

House Engrossed
regulatory sandbox; expansion

State of Arizona
House of Representatives
Fifty-fifth Legislature
Second Regular Session
2022

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)

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 enters into a transaction for
14 an innovation that is being tested by a sandbox participant.

15 (b) Does not include an agent or business partner of or an investor
16 in a sandbox participant.

17 3. "Financial product or service" means a product or service that
18 requires licensure under title 6 or title 44, chapter 2.1 or 13 or a
19 product or service that includes a business model, delivery mechanism or
20 element that may otherwise be regulated under title 6 or title 44, chapter
21 2.1 or 13.

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

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

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

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

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

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

42 41-5602. Program purpose

43 The attorney general shall establish a regulatory sandbox program in
44 consultation with applicable agencies of this state to enable a person to
45 obtain limited access to the market in this state to test innovative

1 financial products or services OR OTHER INNOVATIONS without obtaining a
2 license or other authorization that otherwise might be required.

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

5 41-5603. Application process and requirements; fee

6 A. Any person may apply to enter the regulatory sandbox to test an
7 innovation.

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

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

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

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

18 D. Persons that already possess a license or other authorization
19 under state laws that regulate a financial product or service OR OTHER
20 INNOVATION must file an application with the attorney general to test an
21 innovation within the regulatory sandbox for a product or service OR OTHER
22 INNOVATION outside the scope of ~~its~~ THE license or authorization.

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

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

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

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

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

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

40 (b) How the innovation would benefit consumers.

41 (c) How the innovation is different from other financial products
42 or services OR OTHER INNOVATIONS available in this state.

43 (d) What risks will confront consumers.

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. 4. 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 innovation described in the sandbox participant's
34 application.

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

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

39 1. Consumers must be residents of this state, except for
40 transactions that involve an innovation provided by a sandbox participant
41 testing financial products or services as a money transmitter as defined
42 in section 6-1201 or A related innovation, in which case only physical
43 presence of the consumer in this state at the time of the transaction may
44 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.

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

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

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

18 5. For sandbox participants testing financial products or services
19 as a sales finance company as defined in section 44-281, all of the
20 following apply:

- 21 (a) Section 44-286.
- 22 (b) Section 44-287, except subsection B, paragraph 8.
- 23 (c) Section 44-288.
- 24 (d) Section 44-289.
- 25 (e) Section 44-290.
- 26 (f) Section 44-291.
- 27 (g) Section 44-293.
- 28 (h) Section 47-9601.

29 6. For sandbox participants testing financial products or services
30 that provide investment management that is regulated pursuant to title 44,
31 chapter 13:

- 32 (a) Section 44-3241 applies.
- 33 (b) The corporation commission rules adopted pursuant to title 44,
34 chapter 13 apply as they relate to dishonest and unethical practices.

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

38 1. Except as provided in section 41-5608, an innovation ~~may~~ **TO** not
39 be tested with more than seventeen thousand five hundred consumers.

40 2. For a sandbox participant testing products or services as a
41 money transmitter as defined in section 6-1201, individual transactions
42 per consumer that do not exceed \$15,000 and aggregate transactions per
43 consumer that do not exceed \$50,000.

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

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

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

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

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

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

29 **41-5606. Consumer protection**

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

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

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

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

41 4. That the innovation is a temporary test that may be discontinued
42 at the end of the testing period, including the expected end date of the
43 testing period.

1 5. That consumers may contact the attorney general to file
2 complaints regarding the innovation being tested and provide the attorney
3 general's telephone number and website address where complaints may be
4 filed.

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

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