



General Assembly

January Session, 2021

Committee Bill No. 5761

LCO No. 3253



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, 2021*) (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, 2022, 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	October 1, 2021	New section
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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.]

Co-Sponsors: REP. YACCARINO, 87th Dist.; REP. ZAWISTOWSKI, 61st Dist.

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