# Regulatory sandboxes, policy changes spur innovation

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Regulatory uncertainty remains one of the most significant challenges to finance companies that want to develop creative and innovative products and services. Federal and state agencies have implemented policies to facilitate innovation, with more states likely to create their own sandboxes in 2020.

In September 2019, the **Consumer Finance Protection Bureau** revised its no-action letter (NAL) policy to facilitate innovation. NALs are intended to provide regulatory certainty by stating the agency will not bring a supervisory or enforcement action.

One noteworthy change is the removal of a statement that a NAL may be revoked at any time. The revised policy significantly streamlines the application process, including a commitment from the CFPB to issue its determination within 60 days of receiving a complete application.

The CFPB's effort to facilitate innovation did not stop with its NAL policy. The agency's Office of Innovation recently changed its "Trial Disclosure Sandbox" so companies can conduct trial programs and create new model forms within the agency's jurisdiction.

The CFPB's 2013 trial disclosure policy did not effectively encourage companies to develop new consumer credit disclosures, like the Truth in Lending Act disclosures that appear in auto finance transactions. The updated Trial Disclosure Sandbox would allow the CFPB to provide legal protections to companies that want to conduct trial disclosure programs or processes to deliver consumer credit disclosures.

The race to encourage innovation has not been limited to federal agencies. Some states have created their own regulatory sandboxes to encourage companies to test financial products or services. A regulatory sandbox would allow approved companies to operate in a specific state without a license and provide certainty that a state agency would not take an enforcement action for behavior that is consistent with the company's application.

Arizona started the trend in 2018, with Kentucky, Nevada, Utah, and Wyoming developing similar programs. At press time, seven additional states have introduced legislation to build sandboxes to invite innovation in financial services.

There is no single model for these state sandboxes. Some, like Arizona, have placed their programs within the Office of the Attorney General, while others house theirs within a financial services agency, suggesting a different focus. Perhaps the most noteworthy difference is that some states have limited the number of transactions that a participant may have, signaling a willingness to facilitate innovation in financial services — but only to an extent.

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