

REFERENCE TITLE: regulatory sandbox program; amendments

State of Arizona  
House of Representatives  
Fifty-fourth Legislature  
First Regular Session  
2019

## **HB 2177**

Introduced by  
Representative Weninger

**AN ACT**

**AMENDING SECTIONS 41-5601, 41-5603, 41-5605, 41-5606, 41-5608, 41-5609 AND 41-5611; RELATING TO THE REGULATORY SANDBOX PROGRAM.**

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 41-5601, Arizona Revised Statutes, is amended to  
3 read:

4 41-5601. Definitions

5 In this chapter, unless the context otherwise requires:

6 1. "Applicable agency" means a department or agency of this state  
7 established by law to regulate certain types of business activity in this  
8 state and persons engaged in such business, including the issuance of  
9 licenses or other types of authorization, that the attorney general  
10 determines would **OR MAY** regulate a sandbox participant if the person was  
11 not a regulatory sandbox participant.

12 2. "Consumer":

13 (a) Means a person that purchases or ~~otherwise~~ enters into a  
14 transaction ~~or agreement to receive an innovative financial product or~~  
15 ~~service~~ **FOR AN INNOVATION** that is being tested by a sandbox participant.

16 (b) **DOES NOT INCLUDE AN AGENT OR BUSINESS PARTNER OF OR AN INVESTOR**  
17 **IN A SANDBOX PARTICIPANT.**

18 3. "Financial product or service" means a product or service that  
19 requires licensure under title 6 or title 44, chapter 2.1 or 13 or a  
20 product or service that includes a business model, delivery mechanism or  
21 element that may otherwise ~~require a license or other authorization to act~~  
22 ~~as a financial institution or enterprise or other entity that is regulated~~  
23 ~~by~~ **BE REGULATED UNDER** title 6 or title 44, chapter 2.1 or 13.

24 4. "Innovation" means, **WITH RESPECT TO PROVIDING A FINANCIAL**  
25 **PRODUCT OR SERVICE OR A SUBSTANTIAL COMPONENT OF A FINANCIAL PRODUCT OR**  
26 **SERVICE**, the use or incorporation of new or emerging technology or the  
27 reimagination of uses for existing technology to address a problem,  
28 provide a benefit or otherwise offer a product, service, business model or  
29 delivery mechanism that is not known by the attorney general to have a  
30 comparable widespread offering in this state.

31 5. "Innovative financial product or service" means a financial  
32 product or service that includes an innovation.

33 6. "Regulatory sandbox" means the program established by this  
34 chapter that allows a person to temporarily test ~~innovative financial~~  
35 ~~products or services~~ **AN INNOVATION** on a limited basis without otherwise  
36 being licensed or authorized to act under the laws of this state.

37 7. "Sandbox participant" means ~~a~~ **ANY** person whose application to  
38 participate in the regulatory sandbox is approved pursuant to this  
39 chapter.

40 8. "Test" means to provide products and services as allowed by this  
41 chapter.

1           Sec. 2. Section 41-5603, Arizona Revised Statutes, is amended to  
2 read:

3           41-5603. Application process and requirements; fee

4           A. Any person may apply to enter the regulatory sandbox to test an  
5 innovation.

6           B. The attorney general must accept and review each application for  
7 entry into the regulatory sandbox on a rolling basis.

8           C. An application must demonstrate that an applicant both:

9           1. Is an entity or individual that is subject to the jurisdiction  
10 of the attorney general through incorporation, residency, presence  
11 agreement or otherwise.

12           2. Has established a location, whether physical or virtual, that is  
13 adequately accessible to the attorney general, from which testing will be  
14 developed and performed and where all required records, documents and data  
15 will be maintained.

16           D. Persons that already possess a license or other authorization  
17 under state laws that regulate a financial product or service must file an  
18 application with the attorney general to test ~~innovative financial~~  
19 ~~products or services~~ AN INNOVATION within the regulatory sandbox FOR A  
20 FINANCIAL PRODUCT OR SERVICE OUTSIDE THE SCOPE OF ITS LICENSE OR  
21 AUTHORIZATION.

22           E. Applications must contain sufficient information to demonstrate  
23 that an applicant has an adequate understanding of the innovation and a  
24 sufficient plan to test, monitor and assess the innovation while ensuring  
25 consumers are protected from a test's failure.

26           F. Applications must contain the information required by a form  
27 that is developed and made publicly available by the attorney general.  
28 The information required by the form may include:

29           1. Relevant personal and contact information for the applicant,  
30 including full legal names, addresses, telephone numbers, e-mail  
31 addresses, website addresses and other information that the attorney  
32 general deems necessary.

33           2. Disclosure of any criminal convictions of the applicant or key  
34 personnel, if any.

35           3. A description of the innovation desired to be tested, including  
36 statements regarding all of the following:

37           (a) How an innovation is subject to regulation outside of the  
38 regulatory sandbox.

39           (b) How the innovation would benefit consumers.

40           (c) How the innovation is different from other FINANCIAL products  
41 or services available in this state.

42           (d) What risks will confront consumers ~~that use or purchase the~~  
43 ~~innovative financial product or service~~.

44           (e) How entering the regulatory sandbox would enable a successful  
45 test of the innovation.

1 (f) A description of the proposed testing plan, including estimated  
2 time periods for market entry, market exit and the pursuit of necessary  
3 licensure or authorization.

4 (g) How the applicant will wind down the test and protect consumers  
5 if the test fails.

6 (h) HOW THE APPLICANT WILL EMPLOY CYBERSECURITY MEASURES TO AVOID  
7 BREACHES AND PROTECT CONSUMER AND TRANSACTION DATA.

8 G. The attorney general shall collect an application fee in an  
9 amount to be determined by the attorney general. The attorney general  
10 shall deposit, pursuant to sections 35-146 and 35-147, all fees collected  
11 pursuant to this subsection in the consumer protection-consumer fraud  
12 revolving fund established by section 44-1531.01.

13 H. A person shall file a separate application for each innovation  
14 sought to be tested.

15 I. After the information required by subsection F of this section  
16 is submitted, the attorney general may seek additional information that it  
17 deems necessary. Not later than ninety days after an application is  
18 initially submitted, the attorney general shall notify the applicant as to  
19 whether the application is approved for entry into the regulatory sandbox.  
20 The attorney general and an applicant may mutually agree to extend the  
21 time period for the attorney general to determine whether an application  
22 is approved for entry into the regulatory sandbox.

23 J. The attorney general may deny applications in its discretion and  
24 a denial is not an appealable agency action for the purposes of chapter 6,  
25 article 10 of this title.

26 Sec. 3. Section 41-5605, Arizona Revised Statutes, is amended to  
27 read:

28 41-5605. Scope

29 A. If the attorney general approves an application for entry into  
30 the regulatory sandbox, the applicant is deemed a sandbox participant and  
31 both of the following apply:

32 1. The sandbox participant has twenty-four months after the date of  
33 approval to test the ~~innovative financial product or service~~ INNOVATION  
34 described in the sandbox participant's application.

35 2. The attorney general must issue the sandbox participant a  
36 registration number.

37 B. ~~Innovative financial products or services that are provided~~  
38 INNOVATIONS TESTED within the regulatory sandbox are subject to the  
39 following restrictions:

40 1. Consumers must be residents of this state, EXCEPT FOR  
41 TRANSACTIONS THAT INVOLVE FINANCIAL PRODUCTS OR SERVICES PROVIDED BY A  
42 SANDBOX PARTICIPANT TESTING FINANCIAL PRODUCTS OR SERVICES AS A MONEY  
43 TRANSMITTER AS DEFINED IN SECTION 6-1201, IN WHICH CASE ONLY PHYSICAL  
44 PRESENCE OF THE CONSUMER IN THIS STATE AT THE TIME OF THE TRANSACTION MAY  
45 BE REQUIRED.

1           2. Except as provided in subsection C of this section OR SECTION  
2 41-5608, AN INNOVATION MAY not BE TESTED WITH more than ten thousand  
3 consumers ~~may transact through or enter into an agreement to use the~~  
4 ~~innovation.~~

5           3. For a sandbox participant testing consumer lender loans as  
6 defined in section 6-601, an individual consumer lender loan may be issued  
7 for up to ~~fifteen thousand dollars~~ \$15,000, except that aggregate loans  
8 per consumer may not exceed ~~fifty thousand dollars~~ \$50,000. All consumer  
9 lender loans issued in the regulatory sandbox, including loans in excess  
10 of ~~ten thousand dollars~~ \$10,000, are subject to all of the following:

- 11           (a) Section 6-114.
- 12           (b) Section 6-632.
- 13           (c) Section 6-635, subsections A, B and C.
- 14           (d) Section 6-637.

15           4. Except as provided in subsection C of this section, for a  
16 sandbox participant testing FINANCIAL products or services as a money  
17 transmitter as defined in section 6-1201, individual transactions per  
18 consumer may not exceed ~~two thousand five hundred dollars~~ \$2,500 and  
19 aggregate transactions per consumer may not exceed ~~twenty-five thousand~~  
20 ~~dollars~~ \$25,000.

21           5. For sandbox participants testing FINANCIAL products or services  
22 as a sales finance company as defined in section 44-281, all of the  
23 following apply:

- 24           (a) Section 44-286.
- 25           (b) Section 44-287, except ~~not section 44-287~~, subsection B,  
26 paragraph 8.
- 27           (c) Section 44-288.
- 28           (d) Section 44-289.
- 29           (e) Section 44-290.
- 30           (f) Section 44-291.
- 31           (g) Section 44-293.
- 32           (h) Section 47-9601.

33           6. For sandbox participants testing FINANCIAL products or services  
34 that provide investment management that is regulated pursuant to title 44,  
35 chapter 13:

- 36           (a) Section 44-3241 applies.

37           ~~(b) Each sandbox participant must make, maintain and preserve books~~  
38 ~~and records in accordance with the requirements imposed on federal covered~~  
39 ~~advisers under 17 Code of Federal Regulations section 275.204-2. The~~  
40 ~~sandbox participant shall file with the corporation commission a copy of~~  
41 ~~any notices or written undertakings required to be filed by federal~~  
42 ~~covered advisers with the securities and exchange commission under 17 Code~~  
43 ~~of Federal Regulations section 275.204-2.~~

44           ~~(c)~~ (b) The corporation commission rules adopted pursuant to title  
45 44, chapter 13 apply as they relate to ~~the following:~~

- 1           ~~(i)~~ dishonest and unethical practices.
- 2           ~~(ii)~~ Information required to be furnished to clients.
- 3           ~~(iii)~~ Custody of client funds or securities.
- 4           ~~(iv)~~ Disclosure of financial and disciplinary information to
- 5 ~~clients.~~

6           C. If a sandbox participant demonstrates adequate financial  
7 capitalization, risk management process and management oversight, the  
8 attorney general may allow either or both of the following:

9           1. EXCEPT AS PROVIDED IN SECTION 41-5608, AN INNOVATION MAY not BE  
10 TESTED WITH more than seventeen thousand five hundred consumers to  
11 ~~transact through or enter into an agreement to use the innovation.~~

12           2. For a sandbox participant testing products or services as a  
13 money transmitter as defined in section 6-1201, individual transactions  
14 per consumer that do not exceed ~~fifteen thousand dollars~~ \$15,000 and  
15 aggregate transactions per consumer that do not exceed ~~fifty thousand~~  
16 ~~dollars~~ \$50,000.

17           D. This section does not restrict a sandbox participant who holds a  
18 license or other authorization in another jurisdiction from acting  
19 pursuant to and in accordance with that license or other authorization.

20           E. A sandbox participant is deemed to possess an appropriate  
21 license under the laws of this state for purposes of any provision of  
22 federal law requiring state licensure or authorization.

23           F. Except as otherwise provided in this chapter, a sandbox  
24 participant is not subject to state laws THAT ESTABLISH REQUIREMENTS  
25 PURSUANT TO A LICENSE OR AUTHORIZATION ISSUED BY AN APPLICABLE AGENCY that  
26 OTHERWISE WOULD OR MAY regulate ~~a financial product or service~~ AN  
27 INNOVATIVE FINANCIAL PRODUCT OR SERVICE.

28           G. The attorney general may determine that certain state laws that  
29 regulate a financial product or service apply to a sandbox participant.  
30 If the attorney general makes this determination and approves an  
31 application for entry into the regulatory sandbox, the attorney general  
32 must notify the sandbox participant of the specific state regulatory laws  
33 that will apply to the sandbox participant. PURSUANT TO SECTION 41-5611,  
34 THE ATTORNEY GENERAL ALONE SHALL ENFORCE THE STATE REGULATORY LAWS  
35 APPLICABLE TO SANDBOX PARTICIPANTS, INCLUDING THE RESTRICTIONS ESTABLISHED  
36 BY THIS SECTION.

37           H. ~~A sandbox participant may~~ TO THE EXTENT THAT A SANDBOX  
38 PARTICIPANT IS REQUIRED BY THIS CHAPTER TO obtain, record, provide or  
39 maintain ~~in electronic form, including as provided in section 44-7601,~~ any  
40 information, writing, signature, record or disclosure, ~~that is required by~~  
41 ~~this chapter~~ THE SANDBOX PARTICIPANT MAY DO SO IN ELECTRONIC FORM,  
42 INCLUDING AS PROVIDED IN SECTION 44-7601, or may substitute any  
43 substantially similar equivalent information, writing, signature, record  
44 or disclosure that is approved by the attorney general.

1           Sec. 4. Section 41-5606, Arizona Revised Statutes, is amended to  
2 read:

3           41-5606. Consumer protection

4           A. Before providing an ~~innovative financial product or service~~  
5 INNOVATION to consumers, a sandbox participant must disclose to consumers  
6 all of the following:

7           1. The name and contact information of the sandbox participant,  
8 including the registration number provided by the attorney general  
9 pursuant to section 41-5605.

10           2. That the ~~innovative financial product or service~~ INNOVATION is  
11 authorized pursuant to the regulatory sandbox and, if applicable, that the  
12 sandbox participant does not have a license or other authorization to  
13 generally provide FINANCIAL products or services under state laws that  
14 regulate a financial product or service that is outside the regulatory  
15 sandbox.

16           3. That this state does not endorse or recommend the innovation.

17           4. That the ~~innovative financial product or service~~ INNOVATION is a  
18 temporary test that may be discontinued at the end of the testing period,  
19 including the expected end date of the testing period.

20           5. That consumers may contact the attorney general to file  
21 complaints regarding the ~~innovative financial product or service~~  
22 INNOVATION being tested and provide the attorney general's telephone  
23 number and website address where complaints may be filed.

24           B. The notifications prescribed by subsection A of this section  
25 must be provided to consumers in a clear and conspicuous form in both  
26 English and Spanish. For internet or application-based ~~innovative~~  
27 ~~financial products or services~~ INNOVATION, consumers must acknowledge  
28 receipt of these notifications before completion of a transaction.

29           C. The attorney general may require that a sandbox participant make  
30 additional disclosures to consumers. When the attorney general approves  
31 an application for entry into the regulatory sandbox, the attorney general  
32 shall notify the sandbox participant of the additional disclosures.

33           Sec. 5. Section 41-5608, Arizona Revised Statutes, is amended to  
34 read:

35           41-5608. Discretionary allowances

36           A. A sandbox participant may request an extension of the regulatory  
37 sandbox testing period OR AN INCREASE IN THE CONSUMER CAP ESTABLISHED BY  
38 SECTION 41-5605, SUBSECTION C, PARAGRAPH 1 for the purpose of pursuing a  
39 license or other authorization required by law.

40           B. The attorney general may grant or deny a request ~~for an~~  
41 ~~extension~~ pursuant to subsection A of this section ~~by the end of the~~  
42 ~~twenty-four-month regulatory sandbox testing period~~ WITHIN THIRTY DAYS  
43 AFTER THE REQUEST. ~~An extension~~ A REQUEST GRANTED pursuant to this  
44 subsection ~~is~~ MAY not BE effective for more than one year after the ~~end of~~  
45 ~~the regulatory sandbox testing period~~ APPROVAL DATE.

1 C. A sandbox participant that obtains an extension OR INCREASE  
2 pursuant to subsection B of this section must provide the attorney general  
3 with a written report every three months that provides an update on  
4 efforts to obtain a license or other authorization, including any  
5 submitted applications for licensure or other authorization, rejected  
6 applications or issued licenses or other authorization.

7 D. THE ATTORNEY GENERAL MAY DENY REQUESTS MADE UNDER SUBSECTION A  
8 OF THIS SECTION, AND A DENIAL IS NOT AN APPEALABLE AGENCY ACTION FOR THE  
9 PURPOSES OF CHAPTER 6, ARTICLE 10 OF THIS TITLE.

10 Sec. 6. Section 41-5609, Arizona Revised Statutes, is amended to  
11 read:

12 41-5609. Recordkeeping and reporting requirements

13 A. A sandbox participant must retain records, documents and data  
14 produced in the ordinary course of business regarding an ~~innovative~~  
15 ~~financial product or service~~ INNOVATION tested in the regulatory sandbox.

16 B. If an innovation fails before the end of the testing period, the  
17 sandbox participant must notify the attorney general and report on actions  
18 taken to ensure consumers have not been harmed as a result of the  
19 innovation's failure.

20 C. A sandbox participant is subject to the requirements of section  
21 18-552 and must notify the attorney general of any breach as defined in  
22 section ~~18-545~~ 18-551.

23 Sec. 7. Section 41-5611, Arizona Revised Statutes, is amended to  
24 read:

25 41-5611. Reporting requirements; monitoring; enforcement;  
26 agreements

27 A. The attorney general may establish periodic reporting  
28 requirements ~~on~~ FOR sandbox participants.

29 B. The attorney general may seek records, documents and data from  
30 sandbox participants. On the attorney general's request, sandbox  
31 participants must make such records, documents and data available for  
32 inspection by the attorney general.

33 C. If the attorney general has reasonable cause to believe that a  
34 sandbox participant has engaged in, is engaging in or is about to engage  
35 in any practice or transaction that is in violation of this chapter, that  
36 constitutes an unlawful practice under section 44-1522 or that constitutes  
37 a violation of a state or federal criminal law, the attorney general may  
38 remove a sandbox participant from the regulatory sandbox or order a  
39 sandbox participant to exit the regulatory sandbox pursuant to section  
40 41-5607.

41 D. Removal from the regulatory sandbox is not an appealable agency  
42 action for the purposes of chapter 6, article 10 of this title.

43 E. Sandbox participants are subject to the consumer fraud  
44 provisions under title 44, chapter 10, article 7.



1           F. The attorney general may enter into agreements with state,  
2 federal or foreign regulators ~~that allow~~ IN ADVANCING THE PURPOSE OF  
3 REGULATORY SANDBOX, WHICH MAY INCLUDE ALLOWING sandbox participants to  
4 operate in other jurisdictions and ~~allow~~ ALLOWING entities authorized to  
5 operate in other jurisdictions to be recognized as sandbox participants in  
6 this state.