

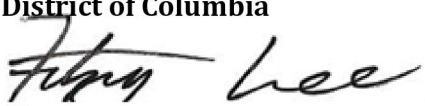
Government of the District of Columbia  
Office of the Chief Financial Officer



**Fitzroy Lee**  
Interim Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Phil Mendelson  
Chairman, Council of the District of Columbia

**FROM:** Fitzroy Lee  
Interim Chief Financial Officer 

**DATE:** April 20, 2021

**SUBJECT:** Fiscal Impact Statement – District of Columbia Financial Services  
Innovation and Regulatory Sandbox Creation Act of 2021

**REFERENCE:** Draft Committee Print as provided to the Office of Revenue Analysis on  
April 2, 2021

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**Conclusion**

Funds are sufficient in the fiscal year 2021 through fiscal year 2024 budget and financial plan to implement the bill.

**Background**

In January 2019, the District created the District of Columbia Financial Services Regulatory Sandbox and Innovation Council (Council) to study the feasibility, benefits, and risks of establishing a regulatory sandbox (Sandbox) in the District.<sup>1</sup> A Sandbox is a structure and regulatory environment that fosters innovation in the financial, insurance, and regulatory markets by allowing participants to temporarily access the market with reduced regulatory burden to test an innovative product or service. The Council met regularly and issued its final report and recommendations in September 2020.<sup>2</sup> This bill represents the required legislative parameters to establishing a Sandbox in the District.

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<sup>1</sup> Mayor's Order 2019-003.

<sup>2</sup>

<https://disb.dc.gov/sites/default/files/dc/sites/dish/publication/attachments/DCFinServicesRegulatorySandboxFeasibilityRpt-ver.Sept2020.pdf>

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FIS: "District of Columbia Financial Services Innovation and Regulatory Sandbox Creation Act of 2021," Draft Bill as provided to the Office of Revenue Analysis on April 2, 2021

The bill requires the Department of Insurance, Securities, and Banking (DISB) to establish a Sandbox in the District and sets forth the application, operating, and regulatory parameters for providing a product or service to District residents through the Sandbox. An applicant must fill out the DISB application, pay any required fees, provide details on the innovation to be tested, and any other information DISB requires. The bill gives DISB the sole authority to approve an application and a denied application cannot be appealed.

The bill establishes the operating guidelines for participation in the Sandbox. A participant can test their innovation in the Sandbox for 24 months and offer their product or service to up to 25,000 District residents, unless the DISB Commissioner provides a different allowance. The bill imposes the following restrictions on the various products that can be tested in the Sandbox:

- Consumer lending loans: maximum of \$15,000 per loan and no more than \$50,000 per consumer;
- Financial products or services as a money transmitter: maximum of \$2,500 per transaction and no more than \$25,000 in aggregate transactions per consumer;
- Financial products or services subject to Title 26:<sup>3</sup> must comply with all Title 26 provisions;
- Securities-related financial product or service subject to the Securities Act of 2000: must comply with all Securities Act provisions; and
- Insurance-related product or services subject to Title 31:<sup>4</sup> must comply with all Title 31 provisions.

The bill authorizes the DISB Commissioner to waive any District laws under its purview for any Sandbox participant. At least 60-days prior to the end of the 24-month testing period, a participant must notify DISB that it will be winding down its testing to exit the Sandbox or requesting an extension of up to one year at the discretion of the DISB Commissioner. If a product tested in the Sandbox requires ongoing servicing, such as a loan, then the participant must continue to service the product or arrange for continued servicing after it leaves the Sandbox. A participant must also notify the DISB Commissioner if its product test has failed and report on what actions have been taken to protect consumers.

The bill subjects all Sandbox participants to the District's consumer protection laws and establishes the specific disclosures that must be made in writing to potential consumers. The bill authorizes the DISB Commissioner to investigate any consumer complaints and utilize any of its enforcement powers or make referrals to the Attorney General or the United States Attorney for civil or criminal enforcement.

The bill establishes participant's recordkeeping requirements and DISB's disclosure of participant information restrictions. The bill allows DISB to set regular reporting requirements for participants and authorizes DISB to inspect any participant records upon request.

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<sup>3</sup> Title 26. Banks and Other Financial Institutions (D.C. Official Code 26-101 et seq.).

<sup>4</sup> Title 31. Insurance and Securities (D.C. Official Code 31-101 et seq.).

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FIS: "District of Columbia Financial Services Innovation and Regulatory Sandbox Creation Act of 2021," Draft Bill as provided to the Office of Revenue Analysis on April 2, 2021

Several states currently have Sandboxes, including Arizona, Florida, Kentucky, Nevada, Utah, West Virginia, and Wyoming; while others have considered legislation to study or promote financial innovation.<sup>5</sup>

### **Financial Plan Impact**

Funds are sufficient in the fiscal year 2021 through fiscal year 2024 budget and financial plan to implement the bill. The bill establishes a Sandbox program managed by DISB to allow for the testing of innovative financial, insurance, and regulatory products with consumers in the District. The bill establishes the application, operation, regulation, and reporting requirements associated with participation in the Sandbox. DISB can absorb any costs associated with managing and enforcing the Sandbox program within its existing budgeted resources.

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<sup>5</sup> <https://www.ncsl.org/research/financial-services-and-commerce/financial-technology-and-sandbox-2015-2019-legislation.aspx>