Subject to the laws of the host state, a special purpose depository institution may open
15 a branch in another state upon obtaining a certificate of good standing from the commissioner or
16 secretary, as long as any new branch located outside of this state is in compliance with state and
17 federal regulations. A special purpose depository institution, including any branch of the institution,
18 may only accept deposits or provide other services under this chapter to depositors engaged in a
19 bona fide business which is lawful under the laws of Rhode Island, the laws of the host state and
20 federal law.

21 (h) Requirements relating to depositors; nature of business:

22 (1) No depositor shall maintain an account with a special purpose depository institution or
23 otherwise receive any services from the institution unless the depositor meets the criteria of this
24 subsection. A depositor shall:

25 (i) Be a legal entity other than a natural person;

26 (ii) Be in good standing with the jurisdiction in the United States in which it is incorporated
27 or organized;

28 (iii) Maintain deposits with the institution totaling not less than five thousand dollars
29 (\$5,000);

30 (iv) Be engaged in a lawful, bona fide business; and

31 (v) Make sufficient evidence available to the special purpose depository institution to
32 enable compliance with anti-money laundering practices, customer identification and beneficial
33 ownership requirements, as determined by the institution.

34 (2) A depositor which meets the criteria of subsection (h) of this section shall be issued a

1 depository account and otherwise receive services from the special purpose depository institution
2 contingent on the availability of sufficient insurance as required under § 19-4-10.

3 (3) Consistent with subsection (h) of this section and in addition to any requirements
4 specified by federal law, a special purpose depository institution shall require that a potential
5 depositor provide reasonable evidence that the person is engaged in a lawful, bona fide business or
6 is likely to open a lawful, bona fide business within the next six (6) months. As used in this
7 subsection, "reasonable evidence" includes business entity filings, articles of incorporation or
8 organization, bylaws, operating agreements, business plans, promotional materials, financing
9 agreements or other evidence.

10 (i) Required liquid assets:

11 (1) At all times, a special purpose depository institution shall maintain unencumbered
12 liquid assets valued at not less than one hundred percent (100%) of its depository liabilities;

13 (2) As used in this section, "liquid assets" means:

14 (i) United States currency held on the premises of the special purpose depository
15 institution;

16 (ii) United States currency held for the special purpose depository institution by a federal
17 reserve bank or a federally insured financial institution;

18 (iii) Investments which are highly liquid, and obligations of the United States treasury or
19 other federal agency obligations consistent with rules adopted by the commissioner.

20 (j) Required contingency account:

21 (1) A special purpose depository institution shall maintain a contingency account to
22 account for unexpected losses and expenses. A special purpose depository institution may require
23 the payment of contributions from depositors to fund a contingency account. Sufficient funding as
24 determined and required by the commissioner for the initial capitalization shall constitute
25 compliance with this subsection for the first three (3) years a special purpose depository institution
26 is in operation. After the conclusion of the first three (3) years of operation, a special purpose
27 depository institution shall maintain a contingency account totaling not less than two percent (2%)
28 of the depository liabilities of the special purpose depository institution; provided, however, that
29 the contingency account shall be adequate and reasonable in light of current and prospective
30 business conditions, as determined by the commissioner;

31 (2) A depositor shall obtain a refund of any contingency account contributions made under
32 this subsection after closing an account with the special purpose depository institution.

33 (k) Applicable federal and state law. A special purpose depository institution shall comply
34 with all applicable federal laws, including, but not limited to, those relating to anti-money

1 laundry practices, customer identification and beneficial ownership.

2 (l) Required disclosures:

3 (1) A special purpose depository institution shall display on any internet website it
4 maintains, and at each window or place where it accepts deposits, a sign conspicuously stating that
5 deposits are not insured by the federal deposit insurance corporation, if applicable.

6 (2) Upon opening an account and if applicable, a special purpose depository institution
7 shall require each depositor to execute a statement acknowledging that all deposits at the special
8 purpose depository institution are not insured by the federal deposit insurance corporation. The
9 special purpose depository institution shall permanently retain this acknowledgment;

10 (3) A special purpose depository institution shall include in all advertising a disclosure that
11 deposits are not insured by the federal deposit insurance corporation, if applicable.

12 (m) Formation; articles of incorporation:

13 (1) Except as otherwise provided, five (5) or more adult persons may form a special purpose
14 depository institution. The incorporators shall subscribe the articles of incorporation and transmit
15 them to the commissioner as part of an application for a charter under title 19.

16 (2) The articles of incorporation shall include the following information:

17 (i) The corporate name;

18 (ii) The purpose for which the corporation is organized;

19 (iii) The term of its existence, which may be perpetual;

20 (iv) The place where its office shall be located and its operations conducted;

21 (v) The amount of capital stock and the number of shares;

22 (vi) The name and residence of each shareholder subscribing to more than ten percent
23 (10%) of the stock and the number of shares owned by that shareholder;

24 (vii) The number of directors and the names of those who shall manage the affairs of the
25 corporation for the first year; and

26 (viii) A statement that the articles of incorporation are made to enable the incorporators to
27 avail themselves of the advantages of the laws of the state.

28 (n) Copies of all amended articles of incorporation shall be filed in the same manner as the
29 original articles of incorporation.

30 (o) The incorporators shall raise sufficient capital prior to filing an application for a charter
31 with the commissioner, consistent with § 19-2-2. In the event an application for a charter is not
32 filed or is denied by the board, all capital shall be promptly returned without loss, to each person
33 or entity investing.

34 (p) Subject to applicable federal and state law, a bank holding company may apply to hold

1 a special purpose depository institution to raise required initial capital and surplus and additional
2 capital.

3 (r) The capital stock of each special purpose depository institution chartered under this
4 chapter shall be subscribed for as fully paid stock. No special purpose depository institution shall
5 be chartered with capital stock less than five million dollars (\$5,000,000).

6 (s) No special purpose depository institution shall commence business until the full amount
7 of its authorized capital is subscribed and all capital stock is fully paid in. No special purpose
8 depository institution may be chartered without a paid up surplus fund of not less than three (3)
9 years of estimated operating expenses in an to be determined by the commissioner;

10 (t) A special purpose depository institution may acquire additional capital prior to the
11 granting of a charter and may report this capital in its charter application.

12 (u) Application for charter; fee; subaccount created:

13 (1) No person shall act as a special purpose depository institution without first obtaining a
14 charter and certificate of authority to operate from the commissioner under this chapter

15 (2) The incorporators, under title 19, shall apply to the commissioner for a charter. The
16 application shall contain the special purpose depository institution's articles of incorporation, a
17 detailed business plan, a comprehensive estimate of operating expenses for the first three (3) years
18 of operation, a complete proposal for compliance with the provisions of this chapter and evidence
19 of the capital as required under subsection (s) of this section. The commissioner may prescribe the
20 form of application by rule.

21 (3) Each application for a charter shall be accompanied by an application fee established
22 by the commissioner pursuant to rule, which shall be no greater than the costs incurred by the
23 commissioner in reviewing the application. The application fee shall be credited to the special
24 purpose depository institutions subaccount created by subsection (o) of this section

25 (v) Special purpose depository institutions subaccount. Funds in the subaccount shall be
26 used by the commissioner to supervise special purpose depository institutions and to otherwise
27 carry out the duties specified by this chapter. Funds in the subaccount are continuously appropriated
28 to the subaccount and shall not lapse at the end of any fiscal period. For purposes of accounting
29 and investing only the special purpose depository institutions subaccount shall be treated as a
30 separate account from the financial institutions administration account.

31 (w) Procedure upon filing application:

32 (1) Upon receiving an application for a special purpose depository charter, the
33 commissioner shall notify the applicants in writing within thirty (30) calendar days of any
34 deficiency in the required information or that the application has been accepted for filing. When

1 the commissioner is satisfied that all required information has been furnished, he or she shall notify
2 the chairman of the board who shall establish a time and place for a public hearing which shall be
3 conducted not less than sixty (60) days, nor more than one hundred twenty (120) days, after notice
4 from the commissioner to the applicants that the application is in order.

5 (2) Within thirty (30) days after receipt of notice of the time and place of the public hearing
6 the applicants shall cause notice of filing of the application and the hearing to be published at the
7 applicant's expense in a newspaper of general circulation within the county where the proposed
8 special purpose depository institution is to be located. Publication shall be made at least once a
9 week for three (3) consecutive weeks before the hearing and shall state: the proposed location of
10 the special purpose depository institution; the names of the applicants for a charter; the nature of
11 the activities to be conducted by the proposed institution and other information required by rule.
12 The applicants shall furnish proof of publication to the commissioner not more than ten (10) days
13 prior to the hearing. The commissioner shall send notice of the hearing to state and national banks,
14 federal savings and loan associations and other financial institutions in the state and federal
15 agencies who have requested notice from the commissioner.

16 (x) Procedure for hearings on charter applications. The hearing for a charter application
17 shall be conducted as a contested case under chapter 35 of title 42 ("administrative procedure") and
18 shall comply with the requirements of that act.

19 (y) Investigation and examination by commissioner:

20 (1) Upon receiving the articles of incorporation, the application for a charter and other
21 information required by the commissioner, the commissioner shall make a careful investigation and
22 examination of the following:

23 (i) The character, reputation, financial standing and ability of the incorporators;

24 (ii) The character, financial responsibility, banking or other financial experience and
25 business qualifications of those proposed as officers and directors; and

26 (iii) The application for a charter, including the adequacy and plausibility of the business
27 plan of the special purpose depository institution and whether the institution has offered a complete
28 proposal for compliance with the provisions of this chapter.

29 (2) The commissioner shall submit the results of his or her investigation and examination
30 at the public hearing on the charter application and shall be subject to cross examination by any
31 interested party. No relevant information shall be excluded by the board as hearsay.

32 (z) Approval or disapproval of application; criteria for approval; action upon application:

33 (1) Within ninety (90) days after receipt of the transcript of the public hearing the board
34 shall render a decision on the charter application based solely on the following criteria:

1 (i) Whether the character, reputation, financial standing and ability of the incorporators is
2 sufficient to afford reasonable promise of a successful operation;

3 (ii) Whether the character, financial responsibility, banking or other financial experience
4 and business qualifications of those proposed as officers and directors is sufficient to afford
5 reasonable promise of a successful operation;

6 (iii) The adequacy and plausibility of the business plan of the special purpose depository
7 institution;

8 (iv) Compliance with the capital and surplus requirements as set forth in this section;

9 (v) The special purpose depository institution is being formed for no other purpose than
10 legitimate objectives authorized by law;

11 (vi) That the name of the proposed special purpose depository institution does not resemble
12 so closely the name of any other financial institution transacting business in the state so as to cause
13 confusion; and

14 (vii) Whether the applicants have complied with all applicable provisions of state law.

15 (2) The board shall approve an application upon making favorable findings on the criteria
16 set forth in this section. If necessary, the board may either conditionally approve an application by
17 specifying conditions relating to the criteria or may disapprove the application. The board shall
18 state findings of fact and conclusions of law as part of its decision. If the board approves the
19 application, the commissioner shall endorse upon the articles of incorporation the approval of the
20 board and shall transmit one copy to the secretary of state, retain one copy and return a copy to the
21 applicants within twenty (20) days after the date of the decision of the board approving the
22 application. If the board conditionally approves an application and upon compliance with necessary
23 conditions required by the board, the commissioner shall proceed as provided in the preceding
24 sentence. If the board disapproves the application, the commissioner shall mail notice of the
25 disapproval to the applicants within twenty (20) days of the board's disapproval.

26 (aa) Certificate of authority to commence business required; application; approval or
27 denial; failure to commence business;

28 (1) If an application is approved and a charter granted by the board, the special purpose
29 depository institution shall not commence business before receiving a certificate of authority to
30 operate from the commissioner. The application for a certificate of authority shall be made to the
31 commissioner and shall certify the address at which the special purpose depository institution will
32 operate and that all adopted bylaws of the institution have been attached as an exhibit to the
33 application. The application shall state the identities and contact information of officers and
34 directors. The commissioner shall approve or deny an application for a certificate of authority to

1 operate within thirty (30) days after a complete application has been filed. The authority of the
2 commissioner to disapprove any application shall be restricted solely to noncompliance with this
3 section; provided that, if the commissioner approves the application, he or she shall issue a
4 certificate of authority to the applicants within twenty (20) days. If the commissioner denies the
5 application he or she shall mail a notice of denial to the applicants within twenty (20) days, stating
6 the reasons for denying the application, and grant to the applicants a period of ninety (90) days to
7 resubmit the application with the necessary corrections. If the applicants fail to comply with
8 requirements of the notice of denial within ninety (90) days from the receipt of the notice, the
9 charter of the special purpose depository institution shall be revoked by the commissioner. The
10 failure of the commissioner to act upon an application for a certificate of authority within thirty
11 (30) days shall be deemed an approval

12 (2) If an approved special purpose depository institution fails to commence business in
13 good faith within six (6) months after the issuance of a certificate of authority to operate by the
14 commissioner, the charter and certificate of authority shall expire. The board, for good cause and
15 upon an application filed prior to the expiration of the six (6) month period, may extend the time
16 within which the special purpose depository institution may open for business.

17 (bb) Decisions by board appealable. Grounds. Any decision of the board or commissioner
18 in approving, conditionally approving or disapproving a charter for a special purpose depository
19 institution or the issuance or denial of a certificate of authority to operate is appealable to the district
20 court of the county in which the institution is to be located, in accordance with the provisions of
21 chapter 35 of title 42 ("administrative procedures"). In addition to the grounds for appeal contained
22 in chapter 35 of title 42 ("administrative procedures"), an appellant may appeal if the board or the
23 commissioner fails to make any of the required findings or otherwise take an action required by
24 law.

25 (cc) Surety bond; pledged investments; investment income; bond or pledge increases-
26 hearings:

27 (1) Except as otherwise provided by this section, a special purpose depository institution
28 shall, before transacting any business, pledge or furnish a surety bond to the commissioner to cover
29 costs likely to be incurred by the commissioner in a liquidation or conservatorship of the special
30 purpose depository institution. The amount of the surety bond or pledge of assets under this section
31 shall be determined by the commissioner in an amount sufficient to defray the costs of a liquidation
32 or conservatorship.

33 (2) In lieu of a bond, a special purpose depository institution may irrevocably pledge
34 specified capital equivalent to a bond to satisfy this section. Any capital pledged to the

1 commissioner under this subsection shall be held in a state or nationally chartered bank or savings
2 and loan association having a principal or branch office in this state. All costs associated with
3 pledging and holding such capital are the responsibility of the special purpose depository
4 institution.

5 (3) Capital pledged to the commissioner shall be of the same nature and quality as those
6 required for state financial institutions under title 19.

7 (4) Surety bonds shall run to the state of Rhode Island, and shall be approved under the
8 terms and conditions established by the commissioner pursuant to his/her authority under title 19.

9 (5) The commissioner may adopt rules to establish additional investment guidelines or
10 investment options for purposes of the pledge or surety bond required by this section.

11 (6) In the event of a liquidation or conservatorship of a special purpose depository
12 institution pursuant chapters 10, 11 or 12 of title 19, the commissioner may, without regard to
13 priorities, preferences or adverse claims, reduce the surety bond or capital pledged under this
14 section to cash as soon as practicable and utilize the cash to defray the costs associated with the
15 liquidation or conservatorship.

16 (7) Income from capital pledged under subsection (cc)(2) of this section shall be paid to
17 the special purpose depository institution, unless a liquidation or conservatorship takes place.

18 (8) Upon evidence that the current surety bond or pledged capital is insufficient, the
19 commissioner may require a special purpose depository institution to increase its surety bond or
20 pledged capital by providing not less than thirty (30) days' written notice to the institution. The
21 special purpose depository institution may request a hearing before the board not more than thirty
22 (30) days after receiving written notice from the commissioner under this subsection. Any hearing
23 before the board shall be held pursuant to chapter 35 of title 42 ("administrative procedures").

24 (dd) Reports and examinations; supervisory fees; required private insurance or bond:

25 (1) The commissioner may call for reports verified under oath from a special purpose
26 depository institution at any time as necessary to inform the commissioner of the condition of the
27 institution.

28 (2) All reports required of special purpose depository institutions by the commissioner and
29 all materials relating to examinations of these institutions shall be subject to the provisions chapter
30 4 of title 19.

31 (3) Every special purpose depository institution is subject to the examination of the
32 commissioner. The commissioner or a duly appointed examiner shall visit and examine special
33 purpose depository institutions on a schedule established by rule. The commissioner or a duly
34 appointed examiner shall make a complete and careful examination of the condition and resources

1 of a special purpose depository institution, the mode of managing institution affairs and conducting
2 business, the actions of officers and directors in the investment and disposition of funds, the safety
3 and prudence of institution management, compliance with the requirements of this chapter and such
4 other matters as the commissioner may require. After an examination, the special purpose
5 depository institution shall remit to the commissioner an amount equal to the total cost of the
6 examination. This amount shall be remitted to the state treasurer and deposited into the special
7 purpose depository institutions subaccount established under this chapter.

8 (4) On or before January 31 and July 31 of each year, a special purpose depository
9 institution shall compute and pay supervisory fees to the commissioner based on the total assets of
10 the special purpose depository institution as of the preceding December 31 and June 30
11 respectively. Supervisory fees under this section shall provide for the operating costs of the office
12 of the commissioner and the administration of the laws governing special purpose depository
13 institutions. Such fees shall be established by rule of the commissioner and shall be adjusted by the
14 commissioner to ensure consistency with the cost of supervision. Supervisory fees shall be
15 deposited by the commissioner with the state treasurer and credited to the special purpose
16 depository institutions subaccount established under this chapter

17 (5) A special purpose depository institution shall maintain appropriate insurance or a bond
18 covering the operational risks of the institution, which shall include coverage for directors' and
19 officers' liability, errors and omissions liability and information technology infrastructure and
20 activities liability.

21 (ee) Suspension or revocation of charter:

22 (1) The commissioner may suspend or revoke the charter of a special purpose depository
23 institution if, after notice and opportunity for a hearing, the commissioner determines that:

24 (i) The special purpose depository institution has failed or refused to comply with an order
25 issued by the commissioner or other regulatory body;

26 (ii) The application for a charter contained a false statement or material misrepresentation
27 or material omission; or

28 (iii) An officer, director or agent of the special purpose depository institution, in connection
29 with an application for a charter, examination, report or other document filed with the
30 commissioner, knowingly made a false statement, material misrepresentation or material omission
31 to the board, the commissioner or the duly authorized agent of the board or commissioner

32 (ff) Continuing jurisdiction. If the charter of a special purpose depository institution is
33 surrendered, suspended or revoked, the institution shall continue to be subject to the provisions of
34 this chapter during any liquidation or conservatorship.

1 (gg) Failure of institution; unsound or unsafe condition; applicability of other insolvency
2 and conservatorship provisions:

3 (1) If the commissioner finds that a special purpose depository institution has failed or is
4 operating in an unsafe or unsound condition, as defined in this section, that has not been remedied
5 within the time prescribed under chapter 4 of title 19 or an order of the commissioner, the
6 commissioner shall conduct a liquidation or appoint a conservator pursuant to chapters 11 or 12 of
7 title 19;

8 (2) As used in this section:

9 (i) "Failed" or "failure" means, consistent with rules adopted by the commissioner, a
10 circumstance when a special purpose depository institution has not:

11 (A) Complied with the requirements of this chapter;

12 (B) Maintained a contingency account, as required by this section;

13 (C) Paid, in the manner commonly accepted by business practices, its legal obligations to
14 depositors on demand or to discharge any certificates of deposit, promissory notes or other
15 indebtedness when due.

16 (ii) "Unsafe or unsound condition" means, consistent with rules adopted by the
17 commissioner, a circumstance relating to a special purpose depository institution which is likely
18 to:

19 (A) Cause the failure of the institution as defined in subsection (2)(i) of this subsection;

20 (B) Cause a substantial dissipation of assets or earnings;

21 (C) Substantially disrupt the services provided by the institution to depositors;

22 (D) Otherwise substantially prejudice the depository interests of depositors.

23 (hh) Voluntary dissolution of special purpose depository institution; liquidation;
24 reorganization; application for dissolution; filing fee; filing with the secretary of state; revocation
25 of charter.

26 (1) A special purpose depository institution may voluntarily dissolve in accordance with
27 the provisions of this section. Voluntary dissolution shall be accomplished by either liquidating the
28 special purpose depository institution or reorganizing the institution into an appropriate business
29 entity that does not engage in any activity authorized only for a special purpose depository
30 institution. Upon complete liquidation or completion of the reorganization, the commissioner shall
31 revoke the charter of the special purpose depository institution and afterward, the company shall
32 not use the word "special purpose depository institution" or "bank" in its business name or in
33 connection with its ongoing business.

34 (2) The special purpose depository institution may dissolve its charter either by liquidation

1 or reorganization. The board of directors shall file an application for dissolution with the
2 commissioner, accompanied by a filing fee established by rule of the commissioner. The
3 application shall include a comprehensive plan for dissolution setting forth the proposed disposition
4 of all assets and liabilities, in reasonable detail to effect a liquidation or reorganization, and any
5 other plans required by the commissioner. The plan of dissolution shall provide for the discharge
6 or assumption of all of the known and unknown claims and liabilities of the special purpose
7 depository institution. Additionally, the application for dissolution shall include other evidence,
8 certifications, affidavits, documents or information as the commissioner may require, including a
9 demonstration of how assets and liabilities will be disposed, the timetable for effecting disposition
10 of the assets and liabilities and a proposal of the special purpose depository institution for
11 addressing any claims that are asserted after dissolution has been completed. The commissioner
12 shall examine the application for compliance with this section, the business entity laws applicable
13 to the required type of dissolution and applicable rules. The commissioner may conduct a special
14 examination of the special purpose depository institution consistent with chapter 4 of title 19 and
15 the guidelines set forth in this chapter for purposes of evaluating the application.

16 (3) If the commissioner finds that the application is incomplete, the commissioner shall
17 return it for completion not later than sixty (60) days after it is filed. If the application is found to
18 be complete by the commissioner, the commissioner shall approve or disapprove the application
19 not later than thirty (30) days after it is filed. If the commissioner approves the application the
20 special purpose depository institution may proceed with the dissolution pursuant to the plan
21 outlined in the application subject to any further conditions the commissioner may prescribe. If the
22 special purpose depository institution subsequently determines that the plan of dissolution needs to
23 be amended to complete the dissolution, it shall file an amended plan with the commissioner and
24 obtain approval to proceed under the amended plan. If the commissioner does not approve the
25 application or amended plan, the special purpose depository institution may appeal the decision to
26 the board pursuant to chapter 35 of title 42 ("administrative procedures").

27 (4) Upon completion of all actions required under the plan of dissolution and satisfaction
28 of all conditions prescribed by the commissioner, the special purpose depository institution shall
29 submit a written report of its actions to the commissioner. The report shall contain a certification
30 made under oath that the report is true and correct. Following receipt of the report, the
31 commissioner, no later than sixty (60) days after the filing of the report, shall examine the special
32 purpose depository institution to determine whether the commissioner is satisfied that all required
33 actions have been taken in accordance with the plan of dissolution and any conditions prescribed
34 by the commissioner. If all requirements and conditions have been met, the commissioner shall,

1 within thirty (30) days of the examination, notify the special purpose depository institution in
2 writing that the dissolution has been completed and issue a certificate of dissolution.

3 (5) Upon receiving a certificate of dissolution, the special purpose depository institution
4 shall surrender its charter to the commissioner. The special purpose depository institution shall then
5 file articles of dissolution and other documents required by § 7-1.2-1309. In the case of
6 reorganization, the special purpose depository institution shall file the documents required by the
7 secretary of state to finalize the reorganization.

8 (6) If the commissioner determines that all required actions under the plan for dissolution,
9 or as otherwise required by the commissioner, have not been completed the commissioner shall
10 notify the special purpose depository institution not later than thirty (30) days after this
11 determination, in writing what additional actions shall be taken in order for the institution to be
12 eligible for a certificate of dissolution. The commissioner shall establish a reasonable deadline for
13 the submission of evidence that additional actions have been taken and the commissioner may
14 extend any deadline upon good cause. If the special purpose depository institution fails to file a
15 supplemental report showing that the additional actions have been taken before the deadline, or
16 submits a report that is found not to be satisfactory by the commissioner, the commissioner shall
17 notify the special purpose depository institution in writing that its voluntary dissolution is not
18 approved, and the institution may appeal the decision to the board pursuant to chapter 35 of title 42
19 ("administrative procedures").

20 (i) Failure to submit required report; fees; rules. If a special purpose depository institution
21 fails to submit any report required by this chapter or by rule within the prescribed period, the
22 commissioner may impose and collect a fee of up to one thousand dollars (\$1000) for each day the
23 report is overdue, as established by rule.

24 (jj) Willful failure to perform duties imposed by law; removal:

25 (1) Each officer, director, employee or agent of a special purpose depository institution,
26 following written notice from the commissioner is subject to removal upon order of the
27 commissioner if he knowingly or willfully fails to:

28 (i) Perform any duty required by this chapter or other applicable law; or

29 (ii) Conform to any rule or order of the commissioner.

30 (2) The commissioner shall adopt all rules necessary to implement this chapter. Digital
31 assets to include:

32 (i) Classifying digital assets within existing laws; specifying that digital assets are property
33 within the Uniform Commercial Code; authorizing security interests in digital assets; establishing
34 an opt-in framework for banks to provide custodial services for digital asset property as custodians;

1 specifying standards and procedures for custodial services under this act; clarifying the jurisdiction
2 of Rhode Island courts relating to digital assets; authorizing a supervision fee; making an
3 appropriation; authorizing positions; specifying applicability; authorizing the promulgation of
4 rules; and providing for an effective date to coincide with this chapter.

5 (ii) "Digital asset" means a representation of economic, proprietary or access rights that is
6 stored in a computer readable format, and includes digital consumer assets, digital securities and
7 virtual currency.

8 (iii) "Digital consumer asset" means a digital asset that is used or bought primarily for
9 consumptive, personal or household purposes and includes:

10 (A) An open blockchain token constituting intangible personal property as otherwise
11 provided by law;

12 (B) Any other digital asset which does not fall within this section.

13 (iv) "Digital security" means a digital asset which constitutes a security as defined in § 6A-
14 8-102, but shall exclude digital consumer assets and virtual currency;

15 (v) "Virtual currency" means a digital asset that is:

16 (A) Used as a medium of exchange, unit of account or store of value; and

17 (B) Not recognized as legal tender by the United States government.

18 (3) The terms in subsections (2)(i) through (2)(v) of this section are mutually exclusive.

19 (kk) Classification of digital assets as property; applicability to Uniform Commercial Code:

20 (1) Digital assets are classified in the following manner:

21 (i) Digital consumer assets are intangible personal property and shall be considered general
22 intangibles only for the purposes of chapter 9 of title 6A.

23 (ii) Digital securities are intangible personal property and shall be considered securities, as
24 defined in and investment property only for the purposes of chapters 8 and 9 of title 6A.

25 (iii) Virtual currency is intangible personal property and shall be considered money,
26 notwithstanding chapter 14.3 of title 19, only for the purposes of section 9 of title 6A.

27 (2) A digital asset may be treated as a financial asset pursuant to a written agreement with
28 the owner of the digital asset. If treated as a financial asset, the digital asset shall remain intangible
29 personal property.

30 (3) A bank providing custodial services as defined in title 19 shall be considered to meet
31 the requirements of this chapter.

32 (4) Classification of digital assets under this section shall be construed in a manner to give
33 the greatest effect to this chapter, but shall not be construed to apply to any other asset.

34 (ll) Perfection of security interests in digital assets; financing statements:

1 (1) Notwithstanding the financing statement requirement of this chapter, as otherwise
2 applied to general intangibles or any other provision of law, perfection of a security interest in a
3 digital asset may be achieved through control, pursuant to the provisions of this section. A security
4 interest held by a secured party having control of a digital asset has priority over a security interest
5 held by a secured party that does not have control of the asset.

6 (2) Before a secured party may take control of a digital asset under this section, the secured
7 party shall enter into a control agreement with the debtor. A control agreement may also set forth
8 the terms under which a secured party may pledge its security interest in the digital asset as
9 collateral for another transaction.

10 (3) A secured party may file a financing statement with the secretary of state, including to
11 perfect a security interest in proceeds from a digital asset.

12 (4) Notwithstanding any other provision of law, including section 9 of title 6A, a transferee
13 takes a digital asset free of any security interest two (2) years after the transferee takes the asset for
14 value and does not have actual notice of an adverse claim. This subsection only applies to a security
15 interest perfected by a method other than control.

16 (3) As used in this section:

17 (i) Consistent with subsection (II)(2) of this section, "control" is equivalent to the term
18 "possession" when used in section 9 of title 6A and means the following:

19 (A) A secured party, or an agent, custodian, fiduciary or trustee of the party, has the
20 exclusive legal authority to conduct a transaction relating to a digital asset, including by means of
21 a private key or the use of a multi-signature arrangement authorized by the secured party;

22 (B) A smart contract created by a secured party which has the exclusive legal authority to
23 conduct a transaction relating to a digital asset. As used in this subsection, "smart contract" means
24 an automated transaction, or any substantially similar analogue, which is comprised of code, script
25 or programming language that executes the terms of an agreement, and which may include taking
26 custody of and transferring an asset, or issuing executable instructions for these actions based on
27 the occurrence or nonoccurrence of specified conditions.

28 (C) "Multi-signature arrangement" means a system of access control relating to a digital
29 asset for the purposes of preventing unauthorized transactions relating to the asset in which two (2)
30 or more private keys are required to conduct a transaction, or any substantially similar analogue;

31 (D) "Private key" means a unique element of cryptographic data, or any substantially
32 similar analogue, which is:

33 (I) Held by a person;

34 (II) Paired with a unique, publicly available element of cryptographic data; and

1 (III) Associated with an algorithm that is necessary to carry out an encryption or decryption
2 required to execute a transaction.

3 (mm) Perfection by control creates a possessory security interest and does not require
4 physical possession. For purposes of section 9 of title 6A and this section, a digital asset is located
5 in Rhode Island, if the asset is held by a Rhode Island custodian, the debtor or secured party is
6 physically located in Rhode Island or the debtor or secured party is incorporated or organized in
7 Rhode Island

8 (nn) Digital asset custodial services:

9 (1) A bank may provide custodial services consistent with this section upon providing sixty
10 (60) days written notice to the commissioner. The provisions of this section are cumulative and not
11 exclusive as an optional framework for enhanced supervision of digital asset custody. If a bank
12 elects to provide custodial services under this section it shall comply with all provisions of this
13 section.

14 (2) A bank may serve as a qualified custodian, as specified by the United States Securities
15 and Exchange Commission in 17 C.F.R. § 275.206(4)2. In performing custodial services under this
16 section, a bank shall:

17 (i) Implement all accounting, account statements, internal controls, notice and other
18 standards specified by applicable state or federal law and rules for custodial services;

19 (ii) Maintain information technology best practices relating to digital assets held in custody.
20 The commissioner may specify required best practices by rule;

21 (iii) Fully comply with applicable federal anti-money laundering, customer identification
22 and beneficial ownership requirements; and

23 (iv) Take other actions necessary to carry out this section, which may include exercising
24 fiduciary powers similar to those permitted to national banks and ensuring compliance with federal
25 law governing digital assets classified as commodities.

26 (oo) A bank providing custodial services shall enter into an agreement with an independent
27 public accountant to conduct an examination conforming to the requirements of 17 C.F.R. §
28 275.206(4) 2(a)(4) and (6), at the cost of the bank. The accountant shall transmit the results of the
29 examination to the commissioner within one hundred twenty (120) days of the examination and
30 may file the results with the United States Securities and Exchange Commission, as its rules may
31 provide. Material discrepancies in an examination shall be reported to the commissioner within one
32 day. The commissioner shall review examination results upon receipt within a reasonable time and
33 during any regular examination conducted under chapter 4 of title 19.

34 (1) Digital assets held in custody under this section are not depository liabilities or assets

1 of the bank. A bank, or a subsidiary, may register as an investment adviser, an investment company
2 or broker dealer as necessary. A bank shall maintain control over a digital asset while in custody.
3 A customer shall elect, pursuant to a written agreement with the bank, one of the following
4 relationships for each digital asset held in custody:

5 (i) Custody under a bailment as a non-fungible or fungible asset. Assets held under this
6 section shall be strictly segregated from other assets; or

7 (ii) Custody under a bailment pursuant to section.

8 (2) If a customer makes an election under this section, the bank may, based only on
9 customer instructions, undertake transactions with the digital asset in which case the bank shall
10 maintain control of those assets pursuant to this section, by entering into an agreement with the
11 counterparty to a transaction which contains a time for return of the asset. The bank shall not be
12 liable for any loss suffered with respect to a transaction under this subsection, except for liability
13 consistent with fiduciary and trust powers as a custodian under this section.

14 (3) A bank and a customer shall agree in writing regarding the source code version the
15 bank will use for each digital asset, and the treatment of each asset under title 6A of the general
16 laws, if necessary. Any ambiguity under this subsection shall be resolved in favor of the customer.

17 (4) A bank shall provide clear, written notice to each customer, and require written
18 acknowledgement, of the following:

19 (i) Prior to the implementation of any updates, material source code updates relating to
20 digital assets held in custody, except in emergencies which may include security vulnerabilities;

21 (ii) The heightened risk of loss from transactions under this chapter;

22 (iii) That some risk of loss as a pro rata creditor exists as the result of custody as a fungible
23 asset or custody;

24 (iv) That custody, as defined herein, may not result in the digital assets of the customer
25 being strictly segregated from other customer assets; and

26 (v) That the bank is not liable for losses suffered under the provisions of this chapter except
27 for liability consistent with fiduciary and trust powers as a custodian under this section.

28 (5) A bank and a customer shall agree in writing to a time period within which the bank
29 must return a digital asset held in custody under this section. If a customer makes an election under
30 this section, the bank and the customer may also agree in writing to the form in which the digital
31 asset shall be returned.

32 (6) All ancillary or subsidiary proceeds relating to digital assets held in custody under this
33 section shall accrue to the benefit of the customer, except as specified by a written agreement with
34 the customer. The bank may elect not to collect certain ancillary or subsidiary proceeds, as long as

1 the election is disclosed in writing. A customer who makes an election under section may withdraw
2 the digital asset in a form that permits the collection of the ancillary or subsidiary proceeds.

3 (6) A bank shall not authorize or permit re-hypothecation of digital assets under this section
4 and shall not engage in any activity to use or exercise discretionary authority relating to a digital
5 asset except based on customer instruction.

6 (7) A bank shall not take any action under this section which would likely impair the
7 solvency or the safety and soundness of the bank, as determined by the commissioner after
8 considering the nature of custodial services customary in the banking industry.

9 (8) Banks shall not subject to an annual report license tax. In lieu of any annual report
10 license tax and to offset the costs of supervision and administration of this section, a bank which
11 provides custodial services under this section shall pay a supervision fee equal to two-tenths of one
12 mill on the dollar (\$.0002), relating to assets held in custody under this section as of December 31
13 of each year, with payment of the supervision fee made on or before the following January 31 of
14 each year. The supervision fee shall be deposited by the commissioner into the financial institutions
15 administration account and may be expended for any purpose authorized for that account. Banks
16 providing custodial services outside of this section shall not be required to pay this supervision fee

17 (pp) Jurisdiction of courts. The courts of Rhode Island shall have jurisdiction to hear claims
18 in both law and equity relating to digital assets, including those arising from this chapter and title
19 6A.

20 SECTION 2. This act shall take effect upon passage.

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LC005152
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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF

A N A C T

RELATING TO STATE AFFAIRS AND GOVERNMENT -- RHODE ISLAND ECONOMIC
GROWTH BLOCKCHAIN ACT

- 1 This act would establish an economic growth blockchain act, set regulations for the sale of
- 2 hemp, regulate virtual and digital assets and establish depository banks for these purposes.
- 3 This act would take effect upon passage.

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LC005152
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