

STATE OF NEW YORK

10698

IN ASSEMBLY

March 20, 2026

Introduced by M. of A. DAIS -- read once and referred to the Committee on Economic Development

AN ACT to amend the cannabis law, in relation to prohibiting cannabis inversion and establishing penalties and whistleblower protections

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. This act shall be known and may be cited as the "cannabis
2 supply chain integrity and anti-inversion act".

3 § 2. Legislative findings and intent. The legislature finds that the
4 integrity of New York state's regulated cannabis market depends on tran-
5 sparency, traceability, and lawful origin of cannabis and cannabis
6 products offered for sale to consumers in New York. The introduction of
7 illicit cannabis into the regulated supply chain, commonly known as
8 "cannabis inversion," threatens consumer health, undermines public
9 confidence, deprives the state of tax revenue, and disadvantages compli-
10 ant licensees. It is the intent of the legislature to define cannabis
11 inversion, prohibit such conduct, provide for meaningful penalties and
12 license consequences, and establish accountability for responsible
13 persons and laboratories.

14 § 3. Subdivision 1 of section 136 of the cannabis law is amended to
15 read as follows:

16 1. "Illicit cannabis" means and includes (a) any cannabis flower,
17 concentrated cannabis and cannabis product on which any tax required to
18 have been paid under any applicable state law, has not been paid. Illic-
19 it cannabis shall not include any cannabis lawfully possessed in accord-
20 ance with this chapter or the penal law[-];

21 (b) sourced cannabis or cannabis products from an unlicensed or unau-
22 thorized person or entity; or

23 (c) misrepresented geographic origin, cultivation site, or chain of
24 custody of cannabis, cannabis products, or cannabis-derived materials.

25 § 4. The cannabis law is amended by adding new section 125-a to read
26 as follows:

27 § 125-a. Cannabis inversion. "Cannabis inversion" means any act or
28 omission involving illicit cannabis.

EXPLANATION--Matter in italics (underscored) is new; matter in brackets
[-] is old law to be omitted.

LBD14524-07-6

1 1. (a) No registrant, licensee, permittee, or laboratory testing
2 facility, and no person acting on behalf of any such registrant, licen-
3 see, permittee, or laboratory testing facility, shall engage in cannabis
4 inversion.

5 (b) A violation of this section shall constitute cause for discipline
6 pursuant to section one hundred thirty-three of this article and any
7 applicable regulations.

8 2. (a) In addition to any other penalty, the office may impose a civil
9 penalty of not less than three times the retail value of the inverted
10 cannabis or cannabis products involved in the violation, or two hundred
11 fifty thousand dollars, whichever is greater.

12 (b) Inverted cannabis or cannabis products, and any proceeds directly
13 derived therefrom, shall be subject to seizure, forfeiture, and
14 destruction or other disposition as determined by the office in accord-
15 ance with applicable law and regulation.

16 (c) Upon reasonable grounds to believe a violation occurred, the
17 office may order immediate suspension pending investigation. Upon a
18 finding that cannabis inversion was committed knowingly or recklessly,
19 revocation shall be presumed to be the appropriate sanction, subject to
20 any procedures and standards applicable under section one hundred thir-
21 ty-three of this article.

22 (d) In addition to any other sanction, submission, use, or issuance of
23 a fraudulent or materially unreliable certificate of analysis in furth-
24 erance of cannabis inversion shall constitute cause for permanent revo-
25 cation of a laboratory testing permit and a civil penalty of not less
26 than three times the retail value of the inverted cannabis involved in
27 the violation, or two hundred fifty thousand dollars, whichever is
28 greater.

29 (e) It shall constitute a violation of this section if any person
30 listed in paragraph (a) of this subdivision:

31 (i) utilizes a fraudulent, misleading, or materially unreliable
32 certificate of analysis;

33 (ii) falsifies or omits required inventory, testing, transfer, or
34 tracking records;

35 (iii) sells, transfers, or offers for sale inverted cannabis products
36 to any registrant, licensee, or permittee; or

37 (iv) sells, transfers, or offers for sale any products that violate
38 the office's regulations on hemp products shall have the burden of prov-
39 ing that they have not knowingly engaged in inversion.

40 (f) For purposes of subdivision (e) of this section, the office shall
41 presume that any cannabis, cannabis derivative, cannabis plant, or
42 cannabis product where the complete chain of custody cannot be demon-
43 strated is illicit cannabis. Where electronic inventory records are
44 missing or inadequate to demonstrate the complete chain of custody, a
45 licensee shall have the burden of proof and may present video or photo-
46 graphic evidence to be considered by the office to overcome the presump-
47 tion that such product is illicit cannabis.

48 3. (a) For purposes of this section, "responsible person" means any
49 principal officer, managing member, general partner, or other natural
50 person who exercises operational control or managerial authority over
51 the relevant licensed or permitted activity.

52 (b) Where the office finds that a responsible person knew or should
53 have known of cannabis inversion and failed to take reasonable steps to
54 prevent, stop, or report such conduct, such responsible person may be
55 held jointly and severally liable for civil penalties imposed pursuant

1 to subdivision two of this section, in addition to any license disci-
2 pline imposed on the entity.

3 § 5. Subdivision 1 of section 138-a of the cannabis law, as added by
4 section 20 of part UU of chapter 56 of the laws of 2023, is amended to
5 read as follows:

6 1. order any person who is unlawfully cultivating, processing,
7 distributing or selling cannabis, cannabis product, cannabinoid hemp or
8 hemp extract product, or any product marketed or labeled as such in this
9 state without obtaining the appropriate registration, license, or permit
10 therefor, or engaging in cannabis inversion or in an indirect retail
11 sale to cease such prohibited conduct;

12 § 6. The cannabis law is amended by adding a new section 138-c to read
13 as follows:

14 § 138-c. Whistleblower protection; anti-retaliation. 1. No registrant,
15 licensee, permittee, laboratory testing facility, or contractor thereof
16 shall discharge, threaten, penalize, discipline, or otherwise retaliate
17 against any employee or contractor because such employee or contractor,
18 in good faith, reported or attempted to report suspected prohibitions
19 and restrictions to the office, the board, or any law enforcement agen-
20 cy.

21 2. Retaliation in violation of this section shall constitute an inde-
22 pendent violation subject to discipline and civil penalties pursuant to
23 section one hundred thirty-three of this article and applicable regu-
24 lations.

25 § 7. Severability. If any clause, sentence, paragraph, subdivision,
26 section or part of this act shall be adjudged by any court of competent
27 jurisdiction to be invalid, such judgment shall not affect, impair, or
28 invalidate the remainder thereof, but shall be confined in its operation
29 to the clause, sentence, paragraph, subdivision, section or part thereof
30 directly involved in the controversy in which such judgment shall have
31 been rendered.

32 § 8. This act shall take effect on the one hundred eightieth day after
33 it shall have become a law. Effective immediately, the addition, amend-
34 ment and/or repeal of any rule or regulation necessary for the implemen-
35 tation of this act on its effective date are authorized to be made and
36 completed on or before such effective date.