

118TH CONGRESS
2D SESSION

S. 4951

To provide for regulatory sandboxes that permit certain persons to experiment with artificial intelligence without expectation of enforcement actions.

IN THE SENATE OF THE UNITED STATES

AUGUST 1, 2024

Mr. ROUNDS (for himself and Mr. HEINRICH) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To provide for regulatory sandboxes that permit certain persons to experiment with artificial intelligence without expectation of enforcement actions.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Unleashing AI Innova-
5 tion in Financial Services Act”.

6 **SEC. 2. USE OF ARTIFICIAL INTELLIGENCE BY REGULATED**
7 **FINANCIAL ENTITIES.**

8 (a) DEFINITIONS.—In this section:

1 (1) AI TEST PROJECT.—The term “AI test
2 project” means a financial product or service that
3 falls under the jurisdiction of a financial regulatory
4 agency—

5 (A) substantially uses artificial intelligence;

6 and

7 (B) is or may be subject to a Federal regu-
8 lation or Federal statute.

9 (2) APPROPRIATE FINANCIAL REGULATORY
10 AGENCY.—The term “appropriate financial regu-
11 latory agency” means—

12 (A) the appropriate Federal banking agen-
13 cy, as defined in section 3 of the Federal De-
14 posit Insurance Act (12 U.S.C. 1813), with re-
15 spect to regulated entities described in sub-
16 section (q) of that section;

17 (B) the Securities and Exchange Commis-
18 sion, with respect to—

19 (i) any broker or dealer that is reg-
20 istered with the Commission under the Se-
21 curities Exchange Act of 1934 (15 U.S.C.
22 78a et seq.), with respect to the activities
23 of the broker or dealer that require the
24 broker or dealer to be registered under
25 that Act;

1 (ii) any investment company that is
2 registered with the Commission under the
3 Investment Company Act of 1940 (15
4 U.S.C. 80a–1 et seq.), with respect to the
5 activities of the investment company that
6 require the investment company to be reg-
7 istered under that Act;

8 (iii) any investment adviser that is
9 registered with the Commission under the
10 Investment Advisers Act of 1940 (15
11 U.S.C. 80b–1 et seq.), with respect to the
12 investment advisory activities of such com-
13 pany and activities that are incidental to
14 such advisory activities;

15 (iv) any clearing agency registered
16 with the Commission under the Securities
17 Exchange Act of 1934 (15 U.S.C. 78a et
18 seq.), with respect to the activities of the
19 clearing agency that require the agency to
20 be registered under such Act;

21 (v) any nationally recognized statis-
22 tical rating organization registered with
23 the Commission under the Securities Ex-
24 change Act of 1934 (15 U.S.C. 78a et
25 seq.);

1 (vi) any transfer agent registered with
2 the Commission under the Securities Ex-
3 change Act of 1934 (15 U.S.C. 78a et
4 seq.);

5 (vii) any exchange registered as a na-
6 tional securities exchange with the Com-
7 mission under the Securities Exchange Act
8 of 1934 (15 U.S.C. 78a et seq.);

9 (viii) any national securities associa-
10 tion registered with the Commission under
11 the Securities Exchange Act of 1934 (15
12 U.S.C. 78a et seq.);

13 (ix) any securities information proc-
14 essor registered with the Commission
15 under the Securities Exchange Act of 1934
16 (15 U.S.C. 78a et seq.);

17 (x) the Municipal Securities Rule-
18 making Board established under the Secu-
19 rities Exchange Act of 1934 (15 U.S.C.
20 78a et seq.);

21 (xi) the Public Company Accounting
22 Oversight Board established under the
23 Sarbanes-Oxley Act of 2002 (15 U.S.C.
24 7211 et seq.);

1 (xii) the Securities Investor Protection
2 Corporation established under the Securi-
3 ties Investor Protection Act of 1970 (15
4 U.S.C. 78aaa et seq.); and

5 (xiii) any security-based swap execu-
6 tion facility, security-based swap data re-
7 pository, security-based swap dealer or
8 major security-based swap participant reg-
9 istered with the Commission under the Se-
10 curities Exchange Act of 1934 (15 U.S.C.
11 78a et seq.), with respect to the security-
12 based swap activities of the person that re-
13 quire such person to be registered under
14 such Act;

15 (C) the Bureau of Consumer Financial
16 Protection, with respect to a covered person, as
17 defined in section 1002 of the Consumer Finan-
18 cial Protection Act of 2010 (12 U.S.C. 5481),
19 that is not described in subparagraph (A), (B),
20 (C), (E), or (F) of this paragraph;

21 (D) the National Credit Union Administra-
22 tion, with respect to an insured credit union;
23 and

24 (E) the Federal Housing Finance Agency,
25 with respect to Federal Home Loan Banks or

1 the Federal Home Loan Bank System, and
2 with respect to the Federal National Mortgage
3 Association or the Federal Home Loan Mort-
4 gage Corporation.

5 (3) ARTIFICIAL INTELLIGENCE.—The term “ar-
6 tificial intelligence” has the meaning given the term
7 in section 5002 of the National Artificial Intelligence
8 Initiative Act of 2020 (15 U.S.C. 9401).

9 (4) FEDERAL SECURITIES LAWS.—The term
10 “Federal securities laws” means—

11 (A) the Securities Act of 1933 (15 U.S.C.
12 77a et seq.);

13 (B) the Securities Exchange Act of 1934
14 (15 U.S.C. 78a et seq.);

15 (C) the Sarbanes-Oxley Act of 2002 (15
16 U.S.C. 7201 et seq.);

17 (D) the Trust Indenture Act of 1939 (15
18 U.S.C. 77aaa et seq.);

19 (E) the Investment Company Act of 1940
20 (15 U.S.C. 80a–1 et seq.);

21 (F) the Investment Advisers Act of 1940
22 (15 U.S.C. 80b–1 et seq.); and

23 (G) the Jumpstart Our Business Startup
24 Act (Public Law 112–106; 126 Stat. 306).

1 (5) FINANCIAL PRODUCT OR SERVICE.—The
2 term “financial product or service”—

3 (A) has the meaning given the term in sec-
4 tion 1002 of the Consumer Financial Protection
5 Act of 2010 (12 U.S.C. 5481);

6 (B) includes—

7 (i) activities that are financial in na-
8 ture, as defined in section 4(k)(4) of the
9 Bank Holding Company Act of 1956 (12
10 U.S.C. 1843(k)(4));

11 (ii) any financial product or service
12 provided by a person regulated by the
13 Commission, as defined in 1002 of the
14 Consumer Financial Protection Act of
15 2010 (12 U.S.C. 5481); and

16 (iii) includes the offer or sale of any
17 security subject to the Federal securities
18 laws; and

19 (C) does not include the business of insur-
20 ance.

21 (6) FINANCIAL REGULATORY AGENCY.—The
22 term “financial regulatory agency” means—

23 (A) the Board of Governors of the Federal
24 Reserve System;

1 (B) the Federal Deposit Insurance Cor-
2 poration;

3 (C) the Office of the Comptroller of the
4 Currency;

5 (D) the Securities and Exchange Commis-
6 sion;

7 (E) the Bureau of Consumer Financial
8 Protection;

9 (F) the National Credit Union Administra-
10 tion; and

11 (G) the Federal Housing Finance Agency.

12 (7) REGULATED ENTITY.—The term “regulated
13 entity” means an entity regulated by any financial
14 regulatory agency.

15 (b) REGULATORY SANDBOXES.—

16 (1) ESTABLISHMENT.—Each financial regu-
17 latory agency shall establish a regulatory sandbox
18 that allows regulated entities to experiment with AI
19 test projects without unnecessary or unduly burden-
20 some regulation or expectation of retroactive en-
21 forcement actions.

22 (2) APPLICATIONS.—

23 (A) SUBMISSION.—

24 (i) IN GENERAL.—A regulated entity
25 may submit to the appropriate financial

1 regulatory agency an application, on a
2 form determined by the appropriate finan-
3 cial regulatory agency, to engage in an AI
4 test project.

5 (ii) CONTENTS.—An application sub-
6 mitted under clause (i) shall include—

7 (I) a description of the AI test
8 project proposed to be carried out by
9 the regulated entity;

10 (II) an alternative compliance
11 strategy that—

12 (aa) identifies a regulation
13 issued by the appropriate finan-
14 cial regulatory agency or a Fed-
15 eral statute enforced by the ap-
16 propriate financial regulatory
17 agency that the regulated entity
18 requests to be waived or modi-
19 fied; and

20 (bb) proposes an alternative
21 method for the regulated entity
22 to comply with the regulation or
23 statute, including an explanation
24 as to why the alternative method

1 is essential to the operation of
2 the entity;

3 (III) a demonstration that, under
4 the strategy described in subclause
5 (I), the AI test project—

6 (aa) would serve the public
7 interest, improve consumer ac-
8 cess to a financial product or
9 service, or promote consumer
10 protection;

11 (bb) would enhance effi-
12 ciency or operations, foster inno-
13 vation or competitiveness, im-
14 prove risk management and secu-
15 rity, or enhance regulatory com-
16 pliance;

17 (cc) would not present a sys-
18 temic risk to the financial system
19 of the United States;

20 (dd) is consistent with the
21 purposes of the anti-money laun-
22 dering and countering the financ-
23 ing of terrorism obligations under
24 subchapter II of chapter 53 of
25 title 31, United States Code; and

1 (ee) would not present a na-
2 tional security risk to the United
3 States;

4 (IV) a proposed date on which
5 the AI test project would terminate
6 and explain why such termination
7 date would be appropriate;

8 (V) proposed limitations on the
9 size, scope, and growth of the AI test
10 project; and

11 (VI) an estimate of the economic
12 impact of the AI test project if ap-
13 proved.

14 (iii) JOINT APPLICATIONS.—Two or
15 more regulated entities may submit a joint
16 application to the same financial regu-
17 latory agency under clause (i).

18 (iv) REGULATIONS AND STATUTES OF
19 OTHER AGENCIES.—

20 (I) IN GENERAL.—A regulated
21 entity may submit an application
22 under this subparagraph that includes
23 an alternative compliance strategy for
24 a regulation issued by or a Federal
25 statute enforced by a financial regu-

1 latory agency that is not the appro-
2 priate financial regulatory agency for
3 the regulated entity.

4 (II) REQUIREMENTS.—An appli-
5 cation described in subclause (I) shall
6 be subject to the same requirements
7 as an application described in clause
8 (ii), except that—

9 (aa) the regulated entity
10 shall submit the application to
11 the appropriate financial regu-
12 latory agency and the financial
13 regulatory agency that issued the
14 regulation or enforces the statute
15 or regulation that is the subject
16 of the alternative compliance
17 strategy; and

18 (bb) the AI test project may
19 not take effect unless the appro-
20 priate financial regulatory agency
21 and any other financial regu-
22 latory agency that issued the reg-
23 ulation or enforces the statute
24 that is the subject of the alter-
25 native compliance strategy jointly

1 approve the application using the
2 process described in subpara-
3 graph (B).

4 (v) NOTICE.—A regulated entity that
5 is regulated or supervised by more than 1
6 financial regulatory agency shall provide
7 notice of any application submitted to the
8 appropriate financial regulatory agency
9 under this section to each financial regu-
10 latory agency by which it is regulated or
11 supervised not later than 5 business days
12 after the entity submits the application to
13 the appropriate financial regulatory agen-
14 cy.

15 (B) AGENCY REVIEW.—

16 (i) IN GENERAL.—Except as provided
17 in clause (v), not later than 90 days after
18 the date on which an application is sub-
19 mitted to the appropriate financial regu-
20 latory agency under subparagraph (A), the
21 appropriate financial regulatory agency
22 shall—

23 (I) review the application; and

24 (II) submit to the applicant in
25 writing a determination of the agency.

1 (ii) APPROVAL.—

2 (I) IN GENERAL.—If the appli-
3 cant shows that it is more likely than
4 not that the application meets the re-
5 quirements for establishing an alter-
6 native compliance strategy and meets
7 the requirements described in sub-
8 paragraph (A)(ii)(II), the agency shall
9 approve the application and notify the
10 applicant in writing of—

11 (aa) the regulation or Fed-
12 eral statute that is the subject of
13 the alternative compliance strat-
14 egy;

15 (bb) the terms of the alter-
16 native compliance strategy for
17 the AI test project;

18 (cc) the date on which the
19 AI test project will terminate;

20 (dd) any limitations on the
21 size, scope, or growth of the AI
22 test project; and

23 (ee) any additional limita-
24 tions or conditions on the AI test
25 project, as determined by the ap-

1 appropriate financial regulatory
2 agency.

3 (II) EFFECT OF APPROVAL.—Ex-
4 cept as provided in subclause (III),
5 beginning on the date on which an ap-
6 plication submitted under subpara-
7 graph (A) is approved and ending on
8 the date described in subclause
9 (I)(cc)—

10 (aa) the appropriate finan-
11 cial regulatory agency may en-
12 force a regulation or Federal
13 statute described in subclause
14 (I)(aa) only in the manner set
15 out in the alternative compliance
16 strategy described in subclause
17 (I)(bb); and

18 (bb) a financial regulatory
19 agency that is not the appro-
20 priate financial regulatory agency
21 may not enforce a regulation or
22 Federal statute described in sub-
23 clause (I)(aa) with respect to the
24 conduct of the AI test project by
25 the regulated entity.

1 (III) ENFORCEMENT BY AN-
2 OTHER FINANCIAL REGULATORY
3 AGENCY.—A financial regulatory
4 agency other than the appropriate fi-
5 nancial regulatory agency that ap-
6 proves an application under subpara-
7 graph (A)(iv) may enforce a regula-
8 tion or Federal statute described in
9 subclause (I)(aa) if the alternative
10 compliance strategy described in sub-
11 clause (I)(bb) provides for enforce-
12 ment by such financial regulatory
13 agency.

14 (IV) RULE OF CONSTRUCTION.—
15 Nothing in this clause may be con-
16 strued to limit the authority of a fi-
17 nancial regulatory agency to take an
18 enforcement action against a regu-
19 latory entity with respect to fraud re-
20 lating to an AI test project.

21 (iii) DENIAL.—

22 (I) IN GENERAL.—If an agency
23 denies an application submitted under
24 subparagraph (A), the agency—

1 (aa) shall submit to the ap-
2 plicant a written notice explain-
3 ing the reason for denial, includ-
4 ing evidence that the applicant
5 did not satisfy the requirements
6 for establishing an alternative
7 compliance strategy and the
8 baseline used by the agency to
9 measure the likely economic con-
10 sequences of rejecting the appli-
11 cation; and

12 (bb) may not take an en-
13 forcement action against the ap-
14 plicant earlier than the date that
15 is 30 days after the date on
16 which the agency submits the
17 written notice described in item
18 (aa).

19 (II) RESUBMITTALS.—Each time
20 an application submitted under sub-
21 paragraph (A) is denied, the regulated
22 entity may submit another application
23 if the application is not substantially
24 similar to the one denied.

1 (III) INJUNCTIVE RELIEF.—If a
2 financial regulatory agency determines
3 an AI test project presents an imme-
4 diate danger to consumers or presents
5 a risk to financial markets, the agency
6 may file a civil action in an appro-
7 priate court seeking to enjoin such
8 project.

9 (IV) RULE OF CONSTRUCTION.—
10 Nothing in this clause may be con-
11 strued to limit the authority of a fi-
12 nancial regulatory agency to take an
13 enforcement action against an appli-
14 cant with respect to fraud relating to
15 the AI test project.

16 (iv) EXTENSION.—If the financial reg-
17 ulatory agency needs additional time, the
18 agency may vote to extend the application
19 deadline by 90 days. After the expiration
20 of the 90-day period, if the agency has not
21 made a determination on the application,
22 the application will automatically be
23 deemed approved and effective.

1 (C) DATA SECURITY.—All data supplied by
2 sponsors of AI test projects submitted under
3 this section shall be stored in a secure manner.

4 (D) REGULATIONS.—Not later than 180
5 days after the date of enactment of this Act,
6 each financial regulatory agency shall promul-
7 gate regulations that—

8 (i) shall be published in the Federal
9 Register and provide a 45-day period for
10 public notice and comment;

11 (ii) include—

12 (I) procedures for modifying the
13 AI test projects that are approved by
14 the agency;

15 (II) consequences for failure to
16 comply with set terms;

17 (III) termination dates not ear-
18 lier than 1 year after the date on
19 which AI test projects are approved;

20 (IV) procedures to extend the
21 termination date described in sub-
22 clause (III);

23 (V) procedures for confiden-
24 tiality; and

1 (VI) procedures for coordinating
2 decisions relating to applications sub-
3 mitted jointly by multiple regulated
4 entities or applications submitted to
5 more than one financial regulatory
6 agency.

7 (c) REPORT.—Each financial regulatory agency shall
8 submit to the Committee on Banking, Housing, and
9 Urban Affairs of the Senate and the Committee on Finan-
10 cial Services of the House of Representatives an annual
11 report on the outcomes of AI test projects.

12 (d) REGULATIONS.—After approving not fewer than
13 1 AI test project, an agency may promulgate regulations,
14 after providing a notice and an opportunity for public
15 comment, other AI activities or products that qualify as
16 AI test projects.

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