



General Assembly

February Session, 2020

***Raised Bill No. 5489***

LCO No. 2640



Referred to Committee on COMMERCE

Introduced by:  
(CE)

***AN ACT ESTABLISHING A REGULATORY SANDBOX PROGRAM.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective October 1, 2020*) (a) For the purposes of this  
2 section:

3 (1) "Applicable agency" means a department or agency of this state  
4 that may regulate the type of financial product or service that comprises  
5 an innovative product or service in the state and persons who provide  
6 such product or service, including issuances of licenses or other types of  
7 authorization, which the Department of Economic and Community  
8 Development determines would otherwise regulate a sandbox  
9 participant;

10 (2) "Applicant" means an individual or entity that is applying to  
11 participate in the regulatory sandbox;

12 (3) "Blockchain technology" means the use of a digital database  
13 containing records of financial transactions, which can be  
14 simultaneously used and shared within a decentralized, publicly  
15 accessible network and can record transactions between two parties in

16 a verifiable and permanent way;

17 (4) "Commissioner" means the Commissioner of Economic and  
18 Community Development;

19 (5) "Consumer" means a person that purchases or otherwise enters  
20 into a transaction or agreement to receive an innovative product or  
21 service that is being tested by a sandbox participant;

22 (6) "Department" means the Department of Economic and  
23 Community Development;

24 (7) "Financial product or service" means (A) a financial product or  
25 service that requires state licensure or registration, or (B) a financial  
26 product or service that includes a business model, delivery mechanism  
27 or element that may require a license or other authorization to act as a  
28 financial institution, enterprise or other entity that is regulated by the  
29 provisions of title 36a of the general statutes or other related provisions.  
30 "Financial product or service" does not include a product or service that  
31 is regulated by the provisions of title 38a or chapter 672a of the general  
32 statutes;

33 (8) "Innovation" means the use or incorporation of a new or emerging  
34 technology or a new use of existing technology, including, but not  
35 limited to, blockchain technology, to address a problem, provide a  
36 benefit or otherwise offer a product, service, business model or delivery  
37 mechanism that is not known by the department to have a comparable  
38 widespread offering in the state;

39 (9) "Innovative product or service" means a financial product or  
40 service that includes an innovation;

41 (10) "Person" means any person, including individuals, firms,  
42 partnerships, associations, cooperatives, limited liability companies or  
43 corporations, public or private, for profit or nonprofit, organized or  
44 existing under the laws of the state or any other state;

45 (11) "Regulatory sandbox" means the program established in

46 subsection (b) of this section, which allows a person to temporarily test  
47 an innovative product or service on a limited basis without otherwise  
48 being licensed or authorized to act under any other provision of the  
49 general statutes;

50 (12) "Sandbox participant" means a person whose application to  
51 participate in the regulatory sandbox is approved in accordance with  
52 the provisions of this section; and

53 (13) "Test" means to provide an innovative product or service in  
54 accordance with the provisions of this section.

55 (b) There is established within the Department of Economic and  
56 Community Development the regulatory sandbox program. Said  
57 program shall enable a person to obtain limited access to the market in  
58 this state to test innovative financial products or services without  
59 obtaining a license or other authorization that otherwise might be  
60 required.

61 (c) (1) Notwithstanding any provision of the general statutes, any  
62 person may submit an application to the Commissioner of Economic  
63 and Community Development to enter the regulatory sandbox to test  
64 an innovation, provided such person is subject to the jurisdiction of the  
65 state and has established a physical location in the state, from which  
66 testing will be developed and performed and where all records,  
67 documents and data relating to such innovation will be maintained.  
68 Applications to enter the regulatory sandbox shall be submitted to the  
69 commissioner at such times and on such forms as the commissioner may  
70 prescribe.

71 (2) Each application shall include, but need not be limited to: (A)  
72 Relevant personal and contact information for the applicant, including  
73 legal name, address, telephone number, email address, Internet web site  
74 address and any other information required by the commissioner; (B)  
75 disclosure of any criminal convictions of the applicant and other  
76 personnel who will participate in the testing of the innovation; (C)  
77 documentation that demonstrates to the commissioner's satisfaction

78 that the applicant has the necessary personnel, financial and technical  
79 expertise, access to capital and a plan to test, monitor and assess the  
80 innovative product or service; (D) a description of the innovative  
81 product or service to be tested, including statements regarding the  
82 following: (i) How the innovative product or service is subject to  
83 licensing or other authorization requirements outside of the regulatory  
84 sandbox; (ii) how the innovative product or service would benefit  
85 consumers; (iii) how the innovative product or service is different from  
86 other products or services available in this state; (iv) what risks may  
87 confront consumers that use or purchase the innovative product or  
88 service; (v) how participating in the regulatory sandbox would enable a  
89 successful test of the innovative product or service; (vi) a description of  
90 the proposed testing plan, including estimated time periods for  
91 beginning the test, ending the test and obtaining licensure or  
92 authorizations after the testing is complete; (vii) a description of how  
93 the applicant will end the test and protect consumers if the test fails; and  
94 (viii) how the applicant will employ cybersecurity measures to avoid  
95 breaches and protect consumer and transaction data. After an  
96 application is filed, the commissioner may request any additional  
97 information from the applicant that the commissioner deems necessary  
98 to assess such application.

99 (3) The Department of Economic and Community Development may  
100 charge any applicant an application fee in an amount determined by the  
101 commissioner.

102 (4) An applicant shall submit a separate application for each  
103 innovative product or service that the applicant intends to test.

104 (5) In reviewing an application under this subsection, the  
105 commissioner shall: (A) In consultation with each applicable agency,  
106 determine (i) whether the applicable agency has previously issued a  
107 license or other authorization to the applicant, (ii) whether the  
108 applicable agency has previously investigated, sanctioned or pursued  
109 legal action against the applicant, (iii) whether the applicant could  
110 obtain a license or other authorization from the applicable agency after

111 exiting the regulatory sandbox, and (iv) whether certain licensure or  
112 other regulations should not be waived even if the applicant is accepted  
113 into the regulatory sandbox; (B) obtain approval from each applicable  
114 agency for the applicant to enter the regulatory sandbox; and (C)  
115 consider whether a competitor to the applicant is or has been a sandbox  
116 participant and, if so, favor allowing the applicant to become a sandbox  
117 participant.

118 (6) If the commissioner and each applicable agency approve  
119 admitting an applicant into the regulatory sandbox, such applicant may  
120 become a sandbox participant.

121 (7) The commissioner may deny any application submitted under this  
122 subsection for any reason, at the commissioner's discretion.

123 (8) Not later than ninety days after a complete application is received  
124 by the commissioner, the commissioner shall inform the applicant as to  
125 whether such application is approved, except that the commissioner and  
126 the applicant may mutually agree to extend the time period for the  
127 commissioner to determine whether an application is approved. If the  
128 commissioner denies an application, the commissioner shall provide a  
129 written description of the reasons for the denial to the applicant.

130 (d) (1) If the commissioner approves an application under subsection  
131 (c) of this section, the sandbox participant may test the innovative  
132 product or service described in such sandbox participant's application  
133 for twenty-four-months after the date of such application's approval.

134 (2) An innovative product or service that is tested within the  
135 regulatory sandbox is subject to the following limitations: (A)  
136 Consumers of such innovative product or service shall be residents of  
137 the state; (B) the department may, on a case-by-case basis, specify the  
138 maximum number of consumers that may transact through or enter into  
139 an agreement to use the innovative product or service; (C) for a sandbox  
140 participant testing a consumer loan, the department may, on a case-by-  
141 case basis, specify the maximum amount of an individual loan that may  
142 be issued to an individual consumer or the maximum amount of

143 aggregate loans that may be issued to an individual consumer; and (D)  
144 for a sandbox participant testing an innovative product or service that  
145 would normally require a money transmission license under section  
146 36a-597 of the general statutes, the department may, on a case-by-case  
147 basis, specify the maximum amount of a single transaction for an  
148 individual consumer or the maximum aggregate amount of transactions  
149 for an individual consumer.

150 (3) This subsection shall not be construed to restrict a sandbox  
151 participant who holds a license or other authorization in another  
152 jurisdiction from acting in accordance with such license or other  
153 authorization.

154 (4) A sandbox participant shall be deemed to possess an appropriate  
155 license under the laws of this state for the purposes of any provision of  
156 federal law requiring state licensure or authorization.

157 (5) Except as otherwise provided in this section, a sandbox  
158 participant that is testing an innovative product or service is not subject  
159 to state laws that regulate financial products and services.

160 (6) (A) The commissioner may apply any provision of the general  
161 statutes that regulates a financial product or service to a sandbox  
162 participant if the commissioner determines that: (i) An applicant's plan  
163 to protect consumers will not adequately protect consumers from the  
164 harm that such provision addresses; and (ii) the benefits to consumers  
165 of applying such provision outweigh the potential benefits to  
166 consumers from increased competition, innovation and consumer  
167 access that waiving such provision, in conjunction with the applicant's  
168 ability to compensate consumers who may be harmed, would provide;  
169 and (B) if the commissioner determines that certain provisions of the  
170 general statutes that regulate a financial product or service apply to a  
171 sandbox participant, the commissioner shall notify the sandbox  
172 participant of such applicable provisions.

173 (7) Notwithstanding any other provision of this section, a sandbox  
174 participant shall not have immunity related to any criminal offense

175 committed during the sandbox participant's participation in the  
176 regulatory sandbox.

177 (8) By written notice, the commissioner may end a sandbox  
178 participant's participation in the regulatory sandbox at any time and for  
179 any reason, including if the commissioner determines a sandbox  
180 participant is not operating in good faith to bring an innovative product  
181 or service to market.

182 (e) (1) Before providing an innovative product or service to a  
183 consumer, a sandbox participant shall disclose the following to the  
184 consumer: (A) The name and contact information of the sandbox  
185 participant; (B) that the innovative product or service is authorized  
186 pursuant to the provisions of this section and, if applicable, that the  
187 sandbox participant does not have a license or other authorization to  
188 provide such product or service under any other provision of the  
189 general statutes; (C) that the innovative product or service is undergoing  
190 testing and may not function as intended and may expose the customer  
191 to financial risk; (D) that the provider of the innovative product or  
192 service may be civilly liable for any losses or damages caused by the  
193 innovative product or service; (E) that the state does not endorse or  
194 recommend the innovative product or service; (F) that the innovative  
195 product or service is a temporary test that may be discontinued at the  
196 end of the testing period; (G) the expected end date of the testing period;  
197 and (H) that a consumer may contact the Department of Economic and  
198 Community Development to file a complaint regarding the innovative  
199 product or service being tested and provide the department's telephone  
200 number and Internet web site address where a complaint may be filed.

201 (2) The disclosures required pursuant to subdivision (1) of this  
202 subsection shall be provided to a consumer in a clear and conspicuous  
203 form and, for an Internet or application-based innovative product or  
204 service, a consumer shall acknowledge receipt of the disclosure before a  
205 transaction may be completed.

206 (3) The department may require that a sandbox participant make  
207 additional disclosures to a consumer.

208 (f) (1) At least thirty days before the end of the twenty-four-month  
209 regulatory sandbox testing period, a sandbox participant shall: (A)  
210 Notify the department that the sandbox participant will exit the  
211 regulatory sandbox discontinue the test and will cease offering any  
212 innovative product or service in the regulatory sandbox within sixty  
213 days after the day on which the twenty-four-month testing period ends;  
214 or (B) seek an extension in accordance with subsection (g) of this section.

215 (2) Subject to the provisions of subdivision (3) of this subsection, if  
216 the department does not receive notification as required by subdivision  
217 (1) of this subsection, the regulatory sandbox testing period shall end at  
218 the end of the twenty-four-month testing period and the sandbox  
219 participant shall immediately cease offering each innovative product or  
220 service being tested.

221 (3) If a test includes offering an innovative product or service that  
222 requires ongoing duties, such as servicing a loan, the sandbox  
223 participant shall continue to fulfill those duties or arrange for another  
224 person to fulfill those duties after the date on which the sandbox  
225 participant exits the regulatory sandbox.

226 (g) (1) A sandbox participant shall retain records, documents and  
227 data produced in the ordinary course of business regarding an  
228 innovative product or service tested in the regulatory sandbox.

229 (2) If an innovative product or service fails before the end of a testing  
230 period, the sandbox participant shall notify the Department of  
231 Economic and Community Development and report on actions taken by  
232 the sandbox participant to ensure consumers have not been harmed as  
233 a result of the failure.

234 (3) The commissioner may establish periodic reporting requirements  
235 for a sandbox participant.

236 (4) The commissioner may request records, documents and data from  
237 a sandbox participant and, upon the department's request, a sandbox  
238 participant shall make such records, documents and data available for



239 inspection by the department.

240 (5) If the commissioner determines that a sandbox participant has  
241 engaged in, is engaging in or is about to engage in any practice or  
242 transaction that is in violation of this section or that constitutes a  
243 violation of state or federal criminal law, the commissioner may remove  
244 a sandbox participant from the regulatory sandbox.

245 (h) On or before January 1, 2021, and annually thereafter, the  
246 Commissioner of Economic and Community Development shall submit  
247 a report, in accordance with the provisions of section 11-4a of the general  
248 statutes, concerning the regulatory sandbox program to the joint  
249 standing committee of the General Assembly having cognizance of  
250 matters relating to commerce. Such report shall include the number of  
251 applicants to the regulatory sandbox program, the number of sandbox  
252 participants, descriptions of each innovative product or service being  
253 tested in the regulatory sandbox and any recommendations for further  
254 legislative action.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>October 1, 2020</i>	New section

**Statement of Purpose:**

To establish a regulatory sandbox program, which allows a person to temporarily test an innovative product or service on a limited basis without otherwise being licensed or authorized to act by the laws of this state.

*[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]*