

No. 205. An act relating to blockchain business development.

(S.269)

It is hereby enacted by the General Assembly of the State of Vermont:

* * * Definition of Blockchain Technology * * *

Sec. 1. 12 V.S.A. § 1913 is amended to read:

§ 1913. BLOCKCHAIN ENABLING

(a) As used in this section, ~~“blockchain technology”~~:

(1) “Blockchain” means a ~~mathematically~~ cryptographically secured, chronological, and decentralized consensus ledger or consensus database, ~~whether~~ maintained via Internet ~~interaction~~, peer-to-peer network, or ~~otherwise~~ other interaction.

(2) “Blockchain technology” means computer software or hardware or collections of computer software or hardware, or both, that utilize or enable a blockchain.

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* * * Personal Information Protection Companies * * *

Sec. 2. 8 V.S.A. chapter 78 is added to read:

CHAPTER 78. PERSONAL INFORMATION PROTECTION

COMPANIES

§ 2451. DEFINITIONS

As used in this section:

(1) “Personal information” means data capable of being associated with a particular natural person, including gender identification, birth information, marital status, citizenship and nationality, biometric records, government identification designations, and personal, educational, and financial histories.

(2) “Personal information protection company” means a business that is organized for the primary purpose of providing personal information protection services to individual consumers.

(3) “Personal information protection services” means receiving, holding, and managing the disclosure or use of personal information concerning an individual consumer:

(A) pursuant to a written agreement, in which the person receiving the individual consumer’s information agrees to serve as a personal information protection company, and which specifies the types of personal information to be held and the scope of services to be provided on behalf of the consumer; and

(B) in the best interests and for the protection and benefit of the consumer.

§ 2452. PERSONAL INFORMATION AS THE SUBJECT OF A

FIDUCIARY RELATIONSHIP

A personal information protection company that accepts personal information pursuant to a written agreement to provide personal information

protection services has a fiduciary responsibility to the consumer when providing personal protection services.

§ 2453. QUALIFIED PERSONAL INFORMATION PROTECTION

COMPANY

(a) A personal information protection company shall qualify to conduct its business under the terms of this chapter and applicable rules adopted by the Department of Financial Regulation.

(b) A person shall not engage in business as a personal information protection company in this State without first obtaining a certificate of authority from the Department.

(c) A personal information protection company shall:

(1) be organized or authorized to do business under the laws of this State;

(2) maintain a place of business in this State;

(3) appoint a registered agent to accept service of process and to otherwise act on its behalf in this State, provided that whenever the registered agent cannot with reasonable diligence be found at the Vermont registered office of the company, the Secretary of State shall be an agent of the company upon whom any process, notice, or demand may be served;

(4) annually hold at least one meeting of its governing body in this State, at which meeting one or more members of the body are physically present; and

(5) develop, implement, and maintain a comprehensive information security program that contains administrative, technical, and physical safeguards sufficient to protect personal information, and which may include the use of blockchain technology, as defined in 12 V.S.A. § 1913, in some or all of its business activities.

§ 2454. NAME; OFFICE

A personal information protection company shall file with the Department of Financial Regulation the name it proposes to use in connection with its business, which the Department shall not approve if it determines that the name may be misleading, likely to confuse the public, or deceptively similar to any other business name in use in this State.

§ 2455. CONDUCT OF BUSINESS

(a) A personal information protection company may:

(1) operate through remote interaction with the individuals entrusting personal information to the company, and there shall be no requirement of Vermont residency or other contact for any such individual to establish such a relationship with the company; and

(2) subject to applicable fiduciary duties, the terms of any agreement with the individual involved, and any applicable statutory or regulatory provision:

(A) provide elements of personal information to third parties with which the individual seeks to have a transaction, a service relationship, or other particular purpose interaction;

(B) provide certification or validation concerning personal information;

(C) receive compensation for acting in these capacities.

(b) An authorization to provide personal information may be either particular or general, provided it meets the terms of any agreement with the individual involved and any rules adopted by the Department of Financial Regulation.

§ 2456. FEES; AUTHORITY OF DEPARTMENT

(a)(1) The Department of Financial Regulation shall assess the following fees for a personal information protection company:

(A) an initial registration fee of \$1,000.00, which includes a licensing fee of \$500.00 and an investigation fee of \$500.00;

(B) an annual renewal fee of \$500.00;

(C) a change in address fee of \$100.00.

(2) The Department shall have the authority to bill a personal information protection company for examination time at its standard rate.

(b) In addition to other powers conferred by this chapter, the Department shall have the authority to review records, conduct examinations, and require annual audits of a personal information protection company.

§ 2457. REPORTS; RULES

(a) The Department of Financial Regulation may prescribe by rule the timing and manner of reports by a personal information protection company to the Department.

(b) The Department may adopt rules to govern other aspects of the business of a personal information protection company, including its protection and safeguarding of personal information and its interaction with third parties with respect to personal information it holds.

Sec. 3. IMPLEMENTATION; REPORTS; RULES

On or before January 15, 2020, the Department of Financial Regulation shall submit to the House Committee on Commerce and Economic Development and the Senate Committee on Economic Development, Housing and General Affairs a progress report that addresses:

(1) the implementation of Sec. 2 of this act; and

(2) the status of rulemaking pursuant to its authority under 8 V.S.A.

§ 2457.

* * * Insurance and Banking Study * * *

Sec. 4. INSURANCE; BANKING; DFR STUDY; REPORT

(a) The Department of Financial Regulation shall review the potential application of blockchain technology to the provision of insurance and banking and consider areas for potential adoption and any necessary regulatory changes in Vermont.

(b) On or before January 15, 2019, the Department shall submit a report of its findings and recommendations to the House Committee on Commerce and Economic Development and the Senate Committee on Economic Development, Housing and General Affairs.

* * * FinTech Summit; Blockchain Promotion * * *

Sec. 5. FINTECH SUMMIT

The Agency of Commerce and Community Development, in collaboration with the Department of Financial Regulation, the University of Vermont and State Agricultural College, the Vermont State Colleges, Norwich University, Vermont Law School, the Agency of Education, and regional CTE centers, and in consultation with private sector practitioners, may organize and hold a FinTech Summit to:

(1) explore legal and regulatory mechanisms to promote the adoption of financial technology in State government;

(2) explore opportunities to promote financial technology and economic development in the private sector, including in the areas of banking, insurance, retail and service businesses, and cryptocurrency providers and proponents; and

(3) explore opportunities to integrate financial technology into secondary and postsecondary education in Vermont.

Sec. 6. BLOCKCHAIN AND FINANCIAL TECHNOLOGY PROMOTION

The Agency of Commerce and Community Development shall incorporate into one or more of its economic development marketing and business support programs, events, and activities the following topics:

(1) opportunities to promote blockchain technology and financial technology-related economic development in the private sector, including in the areas of banking, insurance, retail and service businesses, and cryptocurrency;

(2) legal and regulatory mechanisms that enable and promote the adoption of blockchain technology and financial technology in this State; and

(3) educational and workforce training opportunities in blockchain technology, financial technology, and related areas.

* * * Enabling Provisions; Blockchain-Based LLCs * * *

Sec. 7. 11 V.S.A. chapter 25, subchapter 12 is added to read:

Subchapter 12. Blockchain-Based Limited Liability Companies

§ 4171. DEFINITIONS

As used in this section:

(1) “Blockchain technology” has the same meaning as in 12 V.S.A.

§ 1913.

(2) “Participant” means:

(A) each person that has a partial or complete copy of the decentralized consensus ledger or database utilized by the blockchain

technology, or otherwise participates in the validation processes of such ledger or database;

(B) each person in control of any digital asset native to the blockchain technology; and

(C) each person that makes a material contribution to the protocols.

(3) “Protocols” means the designated regulatory model of the software that governs the rules, operations, and communication between nodes on the network utilized by the participants.

(4) “Virtual currency” means a digital representation of value that:

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

(B) is not legal tender, whether or not denominated in legal tender.

§ 4172. ELECTION

A limited liability company organized pursuant to this title for the purpose of operating a business that utilizes blockchain technology for a material portion of its business activities may elect to be a blockchain-based limited liability company (BLLC) by:

(1) specifying in its articles of organization that it elects to be a BLLC; and

(2) meeting the requirements in subdivision 4173(2) and subsection 4174(a) of this title.

§ 4173. AUTHORITY; REQUIREMENTS

Notwithstanding any provision of this chapter to the contrary:

(1) A BLLC may provide for its governance, in whole or in part, through blockchain technology.

(2) The operating agreement for a BLLC shall:

(A) provide a summary description of the mission or purpose of the BLLC;

(B) specify whether the decentralized consensus ledger or database utilized or enabled by the BLLC will be fully decentralized or partially decentralized and whether such ledger or database will be fully or partially public or private, including the extent of participants' access to information and read and write permissions with respect to protocols;

(C) adopt voting procedures, which may include smart contracts carried out on the blockchain technology, to address:

(i) proposals from managers, members, or other groups of participants in the BLLC for upgrades or modifications to software systems or protocols, or both;

(ii) other proposed changes to the BLLC operating agreement; or

(iii) any other matter of governance or activities within the purpose of the BLLC;

(D) adopt protocols to respond to system security breaches or other unauthorized actions that affect the integrity of the blockchain technology utilized by the BLLLC;

(E) provide how a person becomes a member of the BLLLC with an interest, which may be denominated in the form of units, shares of capital stock, or other forms of ownership or profit interests; and

(F) specify the rights and obligations of each group of participants within the BLLLC, including which participants shall be entitled to the rights and obligations of members and managers.

§ 4174. MULTIPLE ROLES OF MEMBERS AND MANAGERS

(a) A member or manager of a BLLLC may interact with the BLLLC in multiple roles, including as a member, manager, developer, node, miner, or other participant in the BLLLC, or as a trader and holder of the currency in its own account and for the account of others, provided such member or manager complies with any applicable fiduciary duties.

(b) The activities of a member or manager who interacts with the BLLLC through multiple roles are not deemed to take place in this State solely because the BLLLC is organized in this State.

§ 4175. CONSENSUS FORMATION ALGORITHMS AND

GOVERNANCE PROCESSES

In its governance, a BLLLC may:

(1) adopt any reasonable algorithmic means for accomplishing the consensus process for validating records, as well as requirements, processes, and procedures for conducting operations, or making organizational decisions on the blockchain technology used by the BLLC; and

(2) in accordance with any procedure specified pursuant to section 4173 of this title, modify the consensus process, requirements, processes, and procedures, or substitute a new consensus process, requirements, processes, or procedures that comply with the requirements of law and the governance provisions of the BLLC.

§ 4176. SCOPE OF SUBCHAPTER; OTHER LAW

Except as expressly provided otherwise, this subchapter does not exempt a BLLC from any other judicial, statutory, or regulatory provision of Vermont law or federal law, including State and federal securities laws. Except to the extent inconsistent with the provisions of this subchapter, the provisions of the Vermont Limited Liability Company Act govern.

* * * Blockchain Technology in Public Records * * *

Sec. 8. PUBLIC RECORDS

On or before January 15, 2019, the Vermont State Archives and Records Administration, in collaboration with the Vermont League of Cities and Towns, the Vermont Municipal Clerks' and Treasurers' Association, and the Agency of Digital Services, shall:

(1) evaluate blockchain technology for the systematic and efficient management of public records in accordance with 1 V.S.A. § 317a and 3 V.S.A. § 117;

(2) recommend legislation, including uniform laws, necessary to support the possible use of blockchain technology for the recording of land records pursuant to 24 V.S.A. § 1154 and for other public records; and

(3) submit its findings and recommendations to the House Committee on Commerce and Economic Development; the Senate Committee on Economic Development, Housing and General Affairs; and the House and Senate Committees on Government Operations.

* * * Effective Date * * *

Sec. 9. EFFECTIVE DATE

This act shall take effect on July 1, 2018.

Date Governor signed bill: May 30, 2018