

BILL ANALYSIS

C.S.H.B. 1043
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Delivery of Government Efficiency
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The bill author has informed the committee that the traditional recording system of property liens can lead to delays in updating records and to cybersecurity risks, but that switching to a distributed ledger technology system (DLT) would mitigate these issues. The bill author has also informed the committee that due to the immutable nature of the traditional recording system, altering preexisting records is more difficult with increased transaction time as compared to DLTs which offer more flexibility and which can further minimize the computational load required for transactions while mitigating access for malicious entries, especially with higher transaction volumes. The bill author has also informed the committee that DLTs may offer a more flexible user interface which allows for easier adoption for new users. C.S.H.B. 1043 seeks to address this issue by providing for a study conducted by the General Land Office on establishing and implementing a distributed ledger-based title registry pilot program to record title transfers with distributed ledger technology.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the General Land Office in SECTION 5 of this bill.

ANALYSIS

C.S.H.B. 1043 requires the General Land Office (GLO), in partnership with the working group established by the bill, to conduct a study on establishing and implementing a distributed ledger-based title registry pilot program to record title transfers with distributed ledger technology. The bill requires a pilot program considered by the study to do the following:

- include at least two counties of which at least one is a rural county and one is an urban county and determine the potential impact of the pilot program on those types of counties in particular and counties generally;
- incorporate the recording of property liens simultaneously with existing recording methods so as to not disrupt current processes;
- collect cost data sufficient to allow comparison of the costs to a participating county of continuing to facilitate traditional recordation and adapting to a distributed ledger;
- determine whether existing data must be migrated to an immutable and public ledger for backwards compatibility;
- evaluate both the public ledger and distributed ledger as methods of recording to compare costs, security, transparency, and overall complexity;
- provide for the recording of title transfers in connection with the pilot program in addition to existing recording methods;

- determine the ability to expand the pilot program methods to other types of documents and information relating to real property;
- incorporate the requirements of existing statutes related to the recording of property liens;
- consider the authority of the GLO to solicit and accept gifts, grants, and donations to fund the program; and
- ensure data privacy and proper protection against fraud.

C.S.H.B. 1043 requires the goals of the study to include the following:

- establishing a protocol for implementation of distributed ledger-based recording;
- identifying counties to be included in a pilot program;
- determining the costs of the pilot program and of converting to a statewide distributed ledger system;
- developing protocols for:
 - working with the selected counties to implement the program by training, educating, and collaborating with the counties to ensure that the pilot program is successful, efficient, and complies with a budget established by the GLO; and
 - partnering with a software company to create an application programming interface to integrate existing systems with the distributed ledger system and ensure that title transfer records are seamlessly incorporated;
- identifying and considering issues concerning transparency and regulation of a distributed ledger-based title registry system;
- determining funding sources for and other available resources to support implementation of the pilot program; and
- determining appropriate vendor selection processes.

C.S.H.B. 1043 requires the GLO to establish a framework for a working group to discuss ideas, give feedback, and explore other opportunities relating to the study. The working group must consist of representatives from the following:

- counties;
- title insurance agents;
- title insurance companies;
- the banking industry;
- the Texas Department of Insurance (TDI);
- the Department of Information Resources (DIR);
- the GLO; and
- the blockchain industry.

C.S.H.B. 1043 defines the following terms for the bill's purposes:

- "distributed ledger" as a peer-to-peer network that operates without a central administrator or database and uses a distributed network of devices to utilize cryptography to immutably record and verify the accuracy of data;
- "public ledger" as a method of recording titles in which all records are documented on a publicly accessible distributed ledger where the county provides free public access to all documents;
- "rural county" as a county that is outside the boundaries of a primary metropolitan statistical area or a metropolitan statistical area; and
- "urban county" as a county that is partially or entirely inside the boundaries of a primary metropolitan statistical area.

C.S.H.B. 1043 requires the GLO to engage appropriate regulators to provide information for the study regarding the manner in which regulators could participate in crafting guidance for a pilot program that would include protection for all parties involved in a real estate transaction the title transfer for which is recorded with distributed ledger technology. The bill requires the GLO, not later than October 1, 2025, to adopt rules necessary to administer the study, and, not later than

January 1, 2027, to submit to the legislature a report on the study's findings and any recommendations for legislative or other action. The bill's provisions expire September 1, 2027.

EFFECTIVE DATE

September 1, 2025.

COMPARISON OF INTRODUCED AND SUBSTITUTE

While C.S.H.B. 1043 may differ from the introduced in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

With respect to a pilot program considered by the study required by the bill, the introduced and the substitute differ as follows:

- with respect to the requirement that the program collect cost data sufficient to allow comparison of the costs to a participating county of, in part, continuing to facilitate certain recordation, the introduced specified onchain recordation, whereas the substitute specifies traditional recordation;
- with respect to the requirement that the program evaluate both the public ledger and a certain method as methods of recording to compare certain things, the introduced specified that method as the hybrid model, whereas the substitute specifies that method as the distributed ledger; and
- the substitute includes a requirement that is not in the introduced that the program consider the authority of the GLO to solicit and accept gifts, grants, and donations to fund the program.

The substitute, accordingly, omits the following definitions which were included in the introduced:

- "hybrid model" as a method of recording title to real property in which basic information from the deed is recorded on a public ledger with an identifier to the full document that is held on a separate, permissioned distributed ledger; and
- "onchain recordation" as recording and verifying the accuracy of data through a central administrator or database.

The substitute changes the composition of the working group by omitting as members of the working group representatives from appropriate regulators and the Texas Blockchain Council, who were explicitly included as members in the introduced, and by including as members of the working group representatives from the TDI, the DIR, the GLO, and the blockchain industry, who were not explicitly included as members in the introduced.