



# BRIEF ON ARIZONA REGULATORY SANDBOX PROGRAM

HB 2434 CODIFIED AS A.R.S. §41-5601 TO 41-5612

**Arizona is the first state** to create a regulatory “sandbox” for financial services companies to test “innovative” products and services without complying with the licensing and supervision otherwise required by law.

The “Regulatory Sandbox Program” (RSP) is in the **Office of the Attorney General** and launched August 3, 2018. See [www.azag.gov/fintech](http://www.azag.gov/fintech) Application fee is \$500. This is the only fee charged by the OAG.

Products and services that can apply to enter the RSP are those otherwise regulated under **A.R.S. Title 6 or Title 44, Chapters 2.1 or 13**. These include consumer lenders, money transmitters, some cryptocurrency products and services, car title lenders, and investment management.

RSP participants are not required to be Arizona-based but must have a physical or virtual location accessible to the Attorney General and be subject to the jurisdiction of the Arizona Attorney General.

**Duration of RSP is two-years** after which the company must cease operations or obtain the license required for that type of business.

**Up to 10,000 consumers** may transact or contract to use the innovation for each RSP participant. If a company “demonstrates adequate financial capitalization, risk management process and management oversight,” **up to 17,500 consumers** can use the innovation.

Sandbox companies making **Consumer Lender** loans may make loans up to **\$15,000** per loan or an aggregate total **\$50,000**. There is no limit on the size of loans or aggregate total for **car title loans**.

Sandbox companies testing **money transmitter** products and services, including cryptocurrency, are limited to transactions up to \$2,500 and aggregate transactions per consumer of **\$25,000**. If the company is deemed financially sound, individual transactions can be up to **\$15,000** with an aggregate **\$50,000**.

**Product-specific requirements and protections** enumerated to apply to RSP “test:”

**Consumer Lender loans:** 6-114; 6-632; 6-635, subsections A, B, and C; 6-637.

**Sales Finance (car title) loans:** 44-286; 44-287 except not section 44-287 subsection B, paragraph 8; 44-288; 44-289; 44-290; 44-291; 44-293; and 47-9601.

**Investment management** (Title 44, chapter 13 supervised by the Corporation Commission): Section 44-3241; 17 Code of Federal Regulations section 275.204-2; ACC rules pursuant to Title 44, Chapter 13 regarding dishonest and unethical practices, information required to be furnished to clients; custody of client funds or securities; disclosure of financial and disciplinary information to clients.

**Money transmitters/cryptocurrency products and services:** None.

Unless specifically included in the law, **sandbox participants are not subject to state laws** that regulate a financial product or service. The Attorney General may determine that certain laws that regulate a product or service apply to the sandbox participant and must notify the participant when the application is approved.

**Protections and disclosures** that apply to the RSP:

Subject to the Arizona Consumer Fraud Act, A.R.S. Title 44, Chapter 10, Article 7.  
Consumers may file complaints with the Office of Attorney General.  
OAG must issue a registration number for RSP participant.

Disclosures required before a RSP participant provides the “innovative” product or service to consumers:

Name, contact information and registration number for RSP company.

That the “innovative” company does not have a license but is authorized to do business in the sandbox, that Arizona does not endorse or recommend the innovation, that the innovative product or service is a temporary test that may be discontinued at the end of the test period; the expected end date for the test.

That complaints can be filed with the Office of Attorney General with contact information.

The Attorney General can require RSP participants to make additional disclosures.

**Must consumers benefit from “innovative” fintech companies in the Sandbox?**

Applicants are required by law to state how the innovation benefits consumers, but consumer benefit is not required for acceptance in the RSP. The MOU signed with Taiwan states that “innovations” in the RSP should “benefit the consumer, investor and/or industry...”