CHAPTER 187

HOUSE BILL 2731

AN ACT

AMENDING SECTIONS 41-5601, 41-5602, 41-5603, 41-5605 AND 41-5606, ARIZONA REVISED STATUTES; RELATING TO THE REGULATORY SANDBOX.

(TEXT OF BILL BEGINS ON NEXT PAGE)
Be it enacted by the Legislature of the State of Arizona:

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

41-5601. Definitions
In this chapter, unless the context otherwise requires:

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

2. "Consumer":
   (a) Means a person that purchases or enters into a transaction for an innovation that is being tested by a sandbox participant.
   (b) Does not include an agent or business partner of or an investor in a sandbox participant.

3. "Financial product or service" means a product or service that requires licensure under title 6 or title 44, chapter 2.1 or 13 or a product or service that includes a business model, delivery mechanism or element that may otherwise be regulated under title 6 or title 44, chapter 2.1 or 13.

4. "Innovation" means, with respect to providing a financial product or service or a substantial component of a financial product or service, the use or incorporation of new or emerging technology or the reimagination of uses for existing technology to address a problem, provide a benefit or otherwise offer a product, service, business model or delivery mechanism that is not known by the attorney general to have a comparable widespread offering in this state.

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

6. "Regulatory sandbox" means the program established by this chapter that allows a person to temporarily test an innovation on a limited basis without otherwise being licensed or authorized to act under the laws of this state.

7. "Sandbox participant" means any person whose application to participate in the regulatory sandbox is approved pursuant to this chapter.

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

Sec. 2. Section 41-5602, Arizona Revised Statutes, is amended to read:

41-5602. Program purpose
The attorney general shall establish a regulatory sandbox program in consultation with applicable agencies of this state to enable a person to obtain limited access to the market in this state to test innovative
financial products or services OR OTHER INNOVATIONS without obtaining a license or other authorization that otherwise might be required.

Sec. 3. Section 41-5603, Arizona Revised Statutes, is amended to read:

41-5603. Application process and requirements; fee
A. Any person may apply to enter the regulatory sandbox to test an innovation.
B. The attorney general must accept and review each application for entry into the regulatory sandbox on a rolling basis.
C. An application must demonstrate that an applicant both:
   1. Is an entity or individual that is subject to the jurisdiction of the attorney general through incorporation, residency, presence agreement or otherwise.
   2. Has established a location, whether physical or virtual, that is adequately accessible to the attorney general, from which testing will be developed and performed and where all required records, documents and data will be maintained.
D. Persons that already possess a license or other authorization under state laws that regulate a financial product or service OR OTHER INNOVATION must file an application with the attorney general to test an innovation within the regulatory sandbox for a product or service OR OTHER INNOVATION outside the scope of THE license or authorization.
E. Applications must contain sufficient information to demonstrate that an applicant has an adequate understanding of the innovation and a sufficient plan to test, monitor and assess the innovation while ensuring consumers are protected from a test's failure.
F. Applications must contain the information required by a form that is developed and made publicly available by the attorney general. The information required by the form may include:
   1. Relevant personal and contact information for the applicant, including full legal names, addresses, telephone numbers, email addresses, website addresses and other information that the attorney general deems necessary.
   2. Disclosure of any criminal convictions of the applicant or key personnel, if any.
   3. A description of the innovation desired to be tested, including statements regarding all of the following:
      (a) How an innovation is subject to regulation outside of the regulatory sandbox.
      (b) How the innovation would benefit consumers.
      (c) How the innovation is different from other financial products or services OR OTHER INNOVATIONS available in this state.
      (d) What risks will confront consumers.
      (e) How entering the regulatory sandbox would enable a successful test of the innovation.
(f) A description of the proposed testing plan, including estimated
time periods for market entry, market exit and the pursuit of necessary
licensure or authorization.

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

(h) How the applicant will employ cybersecurity measures to avoid
breaches and protect consumer and transaction data.

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

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

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

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

Sec. 4. Section 41-5605, Arizona Revised Statutes, is amended to
read:

41-5605. Scope

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

1. The sandbox participant has twenty-four months after the date of
approval to test the innovation described in the sandbox participant's
application.

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

B. Innovations tested within the regulatory sandbox are subject to
the following restrictions:

1. Consumers must be residents of this state, except for
transactions that involve an innovation provided by a sandbox participant
testing financial products or services as a money transmitter as defined
in section 6-1201 or A related innovation, in which case only physical
presence of the consumer in this state at the time of the transaction may
be required.
2. Except as provided in subsection C of this section or section 41-5608, an innovation may not be tested with more than ten thousand consumers.

3. For a sandbox participant testing consumer lender loans as defined in section 6-601, an individual consumer lender loan may be issued for up to $15,000, except that aggregate loans per consumer may not exceed $50,000. All consumer lender loans issued in the regulatory sandbox, including loans in excess of $10,000, are subject to all of the following:
   (a) Section 6-114.
   (b) Section 6-632.
   (c) Section 6-635, subsections A, B and C.
   (d) Section 6-637.

4. Except as provided in subsection C of this section, for a sandbox participant testing financial products or services as a money transmitter as defined in section 6-1201, individual transactions per consumer may not exceed $2,500 and aggregate transactions per consumer may not exceed $25,000.

5. For sandbox participants testing financial products or services as a sales finance company as defined in section 44-281, all of the following apply:
   (a) Section 44-286.
   (b) Section 44-287, except subsection B, paragraph 8.
   (c) Section 44-288.
   (d) Section 44-289.
   (e) Section 44-290.
   (f) Section 44-291.
   (g) Section 44-293.
   (h) Section 47-9601.

6. For sandbox participants testing financial products or services that provide investment management that is regulated pursuant to title 44, chapter 13:
   (a) Section 44-3241 applies.
   (b) The corporation commission rules adopted pursuant to title 44, chapter 13 apply as they relate to dishonest and unethical practices.

C. If a sandbox participant demonstrates adequate financial capitalization, risk management process and management oversight, the attorney general may allow either or both of the following:
   1. Except as provided in section 41-5608, an innovation may not be tested with more than seventeen thousand five hundred consumers.
   2. For a sandbox participant testing products or services as a money transmitter as defined in section 6-1201, individual transactions per consumer that do not exceed $15,000 and aggregate transactions per consumer that do not exceed $50,000.
D. This section does not restrict a sandbox participant who holds a license or other authorization in another jurisdiction from acting pursuant to and in accordance with that license or other authorization.

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

F. Except as otherwise provided in this chapter, a sandbox participant is not subject to state laws that establish requirements pursuant to a license or authorization issued by an applicable agency that otherwise would or may regulate an innovative financial product or service.

G. The attorney general may determine that certain state laws that regulate a financial product or service OR INNOVATION apply to a sandbox participant. If the attorney general makes this determination and approves an application for entry into the regulatory sandbox, the attorney general must notify the sandbox participant of the specific state regulatory laws that will apply to the sandbox participant. Pursuant to section 41-5611, the attorney general alone shall enforce the state regulatory laws applicable to sandbox participants, including the restrictions established by this section.

H. To the extent that a sandbox participant is required by this chapter to obtain, record, provide or maintain any information, writing, signature, record or disclosure, the sandbox participant may do so in electronic form, including as provided in section 44-7601, or may substitute any substantially similar equivalent information, writing, signature, record or disclosure that is approved by the attorney general.

Sec. 5. Section 41-5606, Arizona Revised Statutes, is amended to read:

41-5606. Consumer protection

A. Before providing an innovation to consumers, a sandbox participant must disclose to consumers all of the following:

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

2. That the innovation is authorized pursuant to the regulatory sandbox and, if applicable, that the sandbox participant does not have a license or other authorization to generally provide financial products or services OR INNOVATIONS under state laws that regulate a financial product or service OR INNOVATION that is outside the regulatory sandbox.

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

4. That the innovation is a temporary test that may be discontinued at the end of the testing period, including the expected end date of the testing period.
5. That consumers may contact the attorney general to file complaints regarding the innovation being tested and provide the attorney general's telephone number and website address where complaints may be filed.

B. The notifications prescribed by subsection A of this section must be provided to consumers in a clear and conspicuous form in both English and Spanish. For an internet or application-based innovation, consumers must acknowledge receipt of these notifications before completion of a transaction.

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

APPROVED BY THE GOVERNOR APRIL 25, 2022.