FIRST IN THE U.S.
ARIZONA'S REGULATORY SANDBOX

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SUMMARY

Why regulators care about innovation
- Innovation benefits consumers
- Innovation benefits the state

Advantages of Arizona's Sandbox
- Streamlined application process
- Flexibility to test diverse products
- Retained consumer protections
Innovation Benefits Consumers

Consumer protection is about the consumer

- Consumers benefit from a dynamic market
- Consumer protection originated as a means to prevent market distortion from fraud
- Protecting consumers requires preventing fraud without creating new market distortions
- Sandbox addresses two common market distortions
  - Regulatory barriers to entry
  - Regulatory uncertainty
Innovation Benefits States

- Financial services changing rapidly
- Significance of financial services
  - 7.3% of U.S. economy
- Concentration of venture capital
  - 2017: 75% in CA, NY, MA
- Lead or be left behind

1 https://www.selectusa.gov/financial-services-industry-united-states
FINTECH SANDBOXES AROUND THE WORLD

- More than ten countries have FinTech Sandboxes
  - Examples: Mexico, Canada, U.K., Australia, Abu Dhabi, Singapore
- Results in the U.K.
  - Three cohorts totaling 68 companies
    - 90% of first two cohorts proceeded to wider product launch
- FinTech investment in U.K.
  - 2016 Q1: $140 million
  - 2017 Q1: $370 million

ARIZONA SANDBOX: APPLICATION

- Approval
  - 90 days on rolling basis
- Form
  - How the innovation benefits consumers
  - How the innovation differs from other products in the state
  - What risks will confront consumers
  - How the Sandbox will enable a successful test
  - A description of the proposed testing plan
  - How the test will be wound down and consumers protected if the test fails

- Subject to Attorney General jurisdiction

ARIZONA SANDBOX: SCOPE

- 24 month period
- 12 month extension for obtaining licensure
- Up to 10,000 Arizona consumers
- Transaction limits
  - Consumer loans
    - $15,000 per loan; $50,000 total
  - Money transmission
    - $2,500 per transaction; $25,000 total
ARIZONA SANDBOX: CONSUMER PROTECTION

- Consumer Fraud Act applies to products in the Sandbox
- Cannot exceed state interest rate thresholds
- Removal for reasonable cause of violating Consumer Fraud Act
- Provide disclosure to consumers
ARIZONA SANDBOX:
RECORDS AND EXIT

- Retain records and documents in ordinary course
- Must provide physical or virtual access to Attorney General
- Attorney General may require additional reporting
- Notify Attorney General if innovation fails
- Notify Attorney General within 30 days of 24 month period of plans to exit
- Up to 12 additional months to obtain a license
ARIZONA SANDBOX: 
NEXT STEPS

- Form agreements with regulators
  - Overseas regulators
  - Federal regulators
  - State regulators
    - IL and NY introduced legislation modeled after Arizona

- Legislation Effective July/August 2018
Thank you

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