**South Carolina General Assembly**

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**S. 738**

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Summary: SC Blockchain Industry Empowerment Act

**HISTORY OF LEGISLATIVE ACTIONS**

Date Body Action Description with journal page number

4/3/2019 Senate Introduced and read first time ([Senate Journal‑page 7](file:///h:\sj\20190403.docx))

4/3/2019 Senate Referred to Committee on **Banking and Insurance** ([Senate Journal‑page 7](file:///h:\sj\20190403.docx))

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**VERSIONS OF THIS BILL**

[4/3/2019](file:///p:\pprever\2019-20\738_20190403.docx)

**A** **BILL**

TO ENACT THE “SOUTH CAROLINA BLOCKCHAIN INDUSTRY EMPOWERMENT ACT OF 2019”, TO ESTABLISH THIS STATE AS AN INCUBATOR FOR TECHNOLOGY INDUSTRIES SEEKING TO DEVELOP INNOVATION BY USING BLOCKCHAIN TECHNOLOGY; TO AMEND ARTICLE 2, CHAPTER 6, TITLE 33 OF THE 1976 CODE, RELATING TO THE ISSUANCE OF SHARES FOR CORPORATIONS, PARTNERSHIPS, AND ASSOCIATIONS, BY ADDING SECTION 33‑6‑245, TO PROVIDE FOR THE CONSTRUCTION OF TERMS RELATING TO STOCK AND CERTIFICATE TOKENS; TO AMEND SECTION 33‑6‑250 OF THE 1976 CODE, RELATING TO THE FORM AND CONTENT OF CORPORATE STOCK CERTIFICATES, TO AUTHORIZE CORPORATIONS TO ISSUE CERTIFICATE TOKENS IN LIEU OF STOCK CERTIFICATES; TO AMEND TITLE 34 OF THE 1976 CODE, RELATING TO BANKING, FINANCIAL INSTITUTIONS, AND MONEY, BY ADDING CHAPTER 47, TO PROVIDE THAT A PERSON WHO DEVELOPS, SELLS, OR FACILITATES THE EXCHANGE OF AN OPEN BLOCKCHAIN TOKEN IS NOT SUBJECT TO SPECIFIED SECURITIES AND MONEY TRANSMISSION LAWS, AND TO PROVIDE SPECIFIED VERIFICATION AUTHORITY TO THE SECRETARY OF STATE AND BANKING COMMISSIONER; TO AMEND TITLE 34 OF THE 1976 CODE, RELATING TO BANKING, FINANCIAL INSTITUTIONS, AND MONEY, BY ADDING CHAPTER 49, TO CREATE THE FINANCIAL TECHNOLOGY SANDBOX FOR THE TESTING OF FINANCIAL PRODUCTS AND SERVICES IN SOUTH CAROLINA, TO AUTHORIZE LIMITED WAIVERS OF SPECIFIED PROVISIONS OF LAW UNDER CERTAIN CONDITIONS, TO ESTABLISH STANDARDS AND PROCEDURES FOR SANDBOX APPLICATIONS, OPERATIONS, AND SUPERVISION, TO AUTHORIZE RECIPROCITY AGREEMENTS WITH OTHER REGULATORS, TO REQUIRE CRIMINAL HISTORY BACKGROUND CHECKS, TO REQUIRE THE CREATION OF FINANCIAL TECHNOLOGY INNOVATION ACCOUNTS TO BE USED FOR SPECIAL PURPOSES, TO REQUIRE A CONSUMER PROTECTION BOND, AND TO SPECIFY STANDARDS FOR THE SUSPENSION AND REVOCATION OF A SANDBOX AUTHORIZATION; TO AMEND TITLE 34 OF THE 1976 CODE, RELATING TO BANKING, FINANCIAL INSTITUTIONS, AND MONEY, BY ADDING CHAPTER 51, TO SPECIFY THAT DIGITAL ASSETS ARE PROPERTY WITHIN THE UNIFORM COMMERCIAL CODE, TO AUTHORIZE SECURITY INTERESTS IN DIGITAL ASSETS, TO ESTABLISH AN OPT‑IN FRAMEWORK FOR BANKS TO PROVIDE CUSTODIAL SERVICES FOR DIGITAL ASSET PROPERTY AS CUSTODIANS, TO SPECIFY STANDARDS AND PROCEDURES FOR CUSTODIAL SERVICES, TO CLARIFY THE JURISDICTION OF SOUTH CAROLINA COURTS RELATING TO DIGITAL ASSETS, TO AUTHORIZE A SUPERVISION FEE, AND TO PROVIDE FOR OTHER RELATED PROVISIONS FOR DIGITAL ASSETS; TO AMEND SECTION 35‑11‑110 OF THE 1976 CODE, RELATING TO THE APPLICABILITY OF THE ANTI‑MONEY LAUNDERING ACT, TO PROVIDE THAT THE ANTI-MONEY LAUNDERING ACT DOES NOT APPLY TO THE BUYING, SELLING, ISSUING, OR TAKING CUSTODY OF PAYMENT INSTRUMENTS OR STORED VALUE IN THE FORM OF VIRTUAL CURRENCY OR RECEIVING VIRTUAL CURRENCY FOR TRANSMISSION TO A LOCATION WITHIN OR OUTSIDE THE UNITED STATES BY ANY MEANS; AND TO DEFINE NECESSARY TERMS.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. This act must be known and may be cited as the “South Carolina Blockchain Industry Empowerment Act of 2019”.

PART I

Stock Certificate Issuance by Tokens

SECTION 2. Article 2, Chapter 6, Title 33 of the 1976 Code is amended by adding:

“Section 33‑6‑245. As used in this title, a reference to:

(1) a share certificate, share, stock, share of stock, or words of similar import includes a certificate token;

(2) a requirement to print information on a share certificate or words of similar import is satisfied if the information satisfies the requirements set forth in Section 33‑6‑250(F);

(3) certificated shares or words of similar import includes shares represented by certificate tokens, and a reference to the delivery or deposit of these shares to the corporation refers to any method of granting control of the tokens to the corporations; and

(4) a certificate being duly endorsed or words of similar import means that the transaction authorizing transfer of control of the certificate token was signed by the lawful holder of the token with the network signature corresponding to the lawful holder’s data address to which the certificate token was issued or last lawfully transferred.”

SECTION 3. Section 33‑6‑250 of the 1976 Code is amended to read:

“Section 33‑6‑250. ~~(a)~~(A) Shares may be represented by certificates, but need not be so represented, subject to the provisions of Section 33‑6‑260(a). Unless Chapters 1 through 20 of this title or another statute expressly provides otherwise, the rights and obligations of shareholders are identical whether or not their shares are represented by certificates.

~~(b)~~(B) At a minimum, each share certificate must state on its face:

(1) the name of the issuing corporation and that it is organized under the laws of this State;

(2) the name of the person to whom or, in the case of a certificate token, the data address to which the token was issued; and

(3) the number and class of shares and the designation of the series, if any, the certificate represents.

~~(c)~~(C) If the issuing corporation is authorized to issue different classes of shares or different series within a class, the designations, relative rights, preferences, and limitations applicable to each class; ~~and~~ the variations in rights, preferences, and limitations determined for each series; ~~(and~~ and the authority of the board of directors to determine variations for future series ~~series)~~ must be summarized on the front or back of each certificate. Alternatively, each certificate may state conspicuously on its front or back that the corporation will furnish the shareholder this information on request in writing and without charge.

~~(d)~~(D) Except as otherwise provided by subsection (F), each ~~Each~~ share certificate:

(1) must be signed ~~(either~~ either manually or in facsimile ~~facsimile)~~ by two officers designated in the bylaws or by the board of directors; and (2) may bear the corporate seal or its facsimile.

~~(e)~~(E) If the person who signed ~~(either manually or in facsimile)~~ a share certificate no longer holds office when the certificate is issued, the certificate is nevertheless valid.

(F) The articles of incorporation or bylaws of a corporation may specify that all or a portion of the shares of the corporation may be represented by share certificates in the form of certificate tokens. The electronic message, command, or transaction that transmits the certificate tokens to the data address to which a certificate token was issued must be authorized at the time of issuance by one or more messages, commands, or transactions signed with the network signatures of two officers designated in the bylaws, or by the board of directors of the corporation.

(G) As used in this section:

(1) ‘Blockchain’ means a digital ledger or database that is chronological, consensus based, decentralized, and mathematically verified in nature.

(2) ‘Certificate token’ means a representation of shares that is stored in an electronic format and that contains the information specified under subsections (B) and (C), which is:

(a) entered into a blockchain or other secure, auditable database;

(b) linked to or associated with the certificate token; and

(c) able to be electronically transmitted to the issuing corporation, the person to whom the certificate token was issued, and any transfers.

(3) ‘Network signature’ means a string of alphanumeric characters that, when broadcast by a person to a data address’s corresponding distributed or other electronic network or database, provides reasonable assurances to a recipient that the broadcasting person has knowledge or possession of the private key uniquely associated with the data address.”

PART II

Open Blockchain Tokens Not Subject to Security or Money Transmission Laws

SECTION 4. Title 34 of the 1976 Code is amended by adding:

“CHAPTER 47

Open Blockchain Tokens

Section 34‑47‑10. (A) As used in this chapter, ‘open blockchain token’ means a digital unit that is:

(1) created:

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

(b) by deploying computer code to a blockchain network that allows for the creation of digital tokens or other units; or

(c) using any combination of the methods specified in subitems (a) and (b);

(2) recorded in a digital ledger or database that is chronological, consensus‑based, decentralized, and mathematically verified in nature, especially relating to the supply of units and their distribution; and

(3) capable of being traded or transferred between persons without an intermediary or custodian of value.

(B) Except as otherwise provided by subsection (D), a developer or seller of an open blockchain token must not be considered the issuer of a security if all of the following are met:

(1) the developer or seller of the token, or the registered agent of the developer or seller, files a notice of intent with the Secretary of State, as specified in subsection (E);

(2) the purpose of the token is for a consumptive purpose, which must only be exchangeable for or provided for the receipt of goods, services, or content, including rights of access to goods, services, or content; and

(3) the developer or seller of the token did not sell the token to the initial buyer as a financial investment. This subsection must be satisfied only if:

(a) the developer or seller did not market the token as a financial investment; and

(b) at least one of the following is true:

(i) the developer or seller of the token reasonably believed that it sold the token to the initial buyer for a consumptive purpose;

(ii) the token has a consumptive purpose that is available at the time of sale and can be used at or near the time of sale for use for a consumptive purpose;

(iii) if the token does not have a consumptive purpose available at the time of sale, then the initial buyer of the token is prevented from reselling the token until the token is available for use for a consumptive purpose; or

(iv) the developer or seller takes other reasonable precautions to prevent buyers from purchasing the token as a financial investment.

(C) Except as otherwise provided by subsection (D), a person who facilitates the exchange of an open blockchain token must not be considered a broker‑dealer or a person who otherwise deals in securities if all of the following are met:

(1) the person, or the registered agent of the person, files a notice of intent with the Secretary of State, as specified in subsection (E);

(2) the person has a reasonable and good faith belief that a token that is subject to exchange conforms to the requirements of subsections (B)(1), (2), and (3); and

(3) the person takes reasonably prompt action to terminate the exchange of a token that does not conform to the requirements of this subsection.

(D) Notwithstanding another provision of law, a developer, seller, or person who facilitates the exchange of an open blockchain token is subject to other applicable provisions of law only to the extent necessary to carry out those provisions. The Secretary of State has the authority provided to determine compliance with the provisions of this section, including whether a person qualifies for the exemption set forth in this section.

(E) A developer, a seller, a person who facilitates the exchange of an open blockchain token, or the registered agent of the applicable person shall electronically file a notice of intent with the Secretary of State before the person qualifies for an exemption under this section. The notice of intent shall contain the name of the person acting as a developer, seller, or facilitator and the contact information of the person or registered agent of the person and shall specify whether the person will be acting as a developer, seller, or facilitator. A secure form must be made available by the Office of the Secretary of State on its Internet website for this purpose.

Section 34‑47‑20. This chapter does not apply to:

(1) banks, bank holding companies, credit unions, building and loan associations, savings and loan associations, savings banks, or mutual banks organized under the laws of a state or the United States, provided that they do not issue or sell payment instruments through authorized delegates or subdelegates that are not banks, bank holding companies, credit unions, building and loan associations, savings and loan associations, savings banks, or mutual banks;

(2) the electronic transfer of government benefits for a federal, state, or county governmental agency as defined in Federal Reserve Board Regulation E by a contractor for and on behalf of the United States; a department, agency, or instrumentality of the United States; or a state or political subdivision of the State; or

(3) a person who develops, sells, or facilitates the exchange of an open blockchain token.

Section 34‑47‑30. (A) If the Commissioner of Banking has reason to believe a person is engaged in or is about to engage in an activity that would be subject to this chapter and the person is not otherwise exempt from the provisions of this chapter, then the Commissioner of Banking may issue an order to show cause as to why an order to cease and desist the activity should not be issued.

(B) In an emergency, the Commissioner of Banking may petition the circuit court for the issuance of a temporary restraining order, and the order to cease and desist becomes effective upon service upon the person.

(C) An order to cease and desist remains effective and enforceable pending the completion of any authorized appeals.”

PART III

Financial Technology Sandbox Applications

SECTION 5. The General Assembly finds that:

(1) financial technology is undergoing a transformation period in which new technologies are providing greater automation, connectivity, and transparency for financial products and services;

(2) existing legal frameworks are restricting financial technology innovation because these frameworks were largely established at a time when technology was not a fundamental component of financial products and services;

(3) financial technology innovators require a supervised, flexible regulatory sandbox to test new products and services using waivers of specified statutes and rules under defined conditions;

(4) jurisdictions that establish regulatory sandboxes are more likely to provide a welcoming business environment for technology innovators and may experience significant business growth;

(5) Arizona, Illinois, and the United Kingdom have enacted or are considering regulatory sandboxes for financial technology innovators in their jurisdictions; and

(6) the State of South Carolina currently offers one of the best business environments in the United States for blockchain and financial technology innovators and should offer a regulatory sandbox for these innovators to develop the next generation of financial technology products and services in this State.

SECTION 6. Title 34 of the 1976 Code is amended by adding:

“CHAPTER 49

The Financial Technology Sandbox

Section 34‑49‑120. As used in this chapter:

(1) ‘Blockchain’ means a digital ledger or database that is chronological, consensus‑based, decentralized, and mathematically verified in nature.

(2) ‘Commissioner’ means the Commissioner of Banking pursuant to Chapter 1, Title 34.

(3) ‘Consumer’ means a person, whether a natural person or a legal entity, in South Carolina who purchases or enters into an agreement to receive an innovative financial product or service made available through the financial technology sandbox.

(4) ‘Financial product or service’ or ‘product or service’ means a product or service related to finance, including banking, securities, consumer credit, or money transmission, that is subject to statutory or rule requirements identified in Section 34‑49‑130(A) and is under the jurisdiction of the commissioner or Secretary of State.

(5) ‘Financial technology sandbox’ means the program created by this chapter, which allows a person to make an innovative financial product or service available to consumers during a sandbox period through a waiver of existing statutory and regulatory requirements, or portions thereof, by the commissioner or Secretary of State.

(6) ‘Innovative’ means new or emerging technology, or new uses of existing technology, that provides a product, service, business model, or delivery mechanism to the public and has no substantially comparable, widely available analogue in South Carolina, including blockchain technology.

(7) ‘Sandbox period’ means the period of time, initially not longer than twenty‑four months, in which the commissioner or Secretary of State has authorized an innovative financial product or service to be made available to consumers, which also shall encompass an extension granted under Section 34‑49‑180.

Section 34‑49‑130. (A) Notwithstanding another provision of law, a person who makes an innovative financial product or service available to consumers in the financial technology sandbox may be granted a waiver of specified requirements imposed by statute or regulation, or portions thereof, if these statutes or regulations do not currently permit the product or service to be made available to consumers. A waiver under this subsection must be no broader than necessary to accomplish the purposes and standards set forth in this chapter, as determined by the commissioner or the Secretary of State. Upon receipt and approval of an application made pursuant to Section 34‑49‑140, the commissioner or Secretary of State may waive specified provisions of law or the regulations promulgated pursuant to such provisions during a sandbox period.

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

(1) not immune from civil damages for acts and omissions relating to this chapter; and

(2) subject to all criminal and consumer protection laws of this State.

(C) The commissioner or Secretary of State may refer suspected violations of this chapter to appropriate state or federal agencies for investigation, prosecution, civil penalties, and other appropriate enforcement actions.

(D) If service of process on a person making an innovative financial product or service available to consumers in the financial technology sandbox is not feasible, then service on the Secretary of State is considered service on the person.

Section 34‑49‑140. (A) A person shall apply to the commissioner or Secretary of State to make an innovative financial product or service available to consumers in the financial technology sandbox, based on the office that administers the statute or regulation, or a portion of it, for which a waiver is sought. If both the commissioner and the Secretary of State jointly administer a statute or regulation, or if the appropriate office is not known, then an application may be filed with either the commissioner, or the Secretary of State. If an application is filed with an office that does not administer the statute or regulation for which a waiver is sought, then the receiving office shall forward the application to the correct office. The person shall specify in the application the statutory or regulatory requirements for which a waiver is sought and the reasons why these requirements prohibit the innovative financial product or service from being made available to consumers. The application shall also contain the elements required for authorization that are set forth in subsection (F). The commissioner and Secretary of State shall each by regulation prescribe a method of application.

(B) A business entity making an application under this section must be a domestic corporation or other organized domestic entity with a physical presence, other than that of a registered office or agent, in South Carolina.

(C) Before an employee applies on behalf of an institution, firm, or other entity intending to make an innovative financial product or service available through the financial technology sandbox, the employee shall obtain the consent of the institution, firm, or entity.

(D) A person filing an application under this section and any persons who are substantially involved in the development, operation, or management of the innovative financial product or service shall as a condition of application submit to a criminal history background check.

(E) An application made under this section must be accompanied by a fee of five hundred dollars. The fee must be deposited into the financial technology innovation account as provided in Section 34‑49‑150.

(F) The commissioner or Secretary of State, as applicable, shall authorize or deny a financial technology sandbox application in writing within ninety days of receiving the application. The commissioner or Secretary of State and the person who has made the application may jointly agree to extend the time beyond ninety days. The commissioner or Secretary of State may impose conditions on any authorization consistent with this chapter. In deciding to authorize or deny an application under this subsection, the commissioner or Secretary of State shall consider each of the following:

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

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

(3) a business plan proposed by the person, including a statements of arranged capital;

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

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

(6) any other factor that the commissioner or Secretary of State determines to be relevant.

(G) If an application is authorized under subsection (F), then the commissioner or Secretary of State shall specify the statutory or regulatory requirements, or portions of them, for which a waiver is granted and the length of the initial sandbox period, consistent with Section 34‑49‑120(7). The commissioner or Secretary of State shall also post notice of the approval of the application under this subsection, a summary of the innovative financial product or service, and the contact information of the person making the product or service available through the financial technology sandbox on the Internet website of the commissioner or Secretary of State.

(H) A person authorized under subsection (F) to enter into the financial technology sandbox shall post a consumer protection bond with the commissioner or Secretary of State as security for potential losses suffered by consumers. The bond amount shall be determined by the commissioner or Secretary of State in an amount not less than ten thousand dollars and must be commensurate with the risk profile of the innovative financial product or service. The commissioner or Secretary of State may require that a bond under this subsection be increased or decreased at any time based on the risk profile. Unless a bond is enforced under Section 34‑49‑190(B)(2), the commissioner or Secretary of State shall cancel or allow the bond to expire two years after the date of the conclusion of the sandbox period.

(I) A person authorized to enter into the financial technology sandbox under subsection (F) is considered to possess an appropriate license for the purposes of federal law requiring state licensure or authorization.

(J) Authorization under subsection (F) is not construed to create a property right.

Section 34‑49‑150. (A) There is created the financial technology innovation account. Funds within the account shall be expended only by General Assembly appropriation. All funds within the account must be invested by the State Treasurer, and all investment earnings from the account must be credited to the account. The account must be divided into two subaccounts controlled by the commissioner and Secretary of State, respectively, for the purposes of administrative management. For the purpose of accounting and investing only, the subaccounts must be treated as separate accounts.

(B) Subject to General Assembly appropriation, application fees remitted to the account pursuant to Section 34‑49‑140(E) must be deposited into a subaccount controlled by the commissioner or Secretary of State, as applicable, based on the receiving official. These funds, and any additional funds appropriated by the General Assembly, must only be used for the purposes of administering this chapter, including the processing of applications and the monitoring, examination, and enforcement activities relating to this chapter.

Section 34‑49‑160. (A) Except as otherwise provided by Section 34‑49‑180, a person authorized under Section 34‑49‑140(F) to enter into the financial technology sandbox may make an innovative financial product or service available to consumers during the sandbox period.

(B) The commissioner or Secretary of State may on a case by case basis specify the maximum number of consumers permitted to receive an innovative financial product or service, after consultation with the person authorized under Section 34‑49‑140(F), to make the product or service available in the financial technology sandbox.

(C)(1) Before a consumer purchases or enters into an agreement to receive an innovative financial product or service through the financial technology sandbox, the person making the product or service available shall provide a written statement of the following to the consumer:

(a) the name and contact information of the person making the product or service available to consumers;

(b) that the product or service has been authorized to be made available to consumers for a temporary period by the commissioner or Secretary of State, as applicable, under the laws of South Carolina.

(c) that the State of South Carolina does not endorse the product or service and is not subject to liability for losses or damages caused by the product or service;

(d) that the product or service is undergoing testing, may not function as intended, and may entail financial risk;

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

(f) the expected end date of the sandbox period;

(g) the name and contact information of the commissioner or Secretary of State, as applicable, and notification that suspected legal violations, complaints, or other comments related to the product or service may be submitted to the commissioner or Secretary of State; and

(h) any other statements or disclosures required by regulation of the commissioner or Secretary of State that are necessary to further the purposes of this chapter.

(2) A copy of the disclosures required pursuant to this subsection must be provided to consumers.

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

(E) The commissioner or Secretary of State, as applicable, may examine the records maintained under subsection (D) at any time, with or without notice. All direct and indirect costs of an examination conducted under this subsection must be paid by the person making the innovative financial product or service available in the financial technology sandbox. Records made available to the commissioner or Secretary of State under this subsection must be confidential and shall not be subject to disclosure under the South Carolina Freedom of Information Act but may be released to appropriate state and federal agencies for the purposes of investigation.

(F) Unless granted an extension pursuant to Section 34‑49‑180, not less than thirty days before the conclusion of the sandbox period, a person who makes an innovative financial product or service available in the financial technology sandbox shall provide written notification to consumers regarding the conclusion of the sandbox period and shall not make the product or service available to new consumers after the conclusion of the sandbox period until legal authority outside of the sandbox exists to make the product or service available to consumers. The person shall wind down operations with existing consumers within sixty days after the conclusion of the sandbox period, except that, after the sixtieth day, the person may:

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

(2) take any necessary legal action; and

(3) take other actions authorized by the commissioner or Secretary of State by regulation that are not inconsistent with this subsection.

(G) The commissioner and the Secretary of State may, jointly or separately, enter into agreements with state, federal, or foreign regulatory agencies to allow persons who make an innovative financial product or service available in South Carolina through the financial technology sandbox to make their products or services available in other jurisdictions in South Carolina under the standards of this chapter.

Section 34‑49‑170. (A) The commissioner or Secretary of State may by order revoke or suspend the authorization granted to a person under Section 34‑49‑140(F) if:

(1) the person has violated or refused to comply with this chapter or any lawful regulation, order, or decision adopted by the commissioner or Secretary of State;

(2) a fact or condition exists that, if it had existed or become known at the time of the financial technology sandbox application, would have warranted denial of the application or the imposition of material conditions;

(3) a material error, false statement, misrepresentation, or material omission was made in the financial technology sandbox application; or

(4) after consultation with the person, continued testing of the innovative financial product or service would:

(a) be likely to harm consumers; or

(b) no longer serve the purpose of this chapter because of the financial or operational failure of the product or service.

(B) Written notification of a revocation or suspension order made under subsection (A) must be served using any means authorized by law and, if the notice relates to a suspension, must include any conditions or remedial action that must be completed before the suspension will be lifted by the commissioner or Secretary of State.

Section 34‑49‑180. A person granted authorization under Section 34‑49‑140(F) may apply for an extension of the initial sandbox period for not more than twelve additional months. An application for an extension must be made not later than sixty days before the conclusion of the initial sandbox period specified by the commissioner or Secretary of State. The commissioner or Secretary of State shall approve or deny the application for extension in writing no more than thirty‑five days before the conclusion of the initial sandbox period. An application for extension by a person shall cite one of the following reasons as the basis for the application and provide all relevant supporting information that:

(1) statutory or rule amendments are necessary to conduct business in South Carolina on a permanent basis; or

(2) an application for a license or other authorization required to conduct business in South Carolina on a permanent basis has been filed with the appropriate office and approval is currently pending.

Section 34‑49‑190. (A) The commissioner and Secretary of State shall each promulgate regulations to implement this chapter. The regulations promulgated by the commissioner and Secretary of State under this subsection must be as consistent as reasonably possible but shall account for differences in the statutes and programs administered by the commissioner and Secretary of State.

(B) The commissioner or Secretary of State may issue:

(1) all necessary orders to enforce this chapter, including ordering the payment of restitution, and may enforce these orders in a court of competent jurisdiction; and

(2) an order to enforce the bond posted under Section 34‑49‑140(H), or a portion of this bond, and may use proceeds from the bond to offset losses suffered by consumers as a result of the innovative financial product or service.

(C) All actions of the commissioner or Secretary of State under this chapter are subject to the South Carolina Administrative Procedures Act.

Section 34‑49‑200. Criminal history record information may be disseminated by criminal justice agencies in this State, whether directly or through an intermediary, to the banking commissioner or the Secretary of State for the purposes of obtaining background information on persons specified in Section 34‑49‑140(D), as part of a financial technology sandbox application.

Section 34‑49‑210. Persons specified in Section 34‑49‑140(D) as part of a financial technology sandbox application must be required to submit to fingerprinting in order to obtain state and national criminal history record information.

Section 34‑49‑220. This chapter applies to all banks in this State organized under state law and to national banks as specifically provided or permitted.”

PART IV

Digital Assets

SECTION 7. Title 34 of the 1976 Code is amended by adding:

“CHAPTER 51

Digital Assets

Section 34‑51‑10. (A) As used in this chapter:

(1) ‘Commissioner’ means the banking commissioner of this State.

(2) ‘Custodial services’ means the safekeeping and management of customer currency and digital assets through the exercise of fiduciary and trust powers under this section as a custodian, including fund administration and the execution of customer instructions.

(3) ‘Digital asset’ means a representation of economic, proprietary, or access rights that is stored in a computer‑readable format, including digital consumer assets, digital securities, and virtual currency.

(4) ‘Digital consumer asset’ means a digital asset that is used or bought primarily for consumptive, personal, or household purposes, including:

(a) an open blockchain token constituting intangible personal property as otherwise provided by law; and

(b) any other digital asset that does not fall within items (3) and (4).

(5) ‘Digital security’ means a digital asset that constitutes a security, excluding digital consumer assets and virtual currency.

(6) ‘Virtual currency’ means a digital asset that is:

(a) used as a medium of exchange, unit of account, or store of value; and

(b) not recognized as legal tender by the United States government.

(B) The terms in subsections (A)(5) and (6) are mutually exclusive.

Section 34‑51‑20. (A) Digital assets are classified in the following manner:

(1) digital consumer assets are intangible personal property and must be considered general intangibles, only for the purposes of Article 9 of the Uniform Commercial Code;

(2) digital securities are intangible personal property and must be considered securities and investment property, only for the purposes of Articles 8 and 9 of the Uniform Commercial Code; and

(3) virtual currency is intangible personal property and must be considered money, only for the purposes of Article 9 of the Uniform Commercial Code.

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

(C) Classification of digital assets under this section must be construed in a manner to give the greatest effect to this chapter but must not be construed to apply to any other asset.

Section 34‑51‑30. (A) Notwithstanding the financing statement requirement under the Uniform Commercial Code as otherwise applied to general intangibles or another provision of law, perfection of a security interest in a digital asset may be achieved through control, as defined in subsection (E)(1). A security interest held by a secured party having control of a digital asset has priority over a security interest held by a secured party that does not have control of the asset.

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

(C) A secured party may file a financing statement with the Secretary of State, including to perfect a security interest in proceeds from a digital asset.

(D) Notwithstanding another provision of law, including Article 9 of the Uniform Commercial Code, a transferee takes a digital asset free of any security interest two years after the transferee takes the asset for value and does not have actual notice of an adverse claim. This subsection only applies to a security interest perfected by a method other than control.

(E) As used in this section:

(1) Consistent with subsection (F), ‘control’ is equivalent to the term ‘possession’ when used in Article 9 of the Uniform Commercial Code and means:

(a) a secured party, or an agent, custodian, fiduciary, or trustee of the party, which has the exclusive legal authority to conduct a transaction relating to a digital asset, including by means of a private key or the use of a multisignature arrangement authorized by the secured party; and

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

(2) ‘Multisignature arrangement’ means a system of access control relating to a digital asset for the purposes of preventing unauthorized transactions relating to the asset in which two or more private keys are required to conduct a transaction, or any substantially similar analogue.

(3) ‘Private keys’ means a unique element of cryptographic data, or any substantially similar analogue, that is:

(a) held by a person;

(b) paired with a unique, publicly available element of cryptographic data; and

(c) associated with an algorithm that is necessary to carry out an encryption or decryption required to execute a transaction.

(F) Perfection by control creates a possessory security interest and does not require physical possession. For the purposes of Article 9 of the Uniform Commercial Code and this section, a digital asset is located in South Carolina if the asset is held by a South Carolina custodian, the debtor or secured party is physically located in South Carolina, or the debtor or secured party is incorporated or organized in South Carolina.

Section 34‑51‑40. (A) A bank may provide custodial services consistent with this section upon providing sixty days written notice to the commissioner. The provisions of this section are cumulative and not exclusive as an optional framework for enhanced supervision of digital asset custody. If a bank elects to provide custodial services under this section, then it shall comply with all provisions of this section.

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

(1) implement all accounting, account statement, internal control, notice, and other standards specified by applicable state or federal law and rules for custodial services;

(2) maintain best practices for information technology relating to digital assets held in custody. The commissioner may specify required best practices by regulation;

(3) fully comply with applicable federal anti‑money laundering, customer identification, and beneficial ownership requirements; and

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

(C) A bank providing custodial services shall enter into an agreement with an independent certified public accountant to conduct an examination conforming to the requirements of 17 C.F.R. Section 275.206(4)‑2(a)(4) and (6), at the cost of the bank. The accountant shall transmit the results of the examination to the commissioner within one hundred twenty days of the examination and may file the results with the United States Securities and Exchange Commission as its rules may provide. Material discrepancies in an examination must be reported to the commissioner within one day. The commissioner shall review examination results upon receipt within a reasonable time and during any regular examination conducted.

(D) Digital assets held in custody under this section are not depository liabilities or assets of the bank. A bank or a subsidiary may register as an investment adviser, investment company, or broker‑dealer as necessary. A bank shall maintain control over a digital asset while in custody. A customer shall elect, pursuant to a written agreement with the bank, one of the following relationships for each digital asset held in custody:

(1) custody under a bailment as a nonfungible or fungible asset. Assets held under this item must be strictly segregated from other assets; or

(2) custody under a bailment pursuant to subsection (E).

(E) If a customer makes an election under subsection (D)(2), then the bank may, based only on customer instructions, undertake transactions with the digital asset. A bank maintains control pursuant to subsection (D) by entering into an agreement with the counterparty to a transaction, which contains a time for return of the asset. The bank is not liable for any loss suffered with respect to a transaction under this subsection, except for liability consistent with fiduciary and trust powers as a custodian under this section.

(F) A bank and a customer shall agree in writing regarding the source code version the bank will use for each digital asset and the treatment of each asset under the Uniform Commercial Code, if necessary. Any ambiguity under this subsection must be resolved in favor of the customer.

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

(1) the implementation of any updates or material source code updates relating to digital assets held in custody, except in emergencies which may include security vulnerabilities. Notice must be provided prior to any implementation;

(2) the heightened risk of loss from transactions under subsection (E);

(3) that some risk of loss as a prorata creditor exists as the result of custody as a fungible asset or custody under subsection (D)(2);

(4) that custody under subsection (D)(2) may not result in the digital assets of the customer being strictly segregated from other customer assets; and

(5) that the bank is not liable for losses suffered under subsection (E), except for liability consistent with fiduciary and trust powers as a custodian under this section.

(H) A bank and a customer shall agree in writing to a time period within which the bank must return a digital asset held in custody under this section. If a customer makes an election under subsection (D)(2), then the bank and the customer may also agree in writing to the form in which the digital asset must be returned.

(I) All ancillary or subsidiary proceeds relating to digital assets held in custody under this section shall accrue to the benefit of the customer, except as specified by a written agreement with the customer. The bank may elect not to collect certain ancillary or subsidiary proceeds, as long as the election is disclosed in writing. A customer who makes an election under subsection (D)(2) may withdraw the digital asset in a form that permits the collection of the ancillary or subsidiary proceeds.

(J) A bank shall not authorize or permit rehypothecation of digital assets under this section. The bank shall not engage in any activity to use or exercise discretionary authority relating to a digital asset, except based on customer instructions.

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

(L) Banks are not subject to the bank license tax levied under the laws of this State. In lieu of this tax and to offset the costs of supervision and administration of this section, a bank that provides custodial services under this section shall pay a supervision fee equal to two‑tenths of one mill on the dollar relating to assets held in custody under this section as of December thirty‑first of each year, with payment of the supervision fee made on or before the following January thirty‑first. Banks providing custodial services outside of this section must not be required to pay this supervision fee.

(M) The commissioner may promulgate regulations to implement this section.

Section 34‑51‑50. The courts of South Carolina have the jurisdiction to hear claims in both law and equity relating to digital assets, including those arising from this chapter and the Uniform Commercial Code.”

PART V

Anti-Money Laundering Exceptions for Virtual Currency

SECTION 8. Section 35‑11‑105 of the 1976 Code is amended by adding a new item to read:

“(21) ‘Virtual currency’ means any type of digital representation of value that:

(a) is used as a medium of exchange, unit of account, or store of value; and

(b) is not recognized as legal tender by the United States government.”

SECTION 9. Section 35‑11‑110 of the 1976 Code is amended by adding an appropriately numbered new item at the end to read:

“( ) the buying, selling, issuing, or taking custody of payment instruments or stored value in the form of virtual currency or receiving virtual currency for transmission to a location within or outside the United States by any means.”

PART VI

Effective Date

SECTION 10. This act takes effect on January 1, 2020.

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