



CR-101 Memorandum

Re: Implementing Engrossed Substitute Senate Bill (ESSB) 5403 related to financial interest and management agreements for cannabis retailers

Date: July 9, 2025

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Background

Cannabis management agreements are authorized under [RCW 69.50.395](#). LCB staff are aware that some retailers have used management agreements to create stronger buying power where more than 5 stores engage in the overall purchase. This has raised compliance concerns related to the 5-store ownership limit as required under [RCW 69.50.325\(3\)\(b\)](#). This practice can be associated with coordinated pricing and other coordinated business practices among larger retailers.

[Engrossed Substitute Senate Bill \(ESSB\) 5403](#) (chapter 250, Laws of 2025) amends RCW 69.50.325(3)(b) to limit retail licensees and other persons or entities with a financial or other interest from entering into any management agreement that confers a financial interest across more than 5 retail cannabis licenses. ESSB 5403 defines “financial interest” to include any sharing of profits or revenue, any assistance, coordination, or recommendation for the purchase of cannabis products where pricing is coordinated or discounted, the common use of intellectual property assets such as branding, any operational control or operational support of day-to-day business operations, any sharing or coordination of marketing and advertising efforts or expenses, and any sharing of employees. This legislation becomes effective 1/1/26.

[RCW 69.50.331](#) describes LCB’s authority to issue and suspend cannabis licenses including licenses to sell cannabis, and qualifications for obtaining a license.

[RCW 69.50.325](#) describes cannabis producer, processor, and retailer licenses regulated by the Board with the requirements and fees for each license type. RCW 69.50.325(3)(b) limits an individual retailer licensee and all other persons or entities with a financial or other ownership interest in the business operating under the license to a total of five retail cannabis licenses.

[RCW 69.50.335](#) authorizes LCB to adopt rules related to issuing cannabis licenses to social equity applicants.

[RCW 69.50.395](#) authorizes the types of businesses and agreements licensed cannabis businesses may enter into and requirements for disclosing the businesses and agreements to the LCB.

[WAC 314-55-018](#) describes prohibited practices for cannabis industry members. This stipulates that no industry member or licensee shall enter into any agreement which causes undue influence over another licensee or industry member. Industry member is defined as including cannabis retailers, their authorized representatives, any affiliates, subsidiaries, officers, partners, financiers, agents, employees, and representatives of any licensee.

[WAC 314-55-035](#) describes qualifications for a obtaining a cannabis license including true parties of interest and financiers. WAC 314-55-035(2) includes the requirement that a married couple may not be a true party of interest in more than five retail cannabis licenses.

[WAC 314-55-050](#) broadly describes the board's authority to withdraw, deny, suspend or cancel a cannabis license application or license.

[WAC 314-55-079](#) describes the privileges, requirements and fees for a cannabis retailer license. WAC 314-55-079(3) states that any entity and/or principals within any entity are limited to no more than five retail cannabis licenses.

[WAC 314-55-137](#) describes the process and requirements for notifying the Board of a receivership. WAC 314-55-137(6)(ii) specifies that no person shall serve as a receiver for, or be the true party of interest in, more than five cannabis retail licensees or more than three cannabis producer, processor, or producer/processor licensees at the same time.

[WAC 314-07-035](#) describes the persons and entities that qualify for a liquor license including a definition for "true party of interest".

Reasons Why Rulemaking Is Needed

Rulemaking is needed to amend sections of chapter 314-55 WAC to implement ESSB 5403 related to the prohibition of retail licensees and other persons or entities with a financial or other ownership interest from entering into any agreement that confers a financial interest across more than 5 retail cannabis licenses. This includes management agreements entered under RCW 69.50.331(1)(b)(iv) for a business conducted by a manager or agent, or agreements under RCW 69.50.395.

Process

The rulemaking process begins by announcing the Board's intent to consider changes to existing rules, adding new rule sections, or both, by filing a preproposal statement of inquiry (CR-101) form with the Office of the Code Reviser. This allows staff, stakeholders, industry partners, and all members of the authorizing environment to begin discussing proposed rule changes.

At this stage of the rulemaking process, no proposed language is offered. Any interested party may comment on this possible rulemaking during the designated comment period. Notice will be sent to all who have indicated that they want to receive notice of rule activity related to this preproposal statement of inquiry. The notice will identify the public comment period and where comments can be sent.