Social Equity Business Structure Overview

This document provides general educational information regarding business organization concepts applicable to the Rhode Island Cannabis Control Commission's Social Equity Applicant Status Certification process. It explains business structure concepts, including business formation, ownership and control, governance documents, key person disclosures, and business agreements. Prospective Social Equity Applicants should be prepared to provide all of this information as part of their certification application and any potential Interest Holder Change Request they wish to submit.

This bulletin is provided for educational and informational purposes only. It is not legal advice and should not be relied upon as a substitute for advice from qualified legal counsel. Applicants remain responsible for complying with all applicable statutes, regulations, and Commission requirements.

This bulletin should be read together with the Rhode Island Cannabis Act, Commission regulations, and official application materials. It contextualizes, but does not replace, governing law or official application instructions.

Background

The Rhode Island Cannabis Act ("Cannabis Act"), permits Social Equity Applicants to apply either as an individual or through a legal business entity. Regardless of the type of organizational structure selected, applicants who choose to apply as a business entity must provide information regarding business formation, ownership, governance, and business relationships. The selected business structure establishes the framework through which ownership, management authority, financial interests, and operational responsibilities are determined. Those concepts are central to the Commission's review of Social Equity Applicant Status Certification applications to ensure qualifying individuals retain "Ownership and Control" of the applicant entity.

Forming the Business

The first organizational decision for a prospective Social Equity Applicant is determining how the business will be formed. The Cannabis Act permits applicants seeking Social Equity Applicant Status Certification to apply either as an individual or through a legal business entity. As a result, applicants should determine the organizational structure that best reflects how the proposed cannabis business will be owned and operated before beginning the certification process.

There are several types of common business structures that may be used in connection with the Social Equity Applicant Status Certification process, including corporations, workers' cooperatives, limited liability companies (LLCs), and, for applicants applying individually, sole proprietorships. Each organizational structure has different legal characteristics regarding ownership, governance, liability, taxation, and operational management.

The legal structure selected also determines the types of organizational records that must be submitted during the certification process. For example, different entity types utilize different governance documents to establish how the business will be managed and operated. Because these records are an important part of the Commission's review, applicants should carefully consider how business formation decisions may affect future documentation requirements.

Business formation also has practical implications beyond the certification process. Business structure determines who owns the company, who makes business decisions, who is responsible for business liabilities, and who receives the profits generated by the business. For these reasons, many cannabis businesses are organized as legal entities, rather than sole proprietorships, even where there is only a single owner. Entity formation may also involve filing fees through the Rhode Island Department of State, which vary depending upon the type of business organization selected.

Required Social Equity Applicant Information

The purpose of certification requirements for Social Equity Applicants is to establish the identity of the applicant and provide the Commission with sufficient information to evaluate the application under the Cannabis Act and applicable regulations.

If information changes after Social Equity Applicant Status Certification has been granted, changes may not be implemented without prior approval from the Commission where required by statute or regulation. Applicants should also carefully consider business organization decisions before submitting an application, as changes made during or after the certification process may be subject to additional review and restrictions.

Individual Applicant Requirements

Applicants seeking Social Equity Applicant Status Certification as individuals must provide information identifying themselves and, where applicable, the business through which they intend to operate. This information establishes the identity of the applicant and provides the Commission with the information necessary to evaluate the application.

Individual applicants are required to provide:

- The applicant's legal name. The legal name submitted with the application remains the applicant's identifying name throughout the certification process.
- Any "doing business as" (d/b/a) name, if applicable.
- Information demonstrating authority to conduct business.
- Any financial or management agreements applicable to the applicant.
- Current contact information.

Entity Applicant Requirements

For applicants applying through a legal business entity, additional information is necessary to describe the organization's ownership, governance, and business relationships. Because legal entities may include multiple owners, investors, managers, or affiliated organizations, the Commission requires documentation that accurately identifies the structure of the business and the individuals associated with it.

Entity applicants are required to provide:

- Applicant information identifying the legal business entity.
- Documentation demonstrating authority to conduct business.
- Governance documents establishing how the entity is organized and managed.
- Key person disclosures identifying individuals and entities associated with the applicant.
- Financing agreements and any other agreements required by the Commission.

The information provided by entity applicants serves as the foundation for the Commission's review of ownership and control. Governance documents, key person disclosures, and business agreements are evaluated collectively to understand how the business is organized, who exercises decision-making authority, and whether the applicant satisfies the applicable statutory and regulatory requirements governing Social Equity Applicant Status Certification.

Required Business Documentation

The specific documents required during the certification process will vary depending upon the applicant's business structure. While an individual applicant generally submits fewer organizational records than an entity applicant, all applicants must provide documentation sufficient to demonstrate compliance with the Cannabis Act and applicable Commission regulations.

The following sections describe the principal categories of business documentation that applicants may be required to submit as part of the certification process.

Authority to Conduct Business in Rhode Island

Every Social Equity Applicant, whether applying as an individual or through a legal business entity, must be authorized to conduct business in the State of Rhode Island. This requirement applies regardless of where a business entity was originally formed.

Applicants organized as legal entities may be incorporated or organized under the laws of Rhode Island or another state or country. However, regardless of where an entity is formed, it must be properly registered to conduct business in Rhode Island.

Governance Documents

The type of governance document required depends upon the applicant's chosen business structure. Common examples include:

- **Corporate Bylaws** for corporations;
- **Operating Agreements** for limited liability companies; and
- **Partnership Agreements** for partnerships.

Although these documents vary by business type, they serve a common purpose by documenting how the business is governed and how operational and financial decisions are made.

Key Person Disclosures

In addition to governance documents, applicants are required to disclose all individuals and entities that possess an ownership interest in, financial relationship with, or management role associated with the applicant. These disclosures enable the Commission to understand the complete ownership and management structure of the proposed cannabis business.

Key person disclosures extend beyond individuals who hold a direct ownership interest in the applicant. Applicants must also disclose investors, individuals who have provided loans to the business, persons who will exercise operational control if licensed, and entities that maintain management agreements with either an individual applicant or a business entity.

Where ownership exists through another legal entity, applicants are required to disclose ownership through each level of the organizational structure until the Commission can identify the individual persons who ultimately possess the ownership interest. This transparency enables the Commission to evaluate the complete ownership structure rather than only the immediate legal entity appearing on organizational records.

Each disclosure must identify the amount of ownership, control, or financial interest held by the individual or entity. Together with governance documents and business agreements, these disclosures provide the information necessary for the Commission to evaluate ownership and control under the Cannabis Act.

Business Agreements

Business agreements are a routine component of many business operations and govern the relationships between a business and other parties. Depending on the nature of the business, agreements may govern financing, management responsibilities, investment arrangements, or the future transfer of ownership. Because these agreements may directly affect who owns, manages, or controls a business, they are an important component of the Commission's review during the Social Equity Applicant Status Certification process.

The Commission reviews business agreements to understand how they interact with the applicant's governance documents, ownership structure, and key person disclosures. Although each document provides information about a different aspect of the business, they must be reviewed collectively to provide an accurate picture of how the business is organized and operated.

Examples of agreements that must be disclosed include:

- Financing agreements;
- Management agreements; and
- Purchase agreements.

The disclosure requirement is not limited to agreements that are currently in effect. Applicants must also disclose agreements that have been executed but will become effective upon the occurrence of a future event. For example, if an applicant has entered into an agreement to sell an ownership interest that will become effective only if the applicant is awarded a cannabis license, that agreement must still be disclosed to the Commission during the certification process.

Business Agreements and Social Equity Applicants

Social Equity Applicants should carefully review any proposed business agreement before entering into it. While many business relationships are legitimate, some agreements may be structured in a manner that transfers the financial benefits or operational control of the business to another party while leaving the qualifying applicant with only a nominal ownership interest.

Because Rhode Island's Social Equity Program includes statutory and regulatory ownership and control requirements, agreements that diminish or transfer the ownership or control required to maintain Social Equity Applicant Status Certification may affect an applicant's eligibility for certification and to apply for and maintain a Social Equity retail license. Accordingly, applicants are encouraged to carefully review proposed agreements with qualified legal counsel to ensure they understand both the legal effect of the agreement and its potential impact on certification.

The Commission's review of business agreements is not intended to discourage investment or legitimate business partnerships. Rather, it helps ensure that the ownership and control represented in an application accurately reflects the actual legal and operational relationships that exist within the business and remains consistent with the requirements established under the Cannabis Act. This review also supports the integrity of the Social Equity Applicant Status Certification process by allowing the Commission to evaluate the complete organizational structure presented by each applicant.

Ownership and Control

"Ownership and control," which have been referred to several times throughout this document, are fundamental components of the Cannabis Act which requires the Commission to evaluate not only who has an ownership interest in a proposed cannabis business, but also who possesses the authority to manage and direct the business's day-to-day operations. As a result, ownership percentage alone is not sufficient to determine whether an applicant satisfies the statutory requirements for certification. The Commission must evaluate both ownership and operational control together.

Under the Cannabis Act, **"ownership and control"** means:

"Ownership of at least fifty-one percent (51%) of the cannabis establishment, and control over the management and day-to-day operations of the cannabis establishment, and an interest in the capital, assets, and profits and losses of the cannabis establishment proportionate to percentage of ownership."

This statutory definition establishes several requirements that must be met simultaneously. Qualifying individuals must possess an ownership interest in the business, participate in the management and day-to-day operations of the cannabis establishment, and maintain a proportional interest in the business's capital, assets, profits, and losses. The Commission evaluates these elements collectively when determining whether the statutory ownership and control requirement has been satisfied.

Interest Holder Change Requests

Following approval of a Social Equity Applicant Status Certification, applicants may not make changes to their business structure or to information submitted during the certification process without obtaining Commission approval where required. This requirement helps ensure that the organizational structure reviewed and approved by the Commission remains consistent throughout the certification process.

These requests may be made by the submission of an Interest Holder Change Request form submitted by a Certified Social Equity Applicant during a window announced by the Commission. This window will be opened following the conclusion of the certification process and prior to the close of the window for retail license application submission. More information about Interest Holder Change Requests can be found on the Commission's website.

Approved Social Equity Applicants also have an ongoing obligation to remain organized in a manner that satisfies the applicable ownership and control requirements established by law and regulation. Maintaining compliance is not limited to the initial certification process but continues throughout participation in the Social Equity Program.

Conclusion

Understanding business organization is an important step in preparing for the Social Equity Applicant Status Certification process. Decisions regarding business formation, governance, ownership, financing, and management establish the legal framework through which the Commission evaluates an applicant's eligibility under the Cannabis Act. As demonstrated throughout this document, no single document determines eligibility. Rather, the Commission reviews governance documents, key person disclosures, business agreements, and other required materials collectively to evaluate the applicant's ownership and control structure and compliance with applicable statutory and regulatory requirements.

Applicants are encouraged to review the Commission's regulations and official application materials in conjunction with this bulletin. Because decisions regarding business formation and contractual relationships may have significant legal consequences, applicants should consult qualified legal counsel when making business organization decisions or entering into agreements that may affect ownership or control.