States Rights Discussion

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Executive Summary

During GBBC USA's Blockchain Central DC, GBBC USA hosted a roundtable in the U.S. Senate, convening state policymakers, blockchain leaders, legal experts, and academic stakeholders on the role of U.S. states in advancing innovation in AI, blockchain, and digital assets. The session underscored how states can act as laboratories of democracy—developing regulatory sandboxes, fostering public-private partnerships, and supporting academic collaboration to responsibly integrate emerging technologies into their local economies.

Participants emphasized the need for state-led experimentation tailored to local values, supported by clear goals, incentives for participation, and mechanisms for interstate cooperation. The conversation also identified gaps in current sandbox programs, best practices from more mature regulatory ecosystems, and a call for new resources—like standardized messaging templates, legislative calendars, and registry blueprints—to accelerate state action and alignment.

1. State Innovation & Design Justice

- States should act as policy incubators, allowing communities to lead with design justice principles rather than federal top-down approaches.
- There's a need to align sandbox and tech pilot goals with broader public policy objectives like job protection, economic development, and investment attraction.

2. Sandboxes & Incubators: What's Working, What's Not

- Nevada: Financial tech sandbox exists, but high entry barriers discouraged applicants. Only two applied, none admitted.
- Maryland: Active blockchain accelerator at University of Maryland partnered with MD Blockchain Association. Graduates now contribute to the association's policy work.
- Virginia: State incubators tied to universities offer credibility and neutrality. Public academic partners are valuable for accessing AGs and understanding legal limits.
- Wisconsin: Legislation introduced for a sandbox under the Department of Financial Institutions but stalled. No effective program yet.
- New York & Idaho: No sandbox programs. However, NYDFS is collaborating internationally with the UK's FCA sandbox model.
- Tennessee: Took a collaborative approach—academia, business, and regulators formed working groups to co-design sandbox frameworks.

3. Role of Self-Regulatory Organizations (SROs)

- SROs like FINMA and AICPA offer accountability before formal regulation.
- DARA (Digital Asset Regulatory Authority), spun out of the Blockchain Legal Institute, is advising state governments and providing ethics guidance in local markets.
- SROs must avoid polarization by maintaining clear communications guidelines, baseline standards, and community governance models like general assemblies.

4. Academic & Government Collaboration

- Public universities are uniquely positioned to offer unbiased, research-based input and work directly with state AGs to explore regulatory models.
- Examples: Nevada System of Higher Education's GC is the Attorney General, offering built-in regulatory access.

- Sandboxes paired with academic partners yield better insights on systemic risk and local economic outcomes.

- **5. Public-Private Partnerships & Incentives**
- Sandboxes should offer more than regulation exemptions—they need to incentivize participation, especially for startups.
- Tech sprints and structured feedback loops can provide value for both innovators and regulators.
- States must clarify the purpose of sandboxes—whether to create jobs, draw capital, or improve constituent services—and design them accordingly.
- Austin, TX cited as a model for fostering this balance through intentional goal-setting and community building.

6. Building State Capacity

- Registry of sandboxes and blueprints could help states avoid duplicative work and scale faster.
- States need educational toolkits, messaging playbooks (e.g., 2-minute pitches), and legislative tracking resources.
- Coordination across branches—General Assemblies vs. Governor's Offices—can reveal new budgetary or legislative windows.

7. Legislative Alignment & Policy Levers

- Uniform Commercial Code Article 12 (governing digital assets) has passed in 26 states—an opportunity for national alignment.
- The Clarity Act was flagged as needing clarity on differences between private vs. state-issued digital assets.

- Understanding the state legislative calendar is essential for timely advocacy, particularly for planning multi-year initiatives or bill reintroductions.

8. Suggestion: Messaging to Lawmakers

- Lawmakers, especially Democrats, want tangible, non-financial use cases that impact everyday constituents.
- Demonstrating job creation, economic development, or government efficiency will make pilots more appealing.
- Partnering with associations like the Northern Virginia Technology Council can help prepare data and research ahead of legislative meetings.

Appendix:

1. Digital Sandboxes: Here are some links related to digital securities sandboxes that might be useful to the states-focused attendees.

- February 2018: FCA Explores Regulatory Sandbox
- March 2022 (Updated September 2024): FCA's Regulatory Sandbox
- July 2023: HM Treasury's Consultation on the Digital Securities Sandbox
- May 2024: SEC Commissioner Hester Peirce's Comment on Digital Securities Sandbox Joint Bank of England and Financial Conduct Authority Consultation Paper
- May 2025: The evolution of the digital sandbox—fintech integration in 2025

2. Uniform Commercial Code Article 12:

- GBBC's Fact Card on the 2022 Amendments to the Uniform Commercial Code (UCC)
- About UCC Article 12