

Fiscal Analysis

Proposed Rules for Administering the North Carolina Innovation Council
Regulatory Sandbox Program

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Basic Information

Agency	North Carolina Innovation Council
Citations and Titles	04 NCAC 25 .0101 - .0111 - Regulatory Sandbox
Description of the Proposed Rules	Proposed rules further implement G.S. 169 (North Carolina Regulatory Sandbox Act of 2021), addressing details related to: the operation, supervision, managing, and communication of the Regulatory Sandbox; information and fees required; the process for receiving, reviewing, accepting, and denying applications; conditions of the waiver; and the termination or removal of a participant from the Regulatory Sandbox.
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Authority	G.S. 169-4(a)(4)
Necessity	The NC Innovation Council proposed permanent rules are necessary for the public to have a clear understanding of how the authorizing legislation is being implemented and to provide transparency and direction on how the Sandbox program will be administered, including how fee amounts will be determined and how the NC Innovation Council will be managed.
Impact Summary	<p>State government: Administrative costs and modest potential fee revenue for NC Innovation Council (Commerce). Impacts largely attributable to general statute.</p> <p>Local government: None.</p> <p>Private entities: Modest fees and potential long-term revenue increases for InsurTech and FinTech companies who choose to participate. Impacts largely attributable to general statute.</p>

Consumers:

Uncertain, while negative impacts could occur the law and rules require disclosure of risks and institute mitigating those risks and clearly defining all methods of recourse for consumers if negative impacts are realized. However, consumers benefit from having access to the innovative product or service and the value they target to generate for consumers.

Substantial economic impact (> = \$1,000,000):

Uncertain, but unlikely in the 5-year projected timeframe. Impacts largely attributable to general statute.

Background and Purpose

Existing legal and regulatory frameworks are restricting innovation because these frameworks were established largely at a time when technology was not a fundamental component of industry ecosystems. The Regulatory Sandbox is a program established under North Carolina law to support innovation, investment and job creation by enabling a person or entity to temporarily test an innovative financial or insurance product or service and make it available to consumers on a limited basis without being subject to certain licensing or other regulatory obligations imposed under applicable State law.

A person or entity offering a financial or insurance product or service, or a substantial component of such, or using or incorporating new or emerging technology, including blockchain technology, or developing a new use of existing technology to address a problem, provide a benefit or otherwise offer a product, service, business model or delivery mechanism to the public that does not have a comparable widespread offering in this State, is eligible to apply for entry to the Regulatory Sandbox.

On October 7, 2021, Governor Roy Cooper signed S.L. 2021-166, which enacted the North Carolina Financial and Insurance Regulatory Sandbox Act and establishing the North Carolina Innovation Council (Council). On September 22, 2023, the General Assembly enacted S.L. 2023-134, which, expanded Article 169 and requiring the Council to adopt rules governing the operations, supervision, management, and communications for the Regulatory Sandbox. This legislation directed the Council to adopt new permanent rules to implement the requirements of the legislation.

The new rules address several topics, including the application of nonprofit partners positioned to provide technical assistance to potential Sandbox participants, the application process and review and approval/denial process, as well as the administration of Sandbox applicants, oversight, penalties, and application and participant fees.

The Council is now proposing permanent rules that will take effect March 1, 2025. A copy of the proposed rules is included as Appendix A. This fiscal and regulatory analysis (“fiscal note”) examines the anticipated financial and regulatory impact of the proposed rules as compared to the regulatory baseline (G.S. 169). This analysis focuses on those areas of the Regulatory Sandbox program for which the Council has discretion, including the amount of additional participant fees (application and minimum participation fee amounts are prescribed by statute), the specific conditions under which a waiver may be granted, and details related to the application and closeout procedures for both nonprofit partners and Sandbox applicants.

The proposed rules for adoption, focusing on operations, processes, and oversight for the Sandbox and the Council, will result in costs to the private sector in the form of application and participation fees. An application fee of \$50, established by G.S. 169-6(b), is due upon submission for all businesses seeking to participate in the Regulatory Sandbox. This revenue will be credited to the Council. Additionally, the proposed rules provide directives on minimum participant fees of \$450 per approved Sandbox participant, as established by G.S. 169-6(b). Additional participation fees are based on the size of companies and number of consumers impacted. These funds are authorized to be credited to the Council to cover reasonable agency expenses.

The intent of the rule 04 NCAC 25 .0107 is to establish the structure for the additional participation fees based on the size of the company and the scale of the product or service. G.S. 169-6(b) gives the Council the authority to establish and publish the fee schedule for additional participation fees. Table 1 prescribes the proposed graduated participation fee schedule for approved Sandbox participant companies. The realization of these revenues is not predictable, as the Regulatory Sandbox is a

voluntary program to spark innovative services and products for North Carolina consumers. The fees are applied on a graduated scale, with the highest fees imposed on the largest companies and participants expecting significant revenue gains from the Sandbox product or service. This approach allows for lower fees for smaller, likely newer companies and entities, fostering participation and advancement for smaller and startup firms.

Summary of Proposed Rules

04 NACA 25 .0101 DEFINITIONS: This proposed rule provides definitions for clarification. There are no costs or benefits associated with this proposed rule.

04 NACA 25 .0102 NONPROFIT PARTNERS: This proposed rule outlines the types of nonprofit organizations eligible to participate as Sandbox partners. It describes the required information for the application, how nonprofit organizations can apply, and the approval process. There is no monetary cost, per say to the nonprofit organization. However, while the application is brief and non-technical, there will be a time cost for its completion. The State (Council) will incur personnel costs to administer and review applications. This section also clarifies that subject matter experts (nonprofit partners) may be available to provide technical assistance to Sandbox applicants, potentially reducing costs for some.

04 NACA 25 .0103 NONPROFIT PARTNERS APPLICATION DENIAL: This proposed rule outlines the reasons a nonprofit applicant's application may be denied. There are no costs, monetary or otherwise, for the nonprofit applicant. The State (Council) will incur minimal personnel costs to administer the denial process.

04 NACA 25 .0104 EXPRESSION OF INTEREST TO PARTICIPATE: This proposed rule explains the process for potential Sandbox applicants to request a meeting with the Council. This meeting provides context for eligible projects and other technical details. If the entity submits a formal application, this process may help them prepare a more successful application, saving time and costs. The State (Council) will incur minimal personnel costs for reviewing requests, scheduling meetings, and possible presentations.

04 NACA 25 .0105 REGULATORY SANDBOX APPLICATIONS: This proposed rule details the requirements of the application process and provides the framework for oversight if the application is approved. It also specifies the required \$50 application fee, which is set by statute and not within the discretion of the Council. Additional costs for applicants may arise if they require technical assistance to meet application requirements. These costs would vary and are beyond the Council's discretion but are not expected to be prohibitive. Ultimately, if the application is approved the applicant stands to gain revenues from the offering of the innovative product or service in the Regulatory Sandbox. The State's (Council) personnel costs from this rule are minimal and relate to developing and maintaining the application form on the website. The requirements ensure that applicants propose a tangible, innovative product or service requiring a regulatory waiver and have the resources, skills, and consumer protections necessary to activate it. This structure fosters successful Sandbox projects and reduces overall risks for the Sandbox program.

04 NACA 25 .0106 SANDBOX APPLICATION REVIEW: This proposed rule provides the public with details of the review process and the anticipated timeline for review and approval notification. There are no

costs for applicants from this rule. The State (Council) will incur personnel costs to administer the application review process, which may vary depending on application complexity. While there are costs, the expected benefits from approved applications, such as safely monitored delivery of innovative products and services, should offset these. Successful applicants may enhance state economic development by testing innovative projects and services, with the potential to influence modernized policy and regulatory oversight.

04 NACA 25 .0107 SANDBOX OPERATIONS: This proposed rule outlines the process for developing an approved applicant’s waiver agreement, including monitoring and evaluation plans, approved business and consumer protection plans, the amount required for a consumer protection bond or cash deposit, participation fees, and the wind-down plan. Applicants face variable costs depending on the project’s details. A one-time participation fee is required upon waiver agreement execution, based on the entity’s employee count and anticipated revenue, with a statutory minimum fee of \$450. Additional costs may include a consumer protection bond or cash deposit, determined by the relevant State agency and agreed upon with the applicant. The State’s (Council) costs involve personnel for administering and overseeing the process, varying by project complexity. Consumers benefit from access to new or improved products or services, potentially saving money or realizing other gains.

Number of Employees	Revenue (or Risk)				
	Less than \$10,000	\$10,000 to less than \$100,000	\$100,000 to less than \$1,000,000	\$1,000,000 to less than \$10,000,000	\$10,000,000 and more
1-10	\$450	\$900	\$1,800	\$3,600	\$7,200
11-100	\$900	\$1,800	\$3,600	\$7,200	\$14,400
101-1000	\$1,800	\$3,600	\$7,200	\$14,400	\$28,800
1,001-50,000	\$3,600	\$7,200	\$14,400	\$28,800	\$57,600
50,001 and more	\$7,200	\$14,400	\$28,800	\$57,600	\$115,200

04 NACA 25 .0108 SANDBOX PARTICIPANT REQUEST FOR EXTENSION: This proposed rule instructs Sandbox participants on how to request a time extension if additional time beyond the Sandbox term, as established in their waiver agreement, is needed to obtain regulatory approvals, licenses, etc., in order to offer their Sandbox product or service to the public in North Carolina. The process is simple, and participants should incur only negligible time costs to request the extension. However, depending on regulatory requirements, there may be costs associated with licensing, which will depend on the applicable State agency’s fee schedule and are not set by the Council. The Sandbox participant benefits by being able to continue operations through the licensing phase, enhancing market readiness. The State (Council) incurs personnel costs for administering and overseeing the process, which will vary based on the complexity of the request.

04 NACA 25 .0109 DISCIPLINARY GUIDELINES: This proposed rule lists deficiencies that could prompt the applicable State agency to limit, modify, or terminate the offering of the Sandbox product or service. Depending on the deficiency, Sandbox participants may incur costs from lost revenue if the product or service is scaled back, modified, terminated, or if restitution for consumer injuries is required. The State

(Council) incurs personnel costs for administering and overseeing the process, as well as potential legal costs depending on the severity of the required disciplinary actions. If the deficiencies relate to consumer protections, there may be costs to consumers; however, the consumer protections in the waiver agreement are designed to mitigate these impacts.

04 NACA 25 .0110 EARLY TERMINATION NOTICE AND CLOSEOUT PLAN REPORT: This proposed rule outlines the circumstances under which early termination may occur and how this action would be communicated to the Sandbox participant. It also provides instructions for the required closeout plan. Early termination may result in lost revenue for the Sandbox participant; however, if they cannot meet the business objectives in the waiver agreement, these losses are inevitable. The State (Council) incurs personnel and potential legal costs for administering and overseeing the process, depending on the reason for early termination.

04 NACA 25 .0111 CONCLUSION OF SANDBOX PERIOD AND BUSINESS OPERATIONS:

This proposed rule outlines the process, reporting, and records retention requirements, as well as customer notification and remediation procedures in the event of consumer complaints following the closeout of the Sandbox testing period. This ensures that the State (Council) fulfills its reporting and records retention obligations for government-sponsored activities. The State (Council) will incur personnel costs to administer and oversee the process. Sandbox participants may also incur costs associated with completing and submitting final reports and customer notifications.

If the Sandbox project is successful and receives full licensing, the participant may achieve significant financial gains from offering the product in the open market. North Carolina consumers also benefit from access to the new product or service, while the State stands to gain economic advantages from fostering productive business-regulator collaborations and supporting innovative offerings in the public market.

Proposed Rulemaking Schedule

The proposed rulemaking schedule for 04 NCAC 25 .0101 -0111 – NC Innovation Council and Financial and Insurance Regulatory Sandbox is described in Table 2, below.

Table 2 Proposed Rulemaking Schedule – NC Innovation Council	
October 23, 2024	NC Innovation Council vote to approve publishing rules
October 24, 2024	Notice of Text to OAH
November 15, 2024	Beginning of 60-day comment period
January 14, 2025	End of comment period
January 22, 2025	Goal for NC Innovation Council to adopt rules
February 27, 2025	Rules Review Commission Meeting for approval of rules
March 1, 2025	Goal for effective date of rules

Impact Analysis

This section will assess the impact of the proposed rules on State funds, companies or entities participating in the Sandbox program, and consumers. It will also discuss how the fees were determined and evaluate the impacts attributable to these rules.

The individuals subject to the proposed NC Innovation Rules include applicants and Sandbox participants, namely, companies or business entities that choose to participate. Other parties affected by the rules include the State of North Carolina government, specifically the Council, and consumers.

Fiscal Impacts on Companies and Business Entities

Interested persons or business entities will incur a modest application fee of \$50, as specified in G.S. 169-6(b). This fee is comparatively low when compared to other State-administered Sandbox programs, where fees typically range from \$100 to \$2,000. Given the complexity and potential length of applications, this fee may not adequately cover the administrative burden. However, the low entry fee is intended to foster participation and remove barriers for small and startup firms in the Sandbox program.

Since the Sandbox program is voluntary and relatively new, there is currently no data available to estimate the number of applications that could be received annually, making it difficult to project potential revenues. Additionally, if an applicant is approved, there are participation fees outlined in G.S. 169-6(b), with a minimum amount set at \$450 per participant product or service. The proposed additional fees are graduated based on the projected revenue of the innovative product or service and the size of the companies, making them unlikely to be an impediment or overly burdensome for potential Sandbox participants. Currently, there are no other Sandbox programs that impose additional participation fees.

Participation in the Regulatory Sandbox provides participants with a critical bridge between innovation and regulation, allowing for the development and testing of new ideas. Participants can engage with State regulatory agencies to receive guidance on compliance, thereby increasing trust and speeding up the time to market for innovations. This collaboration empowers participants to address regulatory deficiencies before their products come under scrutiny. Furthermore, participation in the Regulatory Sandbox can reduce legal and testing costs for both participants and regulators.

Participants who successfully complete the Sandbox program may gain a competitive advantage by demonstrating to customers, investors, and regulators that their product or service has undergone rigorous testing and complies with regulatory requirements. Additionally, participants from smaller firms can compete on equal footing with larger incumbents by reducing compliance costs and barriers.

Fiscal Impacts on Revenues of the NC Innovation Council and State Government

The impact of Regulatory Sandbox program on revenues of State government is unknown currently. In 2021, North Carolina became the 10th state in the United States to enact a Regulatory Sandbox and is unique in having implemented both a financial and an insurance Sandbox simultaneously. To date, only a handful of peer Sandbox programs have reported participant numbers, and there is limited data on their fiscal impact.

Although there are no fiscal impact figures available for other State peer programs, Arizona publishes the number of businesses that have been approved for its Sandbox program since its inception in 2018, which currently stands at 14 approved participants. However, it remains unclear whether any of these participants terminated early or failed to meet their business goals.

The impact on the Council’s revenue account is similarly uncertain. According to G.S. 169-6(b), a \$50 application fee is imposed, along with a minimum participation fee of \$450 for approved applicants per product or service. The Council anticipates receiving no more than five applications in Fiscal Year 2026. Based on available data from peer programs, this estimate appears reasonable and attainable. Consequently, the Council will rely on existing State revenues allocated by the General Assembly to support the operations of the Sandbox program as it develops.

Table 3
Estimated Impact and Balance in NC Innovation Council Fund with Proposed Fees

Fiscal Year	Fee Revenue Received	Program Administration Costs (Currently funded via GA allocation)				General Assembly Admin Allocation (each year less the fund balance)	Fiscal Impact per year (fees) – (GA allocation – admin costs)	Carry Over Funds from Previous Year	NC Innovation Council Fund Balance
		Salary	Fringe Benefits (SS, Retirement, Medical)	Operating	Total Costs				
2025	\$0	\$75,000 (1 PT w/benefits)	\$30,171	\$44,829	\$150,000	\$150,000	\$0	\$150,000	\$150,000
2026	\$45,250 (5 applicants/3 approved)	\$102,081 (1 FTE)	\$40,9087	\$44,829	\$187,818	\$150,000	\$7,432	\$150,000	\$157,432
2027	\$54,250 (5 applicants/4 approved)	\$105,143 (1 FTE)	\$41,908	\$44,829	\$191,880	\$150,000	\$12,370	\$157,432	\$169,802
2028	\$68,700 (6 applicants/5 approved)	\$108,297 (1 FTE)	\$42,939	\$44,829	\$196,065	\$150,000	\$22,635	\$169,802	\$192,437
2029	\$68,900 (10 applications/5 approved)	\$111,546 (1 FTE)	\$44,000	\$44,829	\$200,375	\$150,000	\$18,525	\$192,437	\$210,962

The table above outlines a possible scenario for the collection of application and participation fees over a five-year period. For further details, see Appendix B, Table 4: Application Submittal Assumptions and Five-Year Projections on Revenues for the NC Innovation Council. This table serves as the basis for the estimated fees over the projected five-year period presented in Table 3.

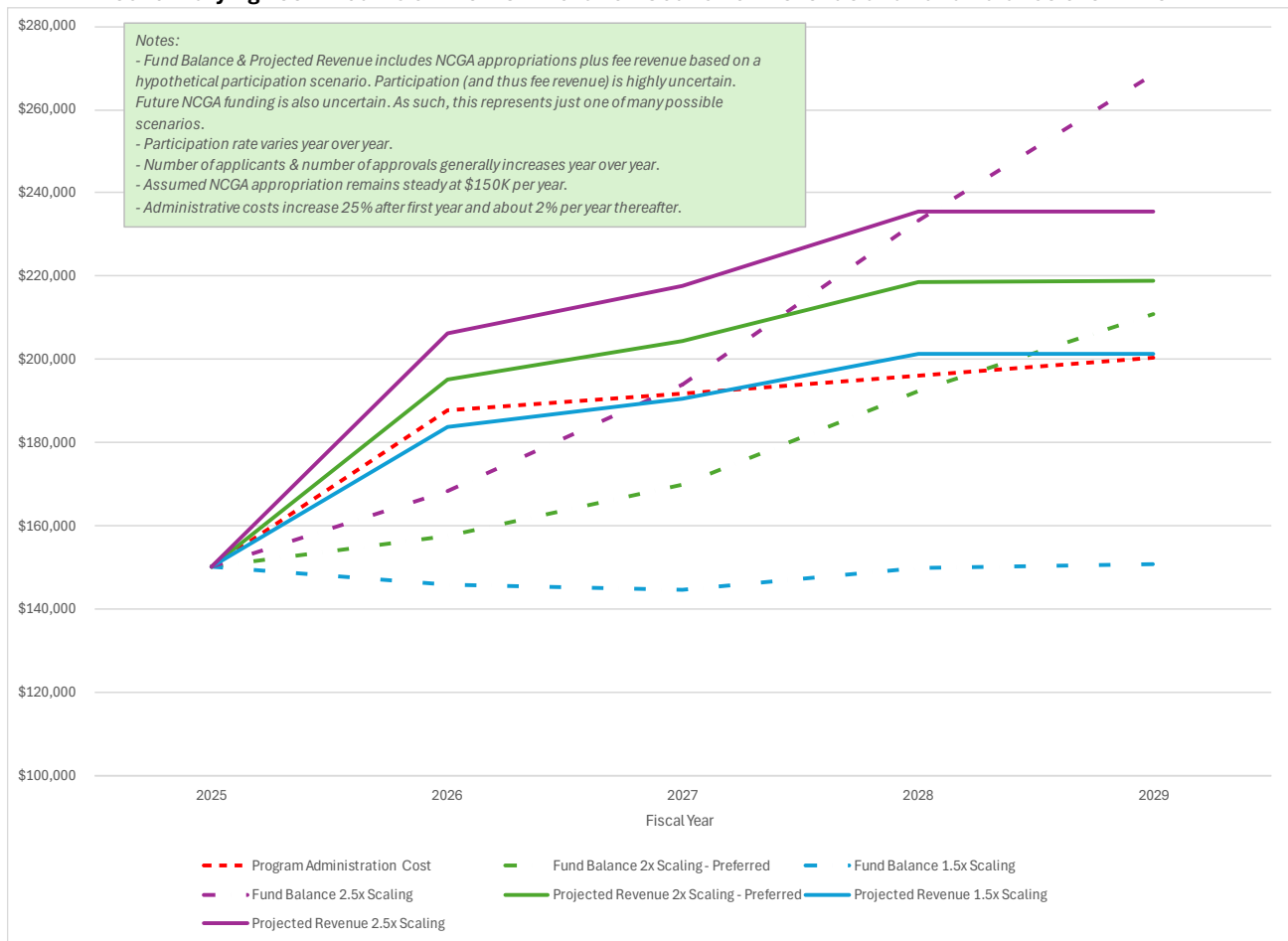
Since this is a new program for the State and very little external data exists, these figures are not based on performance data and cannot be validated. The chart proposes utilizing the fees collected to cover reasonable operational costs for the Council, as authorized by G.S. 169-6(b).

The projected fee revenue is highly sensitive to the size and expected revenue (or risk) of the piloted service. For instance, the approval of just one large company with significant revenue expectations could result in participant fees exceeding \$100,000 from a single application. Therefore, the sensitivity of these projections is contingent upon several unknown factors.

Below, Chart 1 illustrates that the fee revenue and fund balance are highly sensitive to the size and number of companies approved to participate in the Sandbox. The fee revenue and fund balance are also sensitive to the participation fees, of course, but to a much lesser extent. Companies of various sizes and revenue projections are included in the hypothetical four-year scenario shown in Chart 1, except that these near-term projections do not include any larger companies with revenue projections of \$10 million or more. The fee revenue and fund balance would increase sharply with even one participating large company with revenue projections of \$10 million or more. The Council believes this is somewhat unlikely to occur until the Sandbox program has been operating successfully for at least a few years. If applications and approvals for such services are received, this would necessitate a higher degree of oversight from the Council, potentially requiring the hiring of one or two additional support personnel. Should the fee revenue support it, the Council's first action would be to transition the part-time Executive Director to a full-time position.

The Council plans to periodically review and adjust the fee amounts in the future (either upwards or downwards) to ensure that the fund balance is sufficient to meet ongoing staffing needs without accumulating excess funds. Any adjustments to the fee amounts would undergo a similar public rulemaking process.

Chart 1
Effect of Varying Fee Amounts on the NC Innovation Council on Revenue and Fund Balance over Time



Impacts on Consumers

The Sandbox program is designed to provide a test market for innovative products or services using North Carolina residents who volunteer to participate. By law, the potential market is limited to consumers who are residents of the State, ensuring that consumer oversight remains under the control of the State.

Sandbox participants are required to disclose to consumers that the innovative product or service is being tested in the Sandbox program on a limited basis. Full transparency is provided regarding the applicable State agency that will receive and respond to any complaints. Additionally, consumer protection bond or cash deposit requirements are in place to further safeguard consumers from harm or damages.

Conversely, consumers who participate in the program stand to gain early access to new or improved products that may offer cost savings or financial benefits. Regulatory Sandboxes ultimately help consumers by allowing them to benefit from the innovative products that companies create and test within the Sandbox framework.

Appendix A- Copy of Proposed Rules

04 NCAC 25 .0101 is proposed for adoption as follows:

04 NCAC 25 .0101 DEFINITIONS

For the purposes of the rules in this Chapter, the definitions found in G.S. 169-1, and subsequent amendments and editions are hereby incorporated by reference. In addition to the definitions set forth in G.S. 169-1, the following definitions shall apply to this Section:

- (1) “Executive Director” means the Executive Director of the North Carolina Innovation Council or an authorized designee of the Executive Director.
- (2) “Expression of Interest” shall mean a method for potential applicants to contact the NC Innovation Council through its website to document their interest in submitting an application to be a Sandbox participant.
- (3) “Monitoring and Evaluation Plan” means a written plan submitted by a Sandbox applicant that requires the applicant to periodically measure the success or risks of the innovative product or service during and at the end of the Sandbox period.
- (4) “Nonprofit corporation” as defined in 55A-1-40(17).
- (5) “Control person” means an entity or individual who has the power to influence, direct, or control the activities of a publicly traded company. Control persons can be directors, officers, shareholders, affiliates, or any other person with authority over the public company’s management and operations.
- (6) “DUNS Number” means a data universal numbering system or DUNS number, is a unique, nine-digit series or numerals that identifies a business. Dun & Bradstreet (D&B) creates the number, which generates a business profile in its database and provides a company's name, phone number, address, number of workers and line of business, along with other relevant corporate information.

History Note: Authority G.S. 169-1.

04 NCAC 25 .0102 is proposed for adoption as follows:

04 NCAC 25 .0102 NONPROFIT PARTNERS

- (a) Nonprofit organizations wishing to assist applicants or participants as a nonprofit partner shall submit an application to the Council. Applications may be found on the Council’s website at www.innovation.nc.gov.
- (b) Nonprofit organization applications shall include the following:
 - (1) The formal legal name of the organization applying to be a nonprofit partner;
 - (2) If applicable, the nonprofit applicant must provide documentation of registration of associated trade names or Doing Business As (DBA);
 - (3) The name and address of the registered agent;
 - (4) Proof that the organization is a nonprofit organization duly authorized by the North Carolina Office of the Secretary of State and provide a North Carolina Certificate of Good Standing;
 - (5) A single point of contact must be designated for all correspondence, including the individual’s name, role, phone number, and email address;
 - (6) A list of individuals that are directors of the board, partners, managers, and other individuals who are legally responsible for the governance of the entity, including their names, titles, expertise related to the product or service, and whether they have been convicted of, or are currently under investigation for, fraud or State or federal securities law violations;
 - (7) A summary of how the nonprofit organization’s mission is aligned with the Sandbox program, to be used by the Council in a published list of nonprofit partners; and
 - (8) A description of the nonprofit organization’s capabilities, including its data security capabilities and practices as required by law to ensure the confidentiality of information submitted by Sandbox applicants and participants.
- (c) The Council may request additional information from the applicant pertaining to their application and eligibility to participate in the Sandbox based on the criteria set forth in subsection (b) of this Rule.
- (d) Within 30 business days of receipt of a nonprofit organization’s application, the Executive Director shall review the application for completeness. Applications that the Executive Director has determined have met the application submittal requirements shall be forwarded to all Council members for review. If an application is incomplete, the Executive Director shall request that any missing information from the nonprofit organization be submitted within 14 business days of the request.
- (e) At the next Council meeting that is at least 14 business days after the Council has received a complete application, the Council shall discuss the application to determine the next appropriate action. Upon the motion of any member, the Council may enter a closed session, pursuant to G.S. 143-318.11(a)(1) and/or G.S. 132-1.2(1)(a)-(c)a. - c., to discuss the application, however, all votes on an application shall be in an open session.
- (f) Within 14 business days of a Council vote on an application, the Executive Director shall notify the nonprofit organization in writing of the Council’s decision. If the Council denied the nonprofit organization’s application, the written notification shall include the specific reasons for the denial.

- (g) Upon the motion of any member, at a duly called meeting of the Council, the Council may rescind its approval of a nonprofit partner by a majority vote of the Council.
- (h) A nonprofit partner whose approval is denied or rescinded by the Council may not reapply to be a nonprofit partner for a period of two years from the date of the Council vote.

History Note: Authority G.S. 169-5.

04 NCAC 25 .0103 is proposed for adoption as follows:

04 NCAC 25 .0103 NONPROFIT PARTNERS APPLICATION DENIAL

(a) Reasons for denial of a nonprofit application shall include at least one of the following:

- (1) Perceived or actual conflicts of interest;
- (2) Failure to provide proof that the organization is a nonprofit organization duly authorized by the North Carolina Office of the Secretary of State;
- (3) Failure to provide a current North Carolina Certificate of Good Standing;
- (4) Failure to implement and utilize data security practices, as required by law, that ensure the confidentiality of information submitted by Sandbox applicants and participants;
- (5) Failure to illustrate the organization's capabilities or expertise in FinTech, InsurTech, blockchain technologies, or other new or emerging technology products or services; and
- (6) Failure to provide any required missing information related to the application, or any additional information upon request of the Executive Director within 14 business days, as set forth in 04 NCAC 25 .0102(c).

History Note: Authority G.S. 169-4; 169-5.

04 NCAC 25 .0104 is proposed for adoption as follows:

04 NCAC 25 .0104 EXPRESSION OF INTEREST TO PARTICIPATE

- (a) An applicant may contact the Council to request a consultation regarding the Sandbox prior to submitting a formal application. An applicant may also request to present the innovative product or service at a Council meeting. All requests to present will be approved by the Council based on a determination of whether the expression of interest indicates that the applicant intends to propose a FinTech, InsurTech, blockchain or other new or emerging technology for participation in the Sandbox. Each request shall be submitted through the Expression of Interest to Participate form on the Council 's website at www.innovation.nc.gov.
- (b) The applicant must provide basic contact information for the entity or business, the industry type (finance or insurance), and a brief description of the proposed product or service that would be tested in the Sandbox.
- (c) The Executive Director or a designee will acknowledge receipt of a submission within five business days. The Executive Director will provide the completed Expression of Interest to Participate form to the Council. If the applicant has requested to present, and the Council has approved the request, the proposed applicant will be allotted time to present at the next regularly scheduled Council meeting. If a consultation has been requested, the Executive Director will facilitate a meeting with either the Chair or Co-Chair of the Council within 14 business days after submission.

History Note: Authority G.S. 169-4.

04 NCAC 25 .0105 is proposed for adoption as follows:

04 NCAC 25 .0105 REGULATORY SANDBOX APPLICATIONS

- (a) An applicant for the Regulatory Sandbox shall provide to the Council an application that includes applicant information, product or service information, a business plan, and a monitoring and evaluation plan for the proposed product or service. The application can be found on the Council's website at www.innovation.nc.gov.
- (b) The applicant information should include the following:
 - (1) Confirmation that the applicant or its parent company are subject to the jurisdiction of the State; this shall be established by any of the following applicable documentation:
 - (i) Articles of Organization, Certificate of Formation, Certificate of Authority, Certificate of Organization, Articles of Formation, or other applicable company formation documents.
 - (2) Proof that the applicant has a physical location within the State from where the waiver project will be developed and performed, and where all records, documents, and data will be maintained, shall be established by providing:
 - (i) The name and address of the registered agent;
 - (ii) The physical address of the applying entity's headquarters;
 - (iii) The physical address of the North Carolina operations, if different from the headquarters;
 - (iv) The legal name of the applicant to participate in the Sandbox and, if the entity applying is a subsidiary of a parent entity, the legal name of the parent entity; and
 - (v) If applicable, the applicant must provide documentation of registration of associated trade names or doing business as assumed names.
 - (3) A single point of contact must be designated for all correspondence, including the individual's name, role, phone number, and email address.
 - (4) A list of individuals that are directors of the board, partners, managers, other individuals who are legally or financially responsible, or liable for the governance of the entity. The list of individuals shall include their names, titles, expertise related to the product or service, and whether they have been convicted of, or are currently under investigation for, fraud or State or federal securities law violations.
 - (5) Details of criminal convictions of the applicant and any individuals identified in paragraph (b)(4) of this Rule.
 - (6) If available, the entity's and any parent entity's Dun and Bradstreet Data Universal Numbering System (D-U-N-S) Number.
 - (7) A list of each government agency, if any, that the applicant knows regulates the applicant's business.
 - (8) The applicant's number of employees and, if the entity is a subsidiary of a parent company, the parent entity's number of employees.
 - (9) The number of the applicant's employees that are residents of North Carolina.

- (10) The name of any entity, be it nonprofit organization, for profit organization, professional, or individual assisting with the application process.
- (11) The name of any partner organization or individual(s) assisting with the design and implementation of the product or service.
- (12) A description of the product or service the applicant seeks to provide through the Sandbox, including statements regarding:
- (i) How the product or service is subject to licensing, legal prohibition or other authorization requirements outside the Regulatory Sandbox or whether the product or service is not subject to any regulation;
 - (ii) Each law or regulation the applicant seeks to have waived while participating in the Regulatory Sandbox;
 - (iii) How the product or service will benefit consumers or businesses;
 - (iv) What risks may exist for consumers who use the product or service;
 - (v) A description of the methods that will be used to protect consumers or businesses;
 - (vi) A statement outlining a process to resolve complaints during the Sandbox period;
 - (vii) A description of the methods and controls to ensure consumers are residents of the State;
and
 - (viii) Applicable only to products and services related to money transmitters, a description of how they will ensure customers are physically present in the State at the time of transaction.
- (13) A business plan for the intended product or service, which shall include the following information:
- (i) A description of the proposed implementation plan, including estimated time periods for beginning and ending;
 - (ii) A description of how the applicant will end the Sandbox offering and protect consumers if the demonstration fails;
 - (iii) Technical details and requirements for the product or services;
 - (iv) Proposed sales methods, methods of pricing, and the target market;
 - (v) Proposed consumer disclosures required by G.S. 169-8 and applicable State agencies;
 - (vi) Copy of the proposed consumer contract for the applicant's product or service;
 - (vii) The expected distribution of consumers across rural, urban, and suburban areas of the State;
 - (viii) The maximum number of consumers or businesses expected to utilize the product or service;
 - (ix) The expected revenue; and
 - (x) The availability of capital for the product or service.
- (14) A monitoring and evaluation plan, including a definition of risk metrics to be evaluated and the frequency of measurement, and a description of compensating controls that assist in managing risk and harm to consumers and the Sandbox participant.

- (i) The appropriate State agency, upon approval of the Sandbox applicant, will provide input and request modifications to the proposed monitoring and evaluation plan to ensure the proper metrics and risks are monitored related to the waiver.
- (ii) The approved monitoring and evaluation plan will be included in the waiver agreement.
- (15) The applicant may provide any additional information the applicant determines to be relevant to the review and consideration of the Sandbox application.
- (16) All Sandbox applicants are required to pay a \$50 application fee that must be received in a format determined by the Council.
- (17) Council may request additional information from the applicant pertaining to their application and eligibility to participate in the Sandbox based on the criteria set forth in paragraph (b) of this Rule.

History Note: Authority G.S. 169-4; 169-6, 169-8.

04 NCAC 25 .0106 is proposed for adoption as follows:

04 NCAC 25 .0106 SANDBOX APPLICATION REVIEW

- (a) The Executive Director or designee shall review the application for completeness according to the criteria set forth in 04 NCAC 25 .0105. If there is missing or incomplete information in the application, the Executive Director shall request the additional information from the applicant. When the Executive Director determines that an application is complete based on the established criteria, they shall notify the applicant and refer the complete application to the applicable State agencies and the Council for review. If the applicant is deemed ineligible due to an incomplete application, the Executive Director shall notify the applicant of their ineligibility, and reasons for ineligibility, and provide notice of such denial to the Council.
- (b) Upon receipt from the Executive Director of a Sandbox application, the applicable State agency or agencies shall provide a review of the Sandbox application to the Council in writing, including in its review a recommendation of any reporting requirements or restrictions to be required of the Sandbox applicant. If the agency or agencies do not provide a written review within 45 business days, the Council, in its discretion, may deem the Sandbox application acceptable. If the applicable State agency or agencies cannot complete the review of the Sandbox application within 45 business days, the agency or agencies may request additional time for review by submitting a written request to the Executive Director. Upon receipt of a written request for additional time from an agency, the Executive Director shall inform the Council of the request, and the Council may, in its discretion, allow additional time for review.
- (c) The Council will review and evaluate the following:
 - (1) Potential risks and benefits of the innovative product or service to the State, industry, and consumers;
 - (2) The statutes and rules that the applicant is seeking a waiver of;
 - (3) The applicant's monitoring and evaluation plan;
 - (4) Recommendations regarding consumer caps, limitations, reporting requirements, and disclosure statements;
 - (5) A recommendation on the amount of a bond or cash deposit required from the applicant;
 - (6) Whether the applicable State agency recommends that the application be granted or denied; and
 - (7) The recommended length of waiver if less than 24 months.
- (d) As part of its review of a complete application, the Council, the Executive Director, or the applicable State agency may request a presentation or additional information from the applicant.
- (e) After receipt of the applicable State agency's written statement of its review of a completed application, the Council shall discuss the completed application at the next meeting of the Council. At the meeting:
 - (1) There shall be an opportunity for members of the public to comment on the complete application;
 - (2) There shall be an opportunity for the applicant to present the product or services to the Council;
 - (3) There shall be an opportunity for the any Council member to request clarification or additional information;

- (4) Any Council member may make a motion to enter a closed session, pursuant to G.S. 143-318.11 or G.S. 132-1.2, to discuss the application; and
- (5) The vote to approve or deny an application shall be made in open session.
- (6) If the Council approves an application, the approval, with any conditions, including any consumer caps, bond requirements, reporting requirements, notice requirements or fees, shall be set out in a written document, the waiver agreement. Upon review and acceptance by the applicable State agency, this document will be the Council's waiver and, along with the applicable statutes and rules, shall govern the applicant's participation in the Sandbox.
- (f) A waiver granted by the Council is not effective until all fees have been paid and all conditions of the waiver have been met.
- (g) If the Council denies a complete application, the Executive Director will disseminate the Council's determinations for denial and must provide the reasons for the denial to the applicant in writing within 10 business days of the Council's vote denying the application.

History Note: Authority G.S. 169-4; 169-6.

04 NCAC 25 .0107 is proposed for adoption as follows:

04 NCAC 25 .0107 SANDBOX OPERATIONS

- (a) The Sandbox waiver agreement will be developed by the Executive Director within 15 business days of the Sandbox participant’s waiver approval, and will be provided to the Council Chair and applicable State agency for review and approval. The Council Chair and applicable State agency will notify the Executive Director in writing within five business days if the waiver agreement is approved. If changes or modifications are required, the Executive Director has two (2) business days to incorporate the prescribed changes into the waiver agreement.
- (b) The waiver agreement shall include the following information:
 - (1) Sandbox waiver time period, when the waiver begins and when the waiver expires;
 - (2) Approved monitoring and evaluation plan;
 - (3) Approved business plan including all components required from 04 NCAC 25 .0105(b)(13);
 - (4) Approved notice to consumer participants, informing of consumer rights, risks and the complaint and appeals processes;
 - (5) A statement acknowledging that the applicant will be subject to all laws and regulations pertaining to the applicant’s offering after conclusion of the demonstration;
 - (6) Amount of consumer protection bond or cash deposit required;
 - (7) Amount of Sandbox participation fee; and
 - (8) Approved wind down plan.
- (c) Sandbox applicants must pay a participation fee, due upon execution of the waiver agreement, based on the number of employees the entity or parent entity, as appropriate, has and the expected revenue of the innovative product as set out below:

<u>Number of Employees</u>	<u>Revenue (or Risk)</u>				
	<u>Less than \$10,000</u>	<u>\$10,000 to less than \$100,000</u>	<u>\$100,000 to less than \$1,000,000</u>	<u>\$1,000,000 to less than \$10,000,000</u>	<u>\$10,000,000 and more</u>
<u>1-10</u>	<u>\$450</u>	<u>\$900</u>	<u>\$1,800</u>	<u>\$3,600</u>	<u>\$7,200</u>
<u>11-100</u>	<u>\$900</u>	<u>\$1,800</u>	<u>\$3,600</u>	<u>\$7,200</u>	<u>\$14,400</u>
<u>101-1000</u>	<u>\$1,800</u>	<u>\$3,600</u>	<u>\$7,200</u>	<u>\$14,400</u>	<u>\$28,800</u>
<u>1,001-50,000</u>	<u>\$3,600</u>	<u>\$7,200</u>	<u>\$14,400</u>	<u>\$28,800</u>	<u>\$57,600</u>
<u>50,001 and more</u>	<u>\$7,200</u>	<u>\$14,400</u>	<u>\$28,800</u>	<u>\$57,600</u>	<u>\$115,200</u>

- (d) During the period of Sandbox participation, the Sandbox participant shall submit reports, to the Executive Director, pursuant to the approved monitoring and evaluation plan. The Executive Director, Council or applicable State agency may request interim or additional reports.
- (e) The Sandbox participant may request to raise consumer caps set in the waiver agreement. This request shall be submitted in writing to the Executive Director.
- (f) A request to raise consumer caps shall include:
 - (1) An updated business plan demonstrating financial capability;
 - (2) An updated assessment of risks and potential for consumer harm;
 - (3) A current monitoring and evaluation plan report;
 - (4) Additional information supporting raised caps; and
 - (5) The new maximum consumer caps being sought.
- (g) The Council or applicable state agency may request additional information relevant to the request.
- (h) A request to raise caps shall be forwarded to the applicable State agency for a recommendation on whether to approve or deny the request. Recommendations shall be made within 20 business days after the receipt of the request. If the applicable State agency cannot review the request within 20 business days, the applicable State agency may submit in writing to the Executive Director the prescribed timeline for completing the review.
- (i) Within 20 business days of receiving the recommendation from the applicable State agency, the Council shall make a determination, granting or denying the request to raise caps. If the request is denied, at the direction of the Council, the Executive Director shall provide written reasons for the denial.
- (j) A Sandbox participant's request for an extension of the Sandbox waiver for the purpose of obtaining a license or other authorization required by law shall be made to the Executive Director in writing no less than 30 business days prior to expiration of the waiver and shall include: a current monitoring and evaluation report, a statement of the reasons for the extension, and any modifications or changes to the innovative product or service needed for the extension. The Executive Director shall forward the request to the Council and applicable State agency.

History Note: Authority G.S. 169-4; 169-6.

04 NCAC 25 .0108 is proposed for adoption as follows:

04 NCAC 25 .0108 SANDBOX PARTICIPANT REQUEST FOR EXTENSION

- (a) A Sandbox participant may request an extension, no later than 30 business days before the end of the Sandbox period, of not more than 12 months, for the purpose of obtaining a license or other authorization required by law, to offer the Sandbox product or service in the open market.
- (b) The written request for an extension shall be made to the Executive Director and shall include:
 - (1) A current monitoring and evaluation report;
 - (2) A statement of the reasons for the extension; and
 - (3) A statement of any modifications or changes required for the innovative product or services during the extension period.
- (c) Upon receipt from the Executive Director of a request for an extension, the applicable State agency or agencies shall provide a determination for the request to the Council in writing. If the agency or agencies do not provide a determination within 10 business days, the Council, in its discretion, may deem the request for an extension acceptable. If the applicable State agency or agencies cannot complete the review of the extension request within 10 business days, the agency or agencies may request additional time for review by submitting a written request to the Executive Director. Upon receipt of a written request for additional time from an agency, the Executive Director shall inform the Council of the request, and the Council may, in its discretion, allow additional time for review.
- (d) The Executive Director will notify the Sandbox participant of approval or denial within five business days of the end of the Sandbox period.
- (e) The Council and the applicable State agency shall provide for an expedited process for an innovative product or service that is substantially similar to a product or service for which a waiver has previously been granted.

History Note: Authority G.S. 169-4; 169-6.

04 NCAC 25 .0109 is proposed for adoption as follows:

04 NCAC 25 .0109 DISCIPLINARY GUIDELINES

- (a) Sandbox participants may be subject to disciplinary actions for any of the following:
- (1) Failure to respond to consumer complaints according to the waiver agreement;
 - (2) Failure to resolve consumer complaints according to the waiver agreement;
 - (3) Failure to submit required reports;
 - (4) Security breaches impacting consumer data;
 - (5) Potential harm for the consumer or public has been identified;
 - (6) Substantial changes in the product or service delivery not approved by the applicable State agency;
 - (7) Sandbox participant or designee attempt to conceal a violation or mislead the applicable State agency; or
 - (8) Other relevant circumstances, including fraud or any violation of criminal or consumer protection laws.
- (b) Applicable State agencies shall notify the Executive Director, in writing when they have identified cause for exercising their authority to limit or change a Sandbox participant's waiver or the innovative product or service operation, including enforcement activities pursuant to G.S. 169-4(a)(4) c., d. and 169-7(a). The applicable State agencies must provide this notice prior to exercising their authority. The Executive Director or designee shall deliver this finding to the Chair or Co-Chair of the Council within five business days of receipt.
- (c) Within 15 business days of notifying the Council to exercise their authority, the applicable State agency shall provide a written statement of disciplinary actions to the Executive Director specifying the reasons for imposing limitations or changes to the waiver or innovative product or service, and what actions are to be imposed, along with the timeline for the Sandbox participant to implement the actions. The Executive Director or designee shall deliver this finding to the Chair or Co-Chair of the Council within five business days of receipt.
- (d) The Chair or Co-Chair may call a meeting with the applicable State agency as needed to review the disciplinary actions.
- (e) The Executive Director, at the direction of the Chair or Co-Chair, will deliver the statement of disciplinary actions to the Sandbox applicant.

History Note: Authority G.S. 169-4; 169-7.

04 NCAC 25 .0110 is proposed for adoption as follows:

04 NCAC 25 .0110 EARLY TERMINATION NOTICE AND CLOSE OUT PLAN REPORT

When a Sandbox participant's business objectives fail before the end of the Sandbox testing period, a written notice of early termination shall be provided, as soon as reasonably practicable, pursuant to G.S. 169-7(e), to the applicable State agency and the Executive Director, at least 30 business days prior to the planned termination of the Sandbox product or service and shall include:

- (1) An updated monitoring and evaluation report;
 - (2) A description of why the product or service failed;
 - (3) A description of the proposed steps the Sandbox participant will need to terminate the innovative product or service to ensure that consumers have not been harmed;
 - (4) A copy of the consumer notice of termination of the product or service; and
 - (5) The proposed date for termination.
- (a) The proposed termination steps must be approved by the applicable State agency before the Sandbox participant may notify consumers and begin winding down operations. The applicable State agency and the Sandbox participant will collaborate to determine a termination date that will ensure consumers are informed and rights are protected during this process.

History Note: Authority G.S. 169-4; 169-7.

04 NCAC 25 .0111 is proposed for adoption as follows:

04 NCAC 25 .0111 CONCLUSION OF SANDBOX PERIOD AND BUSINESS OPERATIONS

- (a) If the Sandbox participant cannot obtain regulatory compliance within 90 days following the expiration of the Sandbox period, the participant shall wind down operations with existing consumers within 90 days after the conclusion of the Sandbox period, as directed by the applicable State agency.
- (b) Written notification to consumers, by way of electronic notification email or a letter sent via first class mail, regarding the conclusion of the initial or extended Sandbox period, must be provided by the Sandbox participant, within 30 business days of conclusion and include:
 - (1) Date the notice was sent;
 - (2) The expiration date of the Sandbox period;
 - (3) Summary of outstanding activities, actions, fees for products, or services the consumer utilized;
 - (4) Any steps the consumer needs to take to close out their liabilities; and
 - (4) The name, title, email, and telephone number of a contact person(s) whom the consumer may contact after the conclusion of the Sandbox period.
- (c) A final report shall be submitted to the Executive Director, in writing, in a format approved by the Council, by the Sandbox participant within 90 days after the conclusion of the Sandbox period, and shall include:
 - (1) A final monitoring and evaluation report;
 - (2) A final report of consumer complaints and actions taken to remediate the complaints during the Sandbox period;
 - (3) Financial reports, including a report detailing all money owed by consumers based on agreements made before the conclusion of the Sandbox period;
 - (4) A statement outlining all additional steps the Sandbox applicant must take to wind down the innovative product or service;
 - (5) A written statement outlining all additional duties owed to consumers arising from the innovative product or service, including the name, contact information and role of any third party, acceptable to the applicable State agency, the Sandbox participant has arranged to fulfill those duties, and copies of contracts or agreements binding the fulfillment of said duties to consumers; and
 - (6) A written statement describing any insights into current regulations and their impact on the innovative product or service; and
 - (7) If the Sandbox participant has ongoing duties after the expiration of the Sandbox period, it shall submit an updated final report once all ongoing duties have been completed. The applicable State agency shall verify that all ongoing duties have been completed. The State agency will confirm and will advise the Council of their satisfaction of all outstanding duties and responsibilities.
- (d) The Sandbox participant shall remain liable for any consumer harm resulting from its Sandbox participation or winding down regardless of whether a third party assists in the winding down.

- (e) The Executive Director, at the request of the Council, shall issue a closeout letter to the Sandbox participant informing them of the official close out date, that all outstanding duties have been reconciled, and the records retention terms and conditions, as per the waiver agreement.

History Note: Authority G.S. 169-4; 169-7.

Appendix B

Table 4 Application Submittal Assumptions Five Year Projections on Revenues for the NC Innovation Council						
Year 2	Submittals	Application fees	Approvals	# of Employees	Projected Revenue	Fees
FY 2026	Applicant 1	\$ 50.00	Approved	(11-100)	\$10,000 to less than \$100,000	\$ 1,800.00
	Applicant 2	\$ 50.00	Denied	(101-1000)		
	Applicant 3	\$ 50.00	Approved	(101-1000)	\$1,000,000 to less than \$10,000,000	\$ 14,400.00
	Applicant 4	\$ 50.00	Denied	(1,001-50,000)		\$ -
	Applicant 5	\$ 50.00	Approved	(50,001 +)	\$100,000 to less than \$1,000,000	\$ 28,800.00
		\$ 250.00				\$ 45,000.00
Total Project FY 2026 Revenue						\$ 45,250.00
Year 3	Submittals	Application fees	Approvals	# of Employees	Projected Revenue	Fees
FY 2027	Applicant 1	\$ 50.00	Approved	(11-100)	\$100,000 to less than \$1,000,000	\$ 3,600.00
	Applicant 2	\$ 50.00	Approved	(11-100)	\$1,000,000 to less than \$10,000,000	\$ 7,200.00
	Applicant 3	\$ 50.00	Approved	(101-1000)	\$1,000,000 to less than \$10,000,000	\$ 14,400.00
	Applicant 4	\$ 50.00	Denied	(101-1000)		\$ -
	Applicant 5	\$ 50.00	Approved	(50,001 +)	\$100,000 to less than \$1,000,000	\$ 28,800.00
		\$ 250.00				\$ 54,000.00
Total Project FY 2026 Revenue						\$ 54,250.00
Year 4	Submittals	Application fees	Approvals	# of Employees	Projected Revenue	Fees
FY 2027	Applicant 1	\$ 50.00	Approved	(1-10)	\$100,000 to less than \$1,000,000	\$ 1,800.00
	Applicant 2	\$ 50.00	Approved	(1-10)	\$1,000,000 to less than \$10,000,000	\$ 1,800.00
	Applicant 3	\$ 50.00	Approved	(11-100)	\$1,000,000 to less than \$10,000,000	\$ 3,600.00
	Applicant 4	\$ 50.00	Approved	(11-100)	\$100,000 to less than \$1,000,000	\$ 3,600.00
	Applicant 5	\$ 50.00	Approved	(50,001 +)	\$1,000,000 to less than \$10,000,000	\$ 57,600.00
	Applicant 6	\$ 50.00	Denied	(50,001 +)		\$ -
		\$ 300.00				\$ 68,400.00
Total Project FY 2027 Revenue						\$ 68,700.00
Year 5	Submittals	Application fees	Approvals	# of Employees	Projected Revenue	Fees
FY 2028	Applicant 1	\$ 50.00	Approved	(1-10)	\$1,000,000 to less than \$10,000,000	\$ 3,600.00
	Applicant 2	\$ 50.00	Denied	(1-10)		\$ -
	Applicant 3	\$ 50.00	Denied	(1-10)		\$ -
	Applicant 4	\$ 50.00	Denied	(11-100)		\$ -
	Applicant 5	\$ 50.00	Approved	(11-100)	\$1,000,000 to less than \$10,000,000	\$ 7,200.00
	Applicant 6	\$ 50.00	Approved	(101-1,000)	\$1,000,000 to less than \$10,000,000	\$ 14,400.00
	Applicant 7	\$ 50.00		(101-1,000)	\$1,000,000 to less than \$10,000,000	\$ 14,400.00
	Applicant 8	\$ 50.00		(1001-50,000)	\$1,000,000 to less than \$10,000,000	\$ 28,800.00
	Applicant 9	\$ 50.00		(1001-50,000)	Denied	\$ -
	Applicant 10	\$ 50.00	Denied	(50,001 +)	Denied	\$ -
		\$ 500.00				\$ 68,400.00
Total Project FY 2028 Revenue						\$ 68,900.00