

Client Alert

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MAS Issues Consultation Paper on FinTech Regulatory Sandbox Guidelines

On 6 June 2016, the Monetary Authority of Singapore ("MAS") issued a Consultation Paper on FinTech Regulatory Sandbox Guidelines with the intention to encourage more financial institutions and other entities to experiment with technological innovations in Singapore.

Summary

The MAS proposes to adopt a Regulatory Sandbox approach when regulating an innovative financial product, service or process (i.e. a "**FinTech solution**"). Under this approach, the MAS will permit a FinTech solution to be offered in a "**Regulatory Sandbox**", i.e. a controlled environment with well-defined space and duration supported by relaxed legal and regulatory requirements.

The proposed Guidelines set out the objective and principles of the Regulatory Sandbox approach, guidance on the application process for a FinTech solution to be operated within a Sandbox, and ways in which the MAS can render appropriate regulatory support.

The MAS proposes that:

- (a) A financial institution or any other interested firm ("**the Applicant**") can apply to the MAS for a FinTech solution to be operated within a Sandbox. The MAS will endeavour to respond with its preliminary views within 21 days on the suitability of a FinTech solution for the Regulatory Sandbox approach;
- (b) The MAS is more likely to regard a FinTech solution as suitable if:
 - (i) the FinTech solution is technologically innovative or applied in an innovative way;
 - (ii) the FinTech solution addresses a significant problem or issue, or brings benefits to consumers or the industry;
 - (iii) the Applicant has the intention and ability to deploy the FinTech solution in Singapore on a broader scale after exiting from the Sandbox;
 - (iv) the test scenarios and outcomes of the Sandbox are clearly defined and the Applicant reports to the MAS on test progress based on an agreed schedule;
 - (v) the appropriate boundary conditions are clearly defined for the Sandbox to be meaningfully executed while sufficiently protecting the interests of consumers and maintaining the safety and soundness of the industry;
 - (vi) major foreseeable risks arising from the FinTech solution are assessed and mitigated; and

- (vii) an acceptable exit and transition strategy is clearly defined in the event that the FinTech solution has to be discontinued, or can proceed to be deployed on a broader scale after exiting from the Sandbox.
- (c) On the contrary, the MAS is less likely to regard a FinTech solution as suitable if:
 - (i) the FinTech solution is considered to be similar to those that are already being offered in Singapore;
 - (ii) the Applicant has not done its due diligence to test and verify the viability of the FinTech solution, such as testing the FinTech solution in a laboratory environment or obtaining external validation of the FinTech solution;
 - (iii) the Applicant can reasonably and effectively experiment with the FinTech solution in a laboratory or test environment; or
 - (iv) the Applicant has no intention to deploy the FinTech solution in Singapore on a broader scale after exiting from the Sandbox.
- (d) For FinTech solutions which are potentially suitable for the Regulatory Sandbox approach, the MAS will consider the appropriate parameters for the Sandbox, including the number of customers and the time period in which the FinTech solution can be operated within the Sandbox, and the legal and regulatory requirements which can be relaxed.
- (e) In respect of the legal and regulatory requirements, the MAS is less likely to relax requirements in relation to confidentiality of customer information, fit and proper requirements particularly for honesty and integrity, handling of customer's moneys and assets by intermediaries, and prevention of money laundering and countering the financing of terrorism. Amongst others, the MAS is more likely to consider relaxing requirements in relation to asset maintenance, board composition, financial soundness, capital adequacy, management experience, MAS guidelines, reputation, and track record.
- (f) At the end of the Sandbox period, the Applicant can proceed to offer the FinTech solution on a broader scale if both the MAS and the Applicant are satisfied that the Sandbox has achieved its intended test outcomes; and the Applicant can fully comply with the relevant legal and regulatory requirements. On the contrary, the FinTech solution will be discontinued if:
 - (i) either the MAS or the Applicant is not satisfied that the Sandbox has achieved its intended test outcomes;
 - (ii) a critical flaw(s) has been discovered in the FinTech solution or the implementation process, and the Applicant acknowledges that the flaw cannot be reasonably resolved within the duration of the Sandbox;
 - (iii) the MAS terminates the Sandbox due to reasons such as the Applicant breaching any condition imposed for the duration of the Sandbox; or
 - (iv) the Applicant has informed MAS of its decision to exit from the Sandbox at its own discretion.

Invitation for Comments

The MAS invites interested parties to submit their views and comments on the proposed Guidelines by **8 July 2016**.