

**AMENDMENT IN THE NATURE OF A SUBSTITUTE  
TO H.R. 4801  
OFFERED BY MR. HILL OF ARKANSAS**

Strike all after the enacting clause and insert the following:

**1 SECTION 1. SHORT TITLE.**

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

**4 SEC. 2. DEFINITIONS.**

5 In this section:

6 (1) **AI TEST PROJECT.**—The term “AI test  
7 project” means a financial product, service, or activ-  
8 ity that—

9 (A) falls under the jurisdiction of a finan-  
10 cial regulatory agency;

11 (B) makes substantial use of artificial in-  
12 telligence;

13 (C) is, or may be, subject to a Federal reg-  
14 ulation or Federal statute; and

15 (D) for which a regulated entity submits  
16 an application for the waiver or modification of  
17 an applicable regulation subject to an alter-  
18 native compliance strategy.

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

4           (A) the appropriate Federal banking agen-  
5 cy, as defined in section 3 of the Federal De-  
6 posit Insurance Act (12 U.S.C. 1813), with re-  
7 spect to an institution described in subsection  
8 (q) of that section;

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

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

16           (ii) any investment company that is  
17 registered with the Commission under the  
18 Investment Company Act of 1940 (15  
19 U.S.C. 80a–1 et seq.);

20           (iii) any investment adviser that is  
21 registered with the Commission under the  
22 Investment Advisers Act of 1940 (15  
23 U.S.C. 80b–1 et seq.);

24           (iv) any clearing agency registered  
25 with the Commission under the Securities

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

3 (v) any nationally recognized statis-  
4 tical rating organization registered with  
5 the Commission under the Securities Ex-  
6 change Act of 1934 (15 U.S.C. 78a et  
7 seq.);

8 (vi) any transfer agent registered with  
9 the Commission under the Securities Ex-  
10 change Act of 1934 (15 U.S.C. 78a et  
11 seq.);

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

16 (viii) any national securities associa-  
17 tion registered with the Commission under  
18 the Securities Exchange Act of 1934 (15  
19 U.S.C. 78a et seq.);

20 (ix) any securities information proc-  
21 essor registered with the Commission  
22 under the Securities Exchange Act of 1934  
23 (15 U.S.C. 78a et seq.);

24 (x) the Municipal Securities Rule-  
25 making Board established under the Secu-

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

3                   (xi) the Public Company Accounting  
4                   Oversight Board established under the  
5                   Sarbanes-Oxley Act of 2002 (15 U.S.C.  
6                   7211 et seq.);

7                   (xii) the Securities Investor Protection  
8                   Corporation established under the Securi-  
9                   ties Investor Protection Act of 1970 (15  
10                  U.S.C. 78aaa et seq.); and

11                  (xiii) any security-based swap execu-  
12                  tion facility, security-based swap data re-  
13                  pository, security-based swap dealer, or  
14                  major security-based swap participant reg-  
15                  istered with the Commission under the Se-  
16                  curities Exchange Act of 1934 (15 U.S.C.  
17                  78a et seq.);

18                  (C) the Bureau of Consumer Financial  
19                  Protection, with respect to a covered person, as  
20                  defined in section 1002 of the Consumer Finan-  
21                  cial Protection Act of 2010 (12 U.S.C. 5481),  
22                  that does not have an appropriate financial reg-  
23                  ulatory agency under subparagraph (A), (B),  
24                  (D), or (E) of this paragraph;

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

5 (E) the Federal Housing Finance Agency,  
6 with respect to—

7 (i) a Federal Home Loan Bank;

8 (ii) the Federal Home Loan Bank  
9 System;

10 (iii) the Federal National Mortgage  
11 Association; and

12 (iv) the Federal Home Loan Mortgage  
13 Corporation.

14 (3) ARTIFICIAL INTELLIGENCE; AI.—The terms  
15 “artificial intelligence” and “AI” have the meaning  
16 given the term “artificial intelligence” in section  
17 5002 of the National Artificial Intelligence Initiative  
18 Act of 2020 (15 U.S.C. 9401).

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

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

23 (A) the Securities Act of 1933 (15 U.S.C.  
24 77a et seq.);

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

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

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

7 (E) the Investment Company Act of 1940  
8 (15 U.S.C. 80a–1 et seq.);

9 (F) the Investment Advisers Act of 1940  
10 (15 U.S.C. 80b–1 et seq.);

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

13 (H) the Dodd-Frank Wall Street Reform  
14 and Consumer Protection Act (Public Law  
15 111–203; 124 Stat. 1376).

16 (6) FINANCIAL PRODUCT, SERVICE, OR ACTIV-  
17 ITY.—The term “financial product, service, or activ-  
18 ity”—

19 (A) includes—

20 (i) a financial product or service, as  
21 defined in section 1002 of the Consumer  
22 Financial Protection Act of 2010 (12  
23 U.S.C. 5481);

24 (ii) activities that are financial in na-  
25 ture, as defined in section 4(k)(4) of the

1 Bank Holding Company Act of 1956 (12  
2 U.S.C. 1843(k)(4));

3 (iii) any financial product or service  
4 provided by a person regulated by the  
5 Commission, as defined in section 1002 of  
6 the Consumer Financial Protection Act of  
7 2010 (12 U.S.C. 5481); and

8 (iv) the offer or sale of any security  
9 subject to the Federal securities laws;

10 (B) includes any internal activity of a reg-  
11 ulated entity that is carried out in furtherance  
12 of the offering or sale of a product, service, or  
13 activity described in subparagraph (A); and

14 (C) does not include the business of insur-  
15 ance, as defined in section 1002 of the Con-  
16 sumer Financial Protection Act of 2010 (12  
17 U.S.C. 5481).

18 (7) FINANCIAL REGULATORY AGENCY.—The  
19 term “financial regulatory agency” means—

20 (A) the Board of Governors of the Federal  
21 Reserve System;

22 (B) the Federal Deposit Insurance Cor-  
23 poration;

24 (C) the Office of the Comptroller of the  
25 Currency;

1 (D) the Securities and Exchange Commis-  
2 sion;

3 (E) the Bureau of Consumer Financial  
4 Protection;

5 (F) the National Credit Union Administra-  
6 tion; and

7 (G) the Federal Housing Finance Agency.

8 (8) REGULATED ENTITY.—The term “regulated  
9 entity” means an entity regulated, or insured in the  
10 case of a credit union, by any financial regulatory  
11 agency.

12 **SEC. 3. AI INNOVATION LABS.**

13 Each financial regulatory agency shall establish, or  
14 identify an office, division, or department of the agency  
15 that shall serve as, an “AI Innovation Lab” to enable reg-  
16 ulated entities to experiment with AI test projects without  
17 unnecessary or unduly burdensome regulation or expecta-  
18 tion of enforcement actions, including enforcement actions  
19 that disincentivize the substantial use of artificial intel-  
20 ligence to enhance regulatory compliance practices, pursu-  
21 ant to the approval of an application under section 4.

22 **SEC. 4. USE OF ARTIFICIAL INTELLIGENCE BY REGULATED**  
23 **FINANCIAL ENTITIES.**

24 (a) APPLICATION SUBMISSION.—

1           (1) IN GENERAL.—Beginning one year after the  
2           date of enactment of this Act, a regulated entity  
3           may submit to the appropriate financial regulatory  
4           agency an application, on a form determined by the  
5           appropriate financial regulatory agency, to engage in  
6           an AI test project through an AI Innovation Lab.

7           (2) CONTENTS.—An application submitted  
8           under paragraph (1) shall include—

9                   (A) a description of the AI test project  
10                  proposed to be carried out by the regulated en-  
11                  tity, including—

12                           (i) the type and capabilities of the rel-  
13                           evant AI technologies, systems, and appli-  
14                           cations; and

15                           (ii) the purposes and goals of the AI  
16                           test project;

17                   (B) an alternative compliance strategy  
18                  that—

19                           (i) identifies a regulation issued by a  
20                           financial regulatory agency that the regu-  
21                           lated entity requests to be waived or modi-  
22                           fied;

23                           (ii) proposes an alternative method for  
24                           the regulated entity to comply with the  
25                           Federal statute under which the regulation

1 identified in clause (i) is promulgated and  
2 the purpose of such regulation, including  
3 an explanation as to why the alternative  
4 method is essential to the operation of the  
5 regulated entity and how the regulated en-  
6 tity would effectively manage risks, includ-  
7 ing cybersecurity risks, associated with the  
8 AI test project;

9 (iii) describes applicable plans and  
10 policies related to risk assessments, test-  
11 ing, controls, documentation, and moni-  
12 toring and their role in managing risks de-  
13 scribed under clause (ii); and

14 (iv) contains policies for the regulated  
15 entity to maintain, consistent with applica-  
16 ble law, cybersecurity standards, and con-  
17 tractual limitations and obligations,  
18 records of the activities of the AI test  
19 project, so long as such policies do not re-  
20 quire the regulated entity to maintain any  
21 records that the regulated entity is not  
22 permitted to maintain pursuant to another  
23 law or any contractual limitation or obliga-  
24 tion;

1 (C) an explanation of how under the strat-  
2 egy described in subparagraph (B), the AI test  
3 project—

4 (i) would serve the public interest, im-  
5 prove consumer or investor access to a fi-  
6 nancial product, service, or activity, or pro-  
7 mote consumer or investor protection;

8 (ii) would enhance efficiency or oper-  
9 ations, foster innovation or competitive-  
10 ness, improve risk management and secu-  
11 rity, including cybersecurity, or enhance  
12 regulatory compliance;

13 (iii) would not present—

14 (I) a significant risk of loss to  
15 the Deposit Insurance Fund or the  
16 National Credit Union Share Insur-  
17 ance Fund where the regulated entity  
18 is an insured depository institution or  
19 insured credit union; or

20 (II) a systemic risk to the finan-  
21 cial system of the United States;

22 (iv) is consistent with the purposes of  
23 the anti-money laundering and countering  
24 the financing of terrorism obligations

1 under subchapter II of chapter 53 of title  
2 31, United States Code; and

3 (v) would not present a national secu-  
4 rity risk to the United States;

5 (D) a proposed date on which the AI test  
6 project would terminate and an explanation why  
7 such termination date would be appropriate;

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

10 (F) a detailed business plan; and

11 (G) an estimate of the economic, market,  
12 operational, and public interest impact of the  
13 AI test project if approved.

14 (3) JOINT APPLICATIONS.—Two or more regu-  
15 lated entities may submit a joint application to the  
16 same financial regulatory agency under paragraph  
17 (2).

18 (4) REGULATIONS OF OTHER AGENCIES.—

19 (A) IN GENERAL.—Notwithstanding para-  
20 graph (2), a regulated entity may submit an ap-  
21 plication under this subsection for an alter-  
22 native compliance strategy for a regulation  
23 issued or enforced by a financial regulatory  
24 agency that is not the appropriate financial reg-  
25 ulatory agency for the regulated entity.

1 (B) REQUIREMENTS.—An application de-  
2 scribed in subparagraph (A) shall be subject to  
3 the same requirements as an application de-  
4 scribed in paragraph (2), except that—

5 (i) the regulated entity shall submit  
6 the application to—

7 (I) the appropriate financial reg-  
8 ulatory agency; and

9 (II) any other financial regu-  
10 latory agency that—

11 (aa) issued the regulation  
12 that is the subject of the alter-  
13 native compliance strategy and  
14 has jurisdiction over the regu-  
15 lated entity with respect to such  
16 regulation; or

17 (bb) enforces the regulation  
18 that is the subject of the alter-  
19 native compliance strategy with  
20 respect to the regulated entity;  
21 and

22 (ii) the AI test project may not take  
23 effect unless the application is jointly ap-  
24 proved, by—

1 (I) the appropriate financial reg-  
2 ulatory agency; and

3 (II) each other financial regu-  
4 latory agency described in clause  
5 (i)(II).

6 (5) NOTICE.—A regulated entity that is regu-  
7 lated by, or subject to regulations that are enforced  
8 by, more than 1 financial regulatory agency shall  
9 provide notice of any application submitted to the  
10 appropriate financial regulatory agency under this  
11 section to each such financial regulatory agency not  
12 later than 5 business days after the regulated entity  
13 submits the application to the appropriate financial  
14 regulatory agency.

15 (6) NOTICE OF INTERVENING AGENCY.—

16 (A) NOTICE OF INTERVENTION.—A finan-  
17 cial regulatory agency that receives a notice  
18 under paragraph (5) with respect to an applica-  
19 tion regarding a regulation that such agency  
20 issued or enforces may, within 30 days of re-  
21 ceiving such notice, issue a notice of interven-  
22 tion to the regulated entity and the appropriate  
23 financial regulatory agency of such regulated  
24 entity.

1 (B) JOINT APPROVAL REQUIRED.—If a fi-  
2 nancial regulatory agency issues a notice of  
3 intervention described in subparagraph (A), the  
4 applicable AI test project may not take effect  
5 unless such financial regulatory agency, jointly  
6 with the financial regulatory agencies described  
7 in paragraph (4)(B)(ii), approves the applica-  
8 tion.

9 (7) AGENCY REVIEW.—

10 (A) IN GENERAL.—Except as provided in  
11 subparagraph (D), not later than 120 days  
12 after the date on which a complete application  
13 is received by a financial regulatory agency  
14 under this subsection, the financial regulatory  
15 agency shall—

16 (i) review the application and assess,  
17 to the extent reasonably practicable, the  
18 applicant's ability to satisfy the standards  
19 described in subparagraphs (B) and (C) of  
20 paragraph (2); and

21 (ii) submit to the applicant in writing  
22 a determination of the agency.

23 (B) APPROVAL.—

24 (i) IN GENERAL.—If the applicant  
25 shows that it is more likely than not that

1 the application meets the requirements for  
2 establishing an alternative compliance  
3 strategy and satisfies the standards de-  
4 scribed in subparagraphs (B) and (C) of  
5 paragraph (2), the financial regulatory  
6 agency shall approve the application and  
7 notify the applicant in writing of—

8 (I) the regulation that is the sub-  
9 ject of the alternative compliance  
10 strategy;

11 (II) the terms of the alternative  
12 compliance strategy for the AI test  
13 project;

14 (III) the date on which the AI  
15 test project will terminate;

16 (IV) any limitations on the size,  
17 scope, or growth of the AI test  
18 project; and

19 (V) any additional limitations or  
20 conditions on the AI test project, as  
21 determined by the financial regulatory  
22 agency.

23 (ii) EFFECT OF APPROVAL.—With re-  
24 spect to an AI test project, beginning on  
25 the date on which an application submitted

1 under paragraph (1) is approved and end-  
2 ing on the date described in clause  
3 (i)(III)—

4 (I) the appropriate financial reg-  
5 ulatory agency may enforce a regula-  
6 tion described in clause (i)(I) only in  
7 the manner set out in the alternative  
8 compliance strategy described in  
9 clause (i)(II), subject to limitations or  
10 conditions described in subclauses  
11 (IV) and (V) of clause (i); and

12 (II) except as provided in clause  
13 (iii), a financial regulatory agency  
14 that is not the appropriate financial  
15 regulatory agency may not enforce a  
16 regulation described in clause (i)(I).

17 (iii) ENFORCEMENT BY ANOTHER FI-  
18 NANCIAL REGULATORY AGENCY.—With re-  
19 spect to an AI test project, a financial reg-  
20 ulatory agency other than the appropriate  
21 financial regulatory agency may enforce a  
22 regulation described in clause (i)(I) if—

23 (I) such other financial regu-  
24 latory agency issued or enforces such  
25 regulation; and

1 (II) the approval of such other fi-  
2 nancial regulatory agency was re-  
3 quired for the AI test project under  
4 paragraph (4)(B)(ii)(II) or (6)(B);  
5 and

6 (III) the alternative compliance  
7 strategy described in subclause clause  
8 (i)(II) provides for enforcement by  
9 such other financial regulatory agen-  
10 cy.

11 (C) DENIAL, RESUBMITTAL, AND RE-  
12 LIEF.—

13 (i) IN GENERAL.—If a financial regu-  
14 latory agency denies an application, the fi-  
15 nancial regulatory agency—

16 (I) shall submit to the applicant  
17 a written notice explaining the reason  
18 for denial; and

19 (II) may not take an enforcement  
20 action related to the proposed AI test  
21 project against the applicant earlier  
22 than the date that is 30 days after the  
23 date on which the financial regulatory  
24 agency submits such written notice.

1 (ii) RESUBMITTALS.—Each time an  
2 application submitted under paragraph (1)  
3 is denied, the regulated entity—

4 (I) may submit an amended ap-  
5 plication after receiving feedback from  
6 the financial regulatory agency mak-  
7 ing such denial; and

8 (II) may not resubmit more than  
9 2 applications that are substantially  
10 similar to the denied application.

11 (iii) INJUNCTIVE RELIEF.—Notwith-  
12 standing clause (i)(II), a financial regu-  
13 latory agency, by and through its own at-  
14 torneys, may file a civil action in an appro-  
15 priate United States district court to en-  
16 join an active AI test project if the finan-  
17 cial regulatory agency determines that the  
18 AI test project—

19 (I) presents an immediate danger  
20 to consumers or investors; or

21 (II) presents a risk—

22 (aa) to financial markets;

23 (bb) in the case of an AI  
24 test project engaged in by an in-  
25 sured depository institution or an

1 insured credit union, of loss to a  
2 Federal deposit or share insur-  
3 ance fund;

4 (cc) of a violation of anti-  
5 money laundering and countering  
6 the financing of terrorism obliga-  
7 tions under subchapter II of  
8 chapter 53 of title 31, United  
9 States Code; or

10 (dd) to the national security  
11 of the United States.

12 (iv) RULE OF CONSTRUCTION ON CER-  
13 TAIN ADMINISTRATIVE ORDERS.—Nothing  
14 in clause (iv) shall be construed to limit a  
15 financial regulatory agency’s authority to  
16 issue an administrative order to cease the  
17 activity of an active AI test project where  
18 the agency determines such activity is  
19 causing unmitigable or irreparable harm to  
20 consumers, investors, or financial stability.

21 (D) EXTENSION; FAILURE TO MAKE A DE-  
22 TERMINATION.—If a financial regulatory agency  
23 determines additional time is needed to make a  
24 determination on a complete application re-  
25 ceived under this subsection, the financial regu-

1 latory agency may extend the 120-day deadline  
2 by one additional 120-day period. If the finan-  
3 cial regulatory agency does not approve or deny  
4 the application by the end of the initial 120-day  
5 period (or the 240-day period, in the case of ex-  
6 tension), the financial regulatory agency shall  
7 be deemed to have approved the application.

8 (E) ADDITIONAL INFORMATION.—During  
9 the applicable 120-day determination period (or  
10 the 240-day period, in the case of extension), a  
11 financial regulatory agency may request addi-  
12 tional information from the regulated entity.

13 (F) RULE OF CONSTRUCTION ON FRAUD  
14 AND MARKET MANIPULATION AUTHORITY.—  
15 Nothing in subparagraph (B) or (C) may be  
16 construed to limit the authority of a financial  
17 regulatory agency to take an enforcement ac-  
18 tion against a regulated entity with respect to  
19 fraud or market manipulation or for engaging  
20 in an unsafe or unsound practice.

21 (8) DATA SECURITY.—All data supplied by  
22 sponsors of AI test projects to a financial regulatory  
23 agency submitted under this section shall be stored  
24 and maintained in a secure manner by the financial

1 regulatory agency, consistent with applicable data  
2 security standards.

3 (9) REGULATIONS.—Not later than 180 days  
4 after the date of enactment of this Act, each finan-  
5 cial regulatory agency shall promulgate regulations  
6 implementing this Act that—

7 (A) shall be published in the Federal Reg-  
8 ister and provide a 60-day period for public no-  
9 tice and comment; and

10 (B) include—

11 (i) procedures for submitting applica-  
12 tions for AI test projects and for modifying  
13 the AI test projects that are approved by  
14 the agency;

15 (ii) consequences for failure to comply  
16 with the terms of an alternative compliance  
17 strategy;

18 (iii) a requirement that an AI test  
19 project will include a specified termination  
20 date;

21 (iv) procedures to extend the termi-  
22 nation date described in clause (iii) for a  
23 specified time period;

24 (v) requirements for regulated entities  
25 to report the status and progress of AI

1 test projects at a frequency reasonably nec-  
2 essary for carrying out this Act and the  
3 rules promulgated thereunder;

4 (vi) requirements for regulated enti-  
5 ties to make disclosures reasonably appro-  
6 priate to inform consumers or investors re-  
7 garding any direct interaction with an AI  
8 test project, which shall be tailored to the  
9 scale, scope, and risks thereof and describe  
10 the nature of the AI test project and its  
11 applicable alternative compliance strategy;

12 (vii) procedures for maintaining, as  
13 appropriate and consistent with applicable  
14 law, the confidentiality, security, and pri-  
15 vacy of information;

16 (viii) consideration of the type and ca-  
17 pabilities of proposed AI test projects' rel-  
18 evant AI technologies, systems, and appli-  
19 cations in the development of applicable  
20 guidance and requirements;

21 (ix) procedures for assigning appro-  
22 priate personnel to serve as liaisons and  
23 points of contact for regulated entities with  
24 approved AI test projects; and

1 (x) procedures for coordinating deci-  
2 sions relating to applications submitted  
3 jointly by multiple regulated entities or ap-  
4 plications submitted to more than one fi-  
5 nancial regulatory agency.

6 (b) INTERAGENCY COORDINATION AND CONSULTA-  
7 TION.—The financial regulatory agencies shall consult,  
8 share information, and coordinate, and may enter into a  
9 joint memorandum of understanding, in order to—

10 (1) facilitate any joint approvals of applications;

11 (2) understand and establish best practices with  
12 respect to—

13 (A) AI innovation Labs;

14 (B) promulgating and updating guidance  
15 and rules related to financial products, services,  
16 and activities that make substantial use of arti-  
17 ficial intelligence based on the lessons learned  
18 from AI test projects; and

19 (C) AI test project applications, approvals,  
20 alternative compliance methods, conditions,  
21 terms, reporting, disclosures, oversight, and  
22 guidance; and

23 (3) avoid unnecessary, duplicative, or conflicting  
24 processes or efforts with respect to AI test project  
25 applications, approvals, reporting, and disclosures.

1 **SEC. 5. ANNUAL REPORT.**

2 (a) IN GENERAL.—Not later than 2 years after the  
3 date of enactment of this Act, and each year for 7 years  
4 thereafter, each financial regulatory agency shall submit  
5 to the Committee on Banking, Housing, and Urban Af-  
6 fairs of the Senate and the Committee on Financial Serv-  
7 ices of the House of Representatives an annual report on  
8 the outcomes of AI test projects. A report under this sub-  
9 section shall include aggregated findings, trends, and les-  
10 sons learned from the AI test projects.

11 (b) CONFIDENTIALITY.— A report under this sec-  
12 tion—

13 (1) may not include the names of participating  
14 entities or any proprietary or confidential business  
15 information; and

16 (2) where appropriate, may contain a classified  
17 annex.

