Purpose

Establishes guidelines for blockchain technology regarding electronic signatures and records. Stipulates rights of ownership or use and applies provisions to the uniform commercial code (UCC) for sales, leases and documents of title.

Background

The Arizona Electronic Transactions Act (AETA) was part of a national effort to establish guidelines for electronic signatures utilized in private and business transactions. Title 44, Chapter 26 applies to any electronic record or electronic signature created, generated, sent, communicated, received or stored as part of a transaction except for the creation of wills, codicils or testamentary trusts and parts of the Uniform Commercial Code (UCC) (A.R.S. §§ 44-7003, 44-7004).

The AETA outlines retention and processing standards for electronic records as well as signature and record verification. It also stipulates records or signatures in electronic form cannot be denied legal effect and enforceability based on the fact they are in electronic form (A.R.S. §§ 44-7005, 44-7007). Generally, an electronic signature is an electronic sound, symbol or process attached to or associated with a record and is utilized by an individual who intends to sign the record (A.R.S. § 44-7002).

Title 47, Chapters 2 and 2A outline the UCC regulating transactions for sales or leases. This includes contract requirements for general obligations and remedies in addition to lease provisions with enumerated rights for a lessee or lessor. Title 47, Chapter 7 applies to documents of title including warehouse receipts and bills of lading.

Blockchain is an electronic ledger allowing companies to digitally trade without the need of a central authority. The ledger tracks all transactions, including the date, time and amount and requires all parties involved within the network to agree and verify the transaction. This technology can be utilized in banking and financial services for secure transactions, management of health care records and insurance companies for documentation and claims management (Business Insider). Currently, the State of Hawaii is considering establishing a working group to study the uses and best practices for blockchain technology (HB1481). Meanwhile, Illinois created the Illinois Blockchain Initiative, a consortium of state and county agencies to explore innovative opportunities for blockchain technology.
There is no anticipated fiscal impact to the state General Fund associated with this legislation.

Provisions

1. Classifies a signature, record or contract secured through blockchain technology as an electronic form of signature or record respectively.

2. Recognizes smart contracts in commerce and establishes a contract may not be denied legal standing, validity or enforceability solely because it contains a smart contract term.

3. Maintains a person's rights of ownership or use of information prior to using blockchain technology to secure information for interstate or foreign commerce.

4. Excludes ownership rights as outlined when the terms of the transaction expressly transfer ownership or use of information secured using blockchain technology.

5. Limits the outlined provisions to UCC transactions pertaining to sales, leases and documents of title.

6. Defines blockchain technology as distributed ledger technology that uses a distributed, decentralized, shared and replicated ledger, which may be public or private, permissioned or permissionless, or driven by tokenized crypto economics or tokenless. The data on the ledger is protected with cryptography, is immutable and auditable and provides an uncensored truth.

7. Defines smart contract as an event-driven program, with state, that runs on a distributed, decentralized, shared and replicated ledger and that can take custody over and instruct transfer of assets on that ledger.

8. Makes technical and conforming changes.

9. Becomes effective on the general effective date.

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<th>House Action</th>
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<td>COM 2/14/17</td>
<td>JUD 3/16/17</td>
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<td>3rd Read 2/22/17</td>
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<td>DP 9-0-0</td>
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Signed by the Governor 3/29/17
Chapter 97

Prepared by Senate Research
April 7, 2017
AW/JO/rr