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(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To establish AI Innovation Labs that permit certain persons to experiment
with artificial intelligence without expectation of enforcement actions.

IN THE HOUSE OF REPRESENTATIVES

Mr. HILL of Arkansas introduced the following bill; which was referred to the
Committee on _____

A BILL

To establish AI Innovation Labs that permit certain persons
to experiment with artificial intelligence without expecta-
tion 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. DEFINITIONS.**

7 In this section:

1 (1) AI TEST PROJECT.—The term “AI test
2 project” means a financial product or service that—

3 (A) falls under the jurisdiction of a finan-
4 cial regulatory agency;

5 (B) makes substantial use of artificial in-
6 telligence; and

7 (C) is, or may be, subject to a Federal reg-
8 ulation 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 an institution described in subsection
16 (q) of that section;

17 (B) the Securities and Exchange Commis-
18 sion, with respect to an institution not de-
19 scribed in subparagraph (A) that is—

20 (i) any broker or dealer that is reg-
21 istered with the Commission under the Se-
22 curities Exchange Act of 1934 (15 U.S.C.
23 78a et seq.);

24 (ii) any investment company that is
25 registered with the Commission under the

1 Investment Company Act of 1940 (15
2 U.S.C. 80a–1 et seq.);

3 (iii) any investment adviser that is
4 registered with the Commission under the
5 Investment Advisers Act of 1940 (15
6 U.S.C. 80b–1 et seq.);

7 (iv) any clearing agency registered
8 with the Commission under the Securities
9 Exchange Act of 1934 (15 U.S.C. 78a et
10 seq.);

11 (v) any nationally recognized statis-
12 tical rating organization registered with
13 the Commission under the Securities Ex-
14 change Act of 1934 (15 U.S.C. 78a et
15 seq.);

16 (vi) any transfer agent registered with
17 the Commission under the Securities Ex-
18 change Act of 1934 (15 U.S.C. 78a et
19 seq.);

20 (vii) any exchange registered as a na-
21 tional securities exchange with the Com-
22 mission under the Securities Exchange Act
23 of 1934 (15 U.S.C. 78a et seq.);

24 (viii) any national securities associa-
25 tion registered with the Commission under

1 the Securities Exchange Act of 1934 (15
2 U.S.C. 78a et seq.);

3 (ix) any securities information proc-
4 essor registered with the Commission
5 under the Securities Exchange Act of 1934
6 (15 U.S.C. 78a et seq.);

7 (x) the Municipal Securities Rule-
8 making Board established under the Secu-
9 rities Exchange Act of 1934 (15 U.S.C.
10 78a et seq.);

11 (xi) the Public Company Accounting
12 Oversight Board established under the
13 Sarbanes-Oxley Act of 2002 (15 U.S.C.
14 7211 et seq.);

15 (xii) the Securities Investor Protection
16 Corporation established under the Securi-
17 ties Investor Protection Act of 1970 (15
18 U.S.C. 78aaa et seq.); and

19 (xiii) any security-based swap execu-
20 tion facility, security-based swap data re-
21 pository, security-based swap dealer, or
22 major security-based swap participant reg-
23 istered with the Commission under the Se-
24 curities Exchange Act of 1934 (15 U.S.C.
25 78a et seq.), with respect to the security-

1 based swap activities of the person that re-
2 quire such person to be registered under
3 such Act;

4 (C) the Bureau of Consumer Financial
5 Protection, with respect to a covered person, as
6 defined in section 1002 of the Consumer Finan-
7 cial Protection Act of 2010 (12 U.S.C. 5481),
8 that does not have an appropriate financial reg-
9 ulatory agency under subparagraph (A), (B),
10 (D), or (E) of this paragraph;

11 (D) the National Credit Union Administra-
12 tion, with respect to an insured credit union, as
13 defined in section 101 of the Federal Credit
14 Union Act (12 U.S.C. 1752); and

15 (E) the Federal Housing Finance Agency,
16 with respect to—

17 (i) a Federal Home Loan Bank;

18 (ii) the Federal Home Loan Bank
19 System;

20 (iii) the Federal National Mortgage
21 Association; and

22 (iv) the Federal Home Loan Mortgage
23 Corporation.

24 (3) ARTIFICIAL INTELLIGENCE; AI.—The terms
25 “artificial intelligence” and “AI” have the meaning

1 given the term “artificial intelligence” in section
2 5002 of the National Artificial Intelligence Initiative
3 Act of 2020 (15 U.S.C. 9401).

4 (4) COMMISSION.—The term “Commission”
5 means the Securities and Exchange Commission.

6 (5) FEDERAL SECURITIES LAWS.—The term
7 “Federal securities laws” means—

8 (A) the Securities Act of 1933 (15 U.S.C.
9 77a et seq.);

10 (B) the Securities Exchange Act of 1934
11 (15 U.S.C. 78a et seq.);

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

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

16 (E) the Investment Company Act of 1940
17 (15 U.S.C. 80a–1 et seq.);

18 (F) the Investment Advisers Act of 1940
19 (15 U.S.C. 80b–1 et seq.);

20 (G) the Jumpstart Our Business Startup
21 Act (Public Law 112–106; 126 Stat. 306); and

22 (H) the Dodd-Frank Wall Street Reform
23 and Consumer Protection Act (Public Law
24 111–203; 124 Stat. 1376).

1 (6) 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 section 1002 of
14 the 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 (7) 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 (8) REGULATED ENTITY.—The term “regulated
13 entity” means an entity regulated by any financial
14 regulatory agency.

15 **SEC. 3. USE OF ARTIFICIAL INTELLIGENCE BY REGULATED**
16 **FINANCIAL ENTITIES.**

17 (a) AI INNOVATION LABS.—

18 (1) ESTABLISHMENT.—Each financial regu-
19 latory agency shall establish, or identify an office,
20 division, or department of the agency that shall
21 serve as, an AI Innovation Lab to enable regulated
22 entities to experiment with AI test projects without
23 unnecessary or unduly burdensome regulation or ex-
24 pectation of enforcement actions, pursuant to the
25 approval of an application under paragraph (2).

1 (2) APPLICATIONS.—

2 (A) SUBMISSION.—

3 (i) IN GENERAL.—A regulated entity
4 may submit to the appropriate financial
5 regulatory agency an application, on a
6 form determined by the appropriate finan-
7 cial regulatory agency, to engage in an AI
8 test project through the AI Innovation Lab
9 established or identified under paragraph
10 (1).

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

13 (I) a description of the AI test
14 project proposed to be carried out by
15 the regulated entity;

16 (II) an alternative compliance
17 strategy that—

18 (aa) identifies a regulation
19 issued by the appropriate finan-
20 cial regulatory agency that the
21 regulated entity requests to be
22 waived or modified; and

23 (bb) proposes an alternative
24 method for the regulated entity
25 to comply with the regulation, in-

1 including an explanation as to why
2 the alternative method is essen-
3 tial to the operation of the entity
4 and how the regulated entity
5 would effectively manage risks
6 associated with the AI test
7 project;

8 (III) an explanation of how under
9 the strategy described in subclause
10 (II), the AI test project—

11 (aa) would serve the public
12 interest, improve consumer or in-
13 vestor access to a financial prod-
14 uct or service, or promote con-
15 sumer or investor protection;

16 (bb) would enhance effi-
17 ciency or operations, foster inno-
18 vation or competitiveness, im-
19 prove risk management and secu-
20 rity, or enhance regulatory com-
21 pliance;

22 (cc) would not present a sys-
23 temic risk to the financial system
24 of the United States;

1 (dd) is consistent with the
2 purposes of the anti-money laun-
3 dering and countering the financ-
4 ing of terrorism obligations under
5 subchapter II of chapter 53 of
6 title 31, United States Code; and

7 (ee) would not present a na-
8 tional security risk to the United
9 States;

10 (IV) a proposed date on which
11 the AI test project would terminate
12 and an explanation why such termi-
13 nation date would be appropriate;

14 (V) proposed limitations on the
15 size, scope, and growth of the AI test
16 project;

17 (VI) a detailed business plan;
18 and

19 (VII) an estimate of the eco-
20 nomic impact of the AI test project if
21 approved.

22 (iii) JOINT APPLICATIONS.—Two or
23 more regulated entities may submit a joint
24 application to the same financial regu-
25 latory agency under clause (i).

1 (iv) REGULATIONS OF OTHER AGEN-
2 CIES.—

3 (I) IN GENERAL.—A regulated
4 entity may submit an application
5 under this subparagraph that includes
6 an alternative compliance strategy for
7 a regulation issued or enforced by a
8 financial regulatory agency that is not
9 the appropriate financial regulatory
10 agency for the regulated entity.

11 (II) REQUIREMENTS.—An appli-
12 cation described in subclause (I) shall
13 be subject to the same requirements
14 as an application described in clause
15 (ii), except that—

16 (aa) the regulated entity
17 shall submit the application to
18 the appropriate financial regu-
19 latory agency and the financial
20 regulatory agency that issued or
21 enforces the regulation that is
22 the subject of the alternative
23 compliance strategy; and

24 (bb) the AI test project may
25 not take effect unless the appro-

1 appropriate financial regulatory agency
2 and any other financial regu-
3 latory agency that issued or en-
4 forces the regulation that is the
5 subject of the alternative compli-
6 ance strategy jointly approve the
7 application using the process de-
8 scribed in subparagraph (B).

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

20 (B) AGENCY REVIEW.—

21 (i) IN GENERAL.—Except as provided
22 in clause (iv), not later than 120 days
23 after the date on which an application is
24 submitted to the appropriate financial reg-
25 ulatory agency under subparagraph (A),

1 the appropriate financial regulatory agency
2 shall—

3 (I) review the application; and

4 (II) submit to the applicant in
5 writing a determination of the agency.

6 (ii) APPROVAL.—

7 (I) IN GENERAL.—If the appli-
8 cant shows that it is more likely than
9 not that the application meets the re-
10 quirements for establishing an alter-
11 native compliance strategy and satis-
12 fies the standards described in sub-
13 clauses (II) and (III) of subparagraph
14 (A)(ii), the agency shall approve the
15 application and notify the applicant in
16 writing of—

17 (aa) the regulation that is
18 the subject of the alternative
19 compliance strategy;

20 (bb) the terms of the alter-
21 native compliance strategy for
22 the AI test project;

23 (cc) the date on which the
24 AI test project will terminate;

1 (dd) any limitations on the
2 size, scope, or growth of the AI
3 test project; and

4 (ee) any additional limita-
5 tions or conditions on the AI test
6 project, as determined by the ap-
7 propriate financial regulatory
8 agency.

9 (II) EFFECT OF APPROVAL.—

10 With respect to an AI test project, ex-
11 cept as provided in subclause (III),
12 beginning on the date on which an ap-
13 plication submitted under subpara-
14 graph (A) is approved and ending on
15 the date described in subclause
16 (I)(cc)—

17 (aa) the appropriate finan-
18 cial regulatory agency may en-
19 force a regulation described in
20 subclause (I)(aa) only in the
21 manner set out in the alternative
22 compliance strategy described in
23 subclause (I)(bb); and

24 (bb) a financial regulatory
25 agency that is not the appro-

1 appropriate financial regulatory agency
2 may not enforce a regulation de-
3 scribed in subclause (I)(aa).

4 (III) ENFORCEMENT BY AN-
5 OTHER FINANCIAL REGULATORY
6 AGENCY.—With respect to an AI test
7 project, a financial regulatory agency
8 other than the appropriate financial
9 regulatory agency that approves an
10 application under subparagraph
11 (A)(iv) may enforce a regulation de-
12 scribed in subclause (I)(aa) if the al-
13 ternative compliance strategy de-
14 scribed in subclause (I)(bb) provides
15 for enforcement by such financial reg-
16 ulatory agency.

17 (IV) RULE OF CONSTRUCTION.—
18 Nothing in this clause may be con-
19 strued to limit the authority of a fi-
20 nancial regulatory agency to take an
21 enforcement action against a regu-
22 lated entity with respect to fraud or
23 for engaging in an unsafe or unsound
24 practice relating to an AI test project.

25 (iii) DENIAL.—

1 (I) IN GENERAL.—If an agency
2 denies an application submitted under
3 subparagraph (A), the agency—

4 (aa) shall submit to the ap-
5 plicant a written notice explain-
6 ing the reason for denial; and

7 (bb) may not take an en-
8 forcement action related to the
9 proposed AI test project against
10 the applicant earlier than the
11 date that is 30 days after the
12 date on which the agency submits
13 the written notice described in
14 item (aa).

15 (II) RESUBMITTALS.—Each time
16 an application submitted under sub-
17 paragraph (A) is denied, the regulated
18 entity—

19 (aa) may submit an amend-
20 ed application after receiving
21 feedback from the agency making
22 such denial; and

23 (bb) may not resubmit more
24 than 2 applications that are sub-

1 stantially similar to the denied
2 application.

3 (III) INJUNCTIVE RELIEF.—A fi-
4 nancial regulatory agency, by and
5 through its own attorneys, may file a
6 civil action in an appropriate United
7 States district court to enjoin an AI
8 test project if the agency determines
9 that the AI test project—

10 (aa) presents an immediate
11 danger to consumers or investors;
12 or

13 (bb) presents a risk—
14 (AA) to financial mar-
15 kets;

16 (BB) in the case of an
17 AI test project engaged in
18 by an insured depository in-
19 stitution or an insured credit
20 union, of loss to a Federal
21 deposit or share insurance
22 fund;

23 (CC) of a violation of
24 anti-money laundering and
25 countering the financing of

1 terrorism obligations under
2 subchapter II of chapter 53
3 of title 31, United States
4 Code; or
5 (DD) to the national
6 security of the United
7 States.

8 (iv) EXTENSION.—If the financial reg-
9 ulatory agency needs additional time, the
10 agency may extend the approval deadline
11 by 120 days. After the expiration of the
12 120-day extension period, if the agency has
13 not made a determination on the applica-
14 tion, the application will automatically be
15 deemed approved and effective.

16 (C) DATA SECURITY.—All data supplied by
17 sponsors of AI test projects to a financial regu-
18 latory agency submitted under this section shall
19 be stored and maintained in a secure manner
20 by the financial regulatory agency, consistent
21 with applicable data security standards.

22 (D) REGULATIONS.—Not later than 180
23 days after the date of enactment of this Act,
24 each financial regulatory agency shall promul-
25 gate regulations that—

1 (i) shall be published in the Federal
2 Register and provide a 60-day period for
3 public notice and comment;

4 (ii) include—

5 (I) procedures for modifying the
6 AI test projects that are approved by
7 the agency;

8 (II) consequences for failure to
9 comply with the terms of an alter-
10 native compliance strategy;

11 (III) a requirement that an AI
12 test project will terminate not earlier
13 than 1 year after the AI test project
14 is approved;

15 (IV) procedures to extend the
16 termination date described in sub-
17 clause (III);

18 (V) procedures for confiden-
19 tiality; and

20 (VI) procedures for coordinating
21 decisions relating to applications sub-
22 mitted jointly by multiple regulated
23 entities or applications submitted to
24 more than one financial regulatory
25 agency.

1 (b) REPORT.—Not later than 2 years after the date
2 of enactment of this Act, and each year for 7 years there-
3 after, each financial regulatory agency shall submit to the
4 Committee on Banking, Housing, and Urban Affairs of
5 the Senate and the Committee on Financial Services of
6 the House of Representatives an annual report on the out-
7 comes of AI test projects. A report under this subsection
8 may not include the names of participating entities or any
9 proprietary or confidential business information. A report
10 under this subsection shall include aggregated findings,
11 trends, and lessons learned from the AI test projects.

12 (c) RULE OF CONSTRUCTION.—Nothing in this sec-
13 tion may be construed to limit the authority of a financial
14 regulatory agency to take an enforcement action against
15 a regulated entity with respect to fraud relating to an AI
16 test project.