



**A GUIDE TO REGULATORY
FINTECH SANDBOXES
INTERNATIONALLY**





TABLE OF CONTENTS

03	INTRODUCTION
04	THE GLOBAL FINANCIAL INNOVATION NETWORK
06	ARGENTINA
07	AUSTRALIA
09	BELGIUM
11	CANADA
13	GERMANY
13	HONG KONG
16	INDONESIA
17	ITALY
18	MALAYSIA
19	PHILIPPINES
20	SINGAPORE
22	SOUTH AFRICA
24	SWITZERLAND
26	TAIWAN
28	THAILAND
30	THE NETHERLANDS
32	UNITED KINGDOM
34	UKRAINE
35	KEY CONTACTS







INTRODUCTION

Regulators around the world are responding quickly to the rapidly evolving financial technology, or fintech, landscape. New or emerging financial products, services or delivery channels may not meet all regulatory requirements. As a solution to this, financial regulators internationally have implemented fintech regulatory sandbox regimes. In some jurisdictions, although sandboxes have not been established, regulators have nonetheless sought to put in place a supportive regulatory environment.

In a nutshell, against the backdrop of whether innovation meets regulatory requirements, a sandbox allows financial institutions (FI) to test their products, services or solutions in the market under a more relaxed regulatory environment but within a well-defined space and duration agreed with the regulators.

This guide provides an overview and comparison of the regulatory sandbox regimes internationally, covering the Asia Pacific, EMEA and Americas regions. A number of jurisdictions such as Belgium, the Philippines and South Africa have quasi/bespoke sandboxes, while Argentina and Germany have no formal sandbox.

FAQS ON FINTECH REGULATORY SANDBOXES

THE GLOBAL FINANCIAL INNOVATION NETWORK

1 Who can apply to be in the sandbox?

Applications for a six-month “pilot” testing program opened in February 2019 and 44 applications were submitted across 17 participating regulators, with a number focusing on the areas of regtech and cryptoassets. Of those, eight firms proceeded to an initial cross-border trial including:

- a technology company which permits consumers to control a “verified identity Digital ID” and transfer that ID between firms for KYC purposes
- a behavioral sciences company which uses machine learning to help users to mitigate culture and conduct risks
- a platform using distributed ledger technology which enables cross-border transactions in a variety of products, including commodities, smart contracts and escrows

Firms that applied to participate in the pilot test were required to meet the application requirements of all the jurisdictions in which they would like to test. For example, a firm applying to Australia, Singapore and the United States would have to satisfy the application requirements of the Australian Securities and Investments Commission, the Monetary Authority of Singapore and the Consumer Financial Protection Bureau, respectively.

2 What are the main benefits of the sandbox?

The GFIN permits firms to apply jurisdictional scaling from day one and is therefore more convenient for those firms which operate across jurisdictions. Of course, prior to the GFIN firms could have applied for entry into multiple sandboxes at the same time, although they would not have a coordinated response from the relevant regulators, and would not have been able to test their services on a cross-border basis. As the GFIN project includes information sharing and development of best practice, we expect participant regulators to develop a more “joined-up” approach to the regulation of cross-border services. This is a welcome development and may reduce regulatory barriers to cross-border growth in the future.

3 What are some of the examples of how FIs may benefit from the sandbox?

Please refer to question 2.

4 How to apply to be in the sandbox?

There was a one-month application period for a pilot phase of cross-border testing in February 2019. The GFIN has not yet released its plans for further sandbox cohorts.

5 When to apply to be in the sandbox?

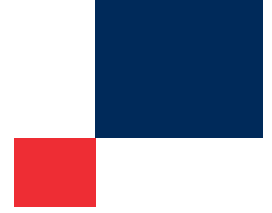
Please refer to question 3.

6 What are the evaluation criteria?

As described above, firms wishing to participate are required to meet the application requirements of all the jurisdictions in which they would like to test. For the cross-border testing pilot, applications are assessed on a case-by-case basis, with each regulator considering whether an applicant’s proposed tests meet its individual screening criteria, areas of interest and ability to support the proposed activity. Firms engage with the relevant regulators to develop testing plans, after which they proceeded to take part in the pilot testing phase. None of the 2019 intake was in the event able to satisfy each relevant regulator’s criteria. The GFIN is exploring how it may nevertheless assist these firms.

It may be the case that following the pilot testing period the GFIN members develop a more harmonious evaluation criteria, although that remains to be seen. At a minimum, each regulator will look to ensure that applicants will be able to adhere to the appropriate safeguards for their jurisdiction.

It is notable that the GFIN has indicated it looks forward to receiving applications from firms other than those operating in the areas of regtech and cryptoassets in the future.



7 How long will the regulators take to process sandbox application?

It is difficult to give a precise figure due to the limited time the GFIN has been running. Applications for the testing period were due by 28 February 2019 and the GFIN announced the eight firms to undergo testing at the end of April 2019, although this may change for future sandbox cohorts.

8 What is the duration of the sandbox?

Pilot tests are run for a six-month period, unless regulators agree to extend them.

9 What happens after the sandbox?

This will vary from country to country in which the product is offered.

10 Any other issues to be mindful of?

Prior to the GFIN, firms were unable to pilot their innovative business models on a cross-border basis. This would necessarily have confined potential sandbox applicants to business models that focused on a particular jurisdiction, with the option of “scaling up” after going through the sandbox process.

FAQS ON FINTECH REGULATORY SANDBOXES



ARGENTINA

1 Who can apply to be in the sandbox?

Currently there are no laws, rules or regulations specifically governing the establishment or the conduct of regulatory sandboxes in Argentina for the banking and finance regulatory market. The policy of Argentina regarding fintech companies has not changed in recent years, i.e., not to regulate the sector beyond current applicable consumer protection laws and other industry specific regulations.

The previous administration of President Macri maintained an open approach to firms or entities seeking to offer fintech products or services to consumers, despite lobbying by local financial entities. The Argentine government has maintained this open approach mainly for three reasons: (i) to facilitate the use and access of IT-based means of payment to the entire population (there is still a big proportion of the population without access to banking products); (ii) to combat money-laundering activities, and (iii) to facilitate the provision of credit to consumers.

The Argentine Central Bank ("Central Bank") has not intervened nor regulated the activities conducted by fintech companies. The Central Bank's by-laws specifically include the capacity and authority to regulate fintech companies. Nevertheless, no specific license or regulation has been issued in this regard. On the contrary, fintech companies have publicly offered products to end consumers by issuing pre-paid cards, in-app payments services, accepting funds for clients' online accounts and granting loans without performing financial intermediation, and therefore, without the need to obtain a banking license. Furthermore, the Central Bank has recently granted a banking license to the first 100% online bank (with no offices to serve clients).

2 What are the main benefits of the sandbox?

The Argentine Securities Commission (ASC) has also recently presented a workspace that focuses on financial innovation in the capital market. The workspace was created following a meeting that involved regulators, private entities, the Financial Information Unit (the national center for the receipt and analysis of information relevant to money laundering), the Central Bank, the Ministry of Finance and the Ministry of Production. One of the key points arising was the need to create a sandbox space for fintech. The Central Bank has also taken similar action in this respect by creating a workspace focused on IT payment infrastructure and alternative credit and saving channels. The Financial Information Unit has updated its regulation to include various fintech companies that were not previously regulated for money laundering, such as payment processing companies.

3 What are some of the examples of how FIs may benefit from the sandbox?

N/A

4 How to apply to be in the sandbox?

N/A.

5 When to apply to be in the sandbox?

N/A.

6 What are the evaluation criteria?

N/A.

7 How long will the regulators take to process sandbox application?

N/A.

8 What is the duration of the sandbox?

N/A.

9 What happens after the sandbox?

N/A.

10 Any other issues to be mindful of?

The Central Bank is expected to regulate at least, in part, this business space at some point in the future. In this context, note, however, that depending on the proposed activity, the Central Bank or the ASC may require prior license or registration. Therefore, a detailed analysis of the activity should be carried out in advance. In general, the Central Bank will intervene if it considers that the fintech activity consists in performing financial intermediation (i.e., taking funds as deposits from the general public and granting loans with such funds) or issuing credit cards. The ASC will in turn intervene to protect consumers (investors) if the fintech is raising money from the public to make investments or performing securities intermediation activities. In this regard, for example, Law No. 27,349 created the concept of "Collective Financing Platforms" (Plataformas de Financiamiento Colectivo) aimed at regulating crowdfunding activities. This law can be considered as an exception to the "no regulation" standing, and was aimed at regulating new investment platforms that were not previously regulated, with the purpose of creating a safe environment to allow consumers to invest their savings.



1

Who can apply to be in the sandbox?

Fintech businesses that meet certain eligibility criteria who are looking to provide financial services or engage in credit activities. This would include activities that are likely to be regulated by the Australian Securities and Investments Commission (ASIC) under a relevant licensing regime. Australia's regulatory sandbox is currently based on four key components designed to allow businesses to test products and services without holding the usual Australian financial services licence (AFSL) or Australian credit licence (ACL). These four components are:

- fintech exemption by regulation (commencing 1 September 2020)
- ASIC's fintech exemption instrument
- tailored, individual licensing exemptions granted by ASIC to a particular business to facilitate product or service testing
- relying on existing flexibility in the regulatory framework or exemptions provided by the law which mean that a license is not required.

While the fintech licensing exemptions differ in several respects, once the regulations commence, businesses operating under an exemption will be able to provide advice, issue non-cash payment facilities, provide crowd-funding services, provide credit or suggest or arrange another credit provider's credit, and arrange for the issuing, varying or disposing of a range of financial products (listed below). Additionally, the regulations allow for an unlimited number of retail and wholesale clients (subject to total exposure caps).¹ However, businesses cannot operate a managed investment scheme.

To be eligible, the business must:

- not already be licensed or be a related body corporate of a licensee
- not be an unregistered foreign company
- plan to test for no more than 24 months
- have a total client exposure not exceeding AUD 5 million
- comply with consumer protection requirements
- have adequate compensation arrangements (such as professional indemnity insurance)
- have both internal and approved external dispute resolution procedures in place

¹ "Wholesale client" is defined in the Corporations Act 2001 (Cth). A retail client is a client that is not a wholesale client.

The eligible financial services include:

- issuing, varying and disposing non-cash payment facilities
- providing credit or acting as intermediary or suggesting another provider's credit, for loans between \$2,000 and \$25,000 with a term less than 4 years.

In addition to those listed above, the exemptions also allow those exempt to advise on or distribute:

- deposit products, with a maximum AUD 10,000 balance (no individual maximum applies if issued by an authorized deposit-taking institution (ADI))
- general and life insurance
- superannuation products
- listed Australian (and certain foreign) securities or simple schemes with a maximum AUD 10,000 exposure

There are no specific admissibility requirements for businesses seeking individual relief. However, ASIC has made it clear that it is unlikely to provide individual relief where granting relief would put consumers at risk. ASIC has advised they will consider applications for relief to vary any of the conditions applying to the fintech exemption.

Businesses which seek to rely on ASIC's existing exemptions must meet the criteria set out in the relevant ASIC class order or legislative instrument. Foreign financial services providers who are already regulated in jurisdictions outside Australia, often rely on the "passporting exemptions", noting that the passporting exemptions apply only to the provision of financial services to wholesale clients. The passporting exemptions expired on 30 September 2019. Entities already relying on these exemptions prior to expiry will have the benefit of a two-year transition period.

2

What are the main benefits of the sandbox?

The sandbox allows businesses to enter the Australian market with unprecedented speed and lower costs.

Normally, businesses will have to obtain an AFSL or ACL before they can test their products or services. This process can take several months (for example, the standard processing time for an AFSL application is five to eight months). The sandbox exemptions allow businesses to begin testing their products immediately after the relevant notification period ends and to enter the market while applying for the necessary licenses. Products and services can be developed and improved before spending the money and time involved in obtaining a licence.

FAQS ON FINTECH REGULATORY SANDBOXES



AUSTRALIA (cont'd)

3 What are some of the examples of how FIs may benefit from the sandbox?

A common predicament facing new entrants seeking to obtain an AFSL or ACL are the organizational competency requirements involved. The licensing exemption enables new fintech entrants to start business in the Australian market without having to necessarily meet the high threshold of training and qualification for responsible managers.

4 How to apply to be in the sandbox?

No formal application is needed to rely on the fintech licensing exemptions.

However, an entity must give written notice to ASIC informing it of the intention to rely on the exemption. The form and content of notification will depend on the licence exemption relied upon. The types of information you should expect to provide would include company name and contact details and a description of the services or products to be provided to consumers, bankruptcy and criminal history checks, along with a description of the procedures, memberships and arrangements through which the business will meet their dispute resolution and compensation obligations, the names of any persons (other than employees or directors) who will be responsible for making significant decisions about the ongoing provision of the financial services or credit activities. Unless ASIC advises otherwise, the testing period begins up to 30 days after the initial notice to ASIC is provided.

ASIC's Innovation Hub has taken a facilitative approach, allowing fintech businesses, which are considering reliance on individual relief, to discuss their proposals with representatives from the Innovation Hub before lodging an application for relief. Businesses should first consider arranging a call or meeting with the Innovation Hub. To apply for individual relief, businesses must submit a written application electronically and include the prescribed fee. The application process for ASIC's existing exemptions varies. Businesses wishing to rely on one of these exemptions should consult the relevant regulations, class order or legislative instrument and ASIC Regulatory Guides 51 and 257.

5 When to apply to be in the sandbox?

Anytime. Neither the provider nor a related body corporate can use an exemption for a second time to test the same kind of financial service for the same type of financial product, or to test the same credit activity.

6 What are the evaluation criteria?

On the whole, ASIC is largely concerned with balancing the protection of consumers and maintaining consumer trust, as well as driving innovation in Australia. For existing ASIC exemptions and individual relief, ASIC will consider whether the commercial benefits of granting relief outweigh the regulatory detriments. For the fintech licensing exemption, ASIC will have regard to the type of product or service the business is providing.

7 How long will the regulators take to process sandbox application?

The testing period under the fintech exemptions begins up to 30 days after the initial notice of intention to rely on the exemption is provided to ASIC. As a general rule, ASIC will take approximately three to four weeks to process a notification for existing class order and legislative instrument relief. It is likely that an application for individual relief by a new entrant fintech business may take a bit longer. ASIC may consider such applications "new policy applications" and may seek out their own legal advice on the extent of relief sought.

8 What is the duration of the sandbox?

Up to 24 months for the fintech licensing exemptions. Though not prescribed, individual relief is likely to be in the range of 12-24 months.

Separate durations may apply for ASIC's existing exemptions.

9 What happens after the sandbox?

The exemption can no longer be relied upon. Businesses should ensure that they apply for an ACL or AFSL during the exemption period, before the testing period expires.

10 Any other issues to be mindful of?

Until the ASIC exemption instrument expires or is revoked, there are two similar sandbox exemption regimes to consider. Some of the exemptions listed above are only available under the exemption under regulation and the application of the other may be more restrictive.

1 Who can apply to be in the sandbox?

Unlike many other countries, Belgium does not have a regulatory sandbox for fintechs, nor are there currently any plans to introduce a sandbox in the near future. Nevertheless, fintech has been identified as an important supervisory focus for the main Belgian financial regulators. The National Bank of Belgium (NBB) and the Financial Services and Markets Authority (FSMA) have jointly set up a unique Fintech Contact Point, which allows fintechs to enter into contact with the supervisory authorities through one single point of entry.

The Fintech Contact Point was established by the FSMA in 2016 and evolved into a joint portal with the NBB in April 2017, thus creating a single point of contact for fintechs.

2 What are the main benefits of the sandbox?

The Fintech Contact Point operates as a “sound box” and not as a regulatory sandbox. It is a practical communication tool that can be used by fintechs to easily get in touch with the supervisory authorities. It is mainly used to informally discuss regulatory issues, questions or concerns that fintechs may have with respect to the services they (intend to) provide in Belgium and the corresponding regulatory framework that applies to such services. It also allows the Belgian regulators to follow any new fintech developments or changes on the Belgian market.

3 What are some of the examples of how FIs may benefit from the sandbox?

The Fintech Contact Point provides an opportunity for fintechs to enter into direct contact with the supervisory authorities, allowing them to ask any questions they may have in relation to the financial regulatory framework with regard to their business.

It provides a single entry point to the FSMA and the NBB simultaneously, which is particularly helpful for those fintechs that may be unaware of, or uncertain about, the division of competences between the NBB and FSMA, as laid down by Belgium’s Twin Peaks supervisory model. The FSMA and the NBB jointly manage questions lodged with the Fintech Contact Point.

The Fintech Contact Point is therefore a useful tool for fintechs to ask questions regarding the provision of certain innovative financial products or services and the corresponding licensing or authorization regimes that may be triggered when providing or offering such services in Belgium.

According to the FSMA’s most recent annual reports, numerous valuable contacts between fintechs and the authorities have been held through the Fintech Contact Point. These contacts have mainly focused on the exchange of information.

4 How to apply to be in the sandbox?

The Fintech Contact Point is accessible online through the websites of the NBB and the FSMA.

A short questionnaire must be completed and submitted online, which consists of contact details and some basic information about the applicant and its activities etc.

The portal also allows applicants to immediately request and schedule a meeting with the FSMA or the NBB. The FSMA and the NBB aim to revert within three business days as of the application.

5 When to apply to be in the sandbox?

Please refer to question 4.

6 What are the evaluation criteria?

The Fintech Contact Point is available for all Belgian and foreign fintechs that wish to enter into direct contact with the NBB and the FSMA, without restriction. According to the NBB and the FSMA, fintechs include both start-ups and established firms that use technology to offer innovative processes, products or services in the financial sector. As examples of issues considered relevant for the Fintech Contact Point, the regulators refer to crowdfunding, distributed ledger technology, virtual currencies, APIs (application programming interfaces), alternative distribution models and robo-advice. This list is not exhaustive, however. The Fintech Contact Point is open to both licensed or authorized fintechs and those that are contemplating making an application for a license or authorization.

7 How long will the regulators take to process sandbox application?

N/A

8 What is the duration of the sandbox?

N/A

FAQS ON FINTECH REGULATORY SANDBOXES

BELGIUM (cont'd)

9 What happens after the sandbox?

N/A

10 Any other issues to be mindful of?

Even though Belgium does not host an actual regulatory sandbox, it remains fintech friendly and can even be considered as a fintech hotspot. A number of the EU's legislative bodies are established in Belgium, such as the European Commission, the European Council and one of the seats of the European Parliament. This provides for opportunities to enter into immediate dialogue and react quickly to any proposed regulatory changes. The presence of large international financial institutions such as Euroclear, SWIFT, Lloyd's of London and The Bank of New York Mellon SA/NV has also attracted financial institutions and fintechs to Belgium due to the local expertise they provide.

Both the FSMA and the NBB also tend to be very approachable and supportive of new fintech initiatives. For example, the NBB accepts licensing applications submitted not only in an official language of Belgium but also in English. The implementation of the EU's Second Payment Services Directive (PSD2) and the impending Brexit have led some UK financial institutions, including fintechs, to relocate to Belgium and, accordingly, to establish a new passporting hub in Belgium.

In August 2019, the NBB issued a press release stating that there has been significant growth in Belgium in the payments industry, mainly as a result of Brexit and PSD2. Eight new Belgian payment institutions were authorized and licensed by the NBB during the first eight months of 2019, bringing the total number of Belgian licensed payment institutions to 34. Five years ago, there were only 21 licensed payment institutions.



CANADA

1 Who can apply to be in the sandbox?

The Canadian Securities Administrators (CSA) is the umbrella organization for Canada's 13 provincial and territorial securities regulators which regulate the Canadian capital markets. The [CSA Regulatory Sandbox](#) is open to business models that are innovative from a Canadian market perspective. Applicants range from start-ups to well established companies. Innovative business models have [included](#) online platforms such as crowdfunding portals, marketplace lenders, angel investor networks, any business models using artificial intelligence for trades or recommendations, cryptocurrency or distributed-ledger technology-based ventures and technology service providers to the securities industry.

The Ontario Securities Commission (OSC), which oversees Canada's largest capital market, has developed the [OSC LaunchPad](#) to engage fintech businesses and help them navigate regulatory requirements. In order to engage the OSC LaunchPad resources, a fintech firm must meet eligibility criteria which include:

- where operations have not yet started or those where an application has been made to the OSC for registration or exemptive relief
- having a new innovation or a significantly different product, service or application from those currently available
- the innovation will likely provide identifiable benefits to investors
- understanding the necessity of investor protection and investing the time and energy in understanding and addressing these issues
- acknowledging the application of securities laws and having considered how it applies to its business

As of March 2019, the [OSC LaunchPad](#) has provided regulatory support to 74 fintech firms, including initial coin offerings, investment fund managers for cryptocurrency investment funds and an online platform facilitating venture capital and angel investing in start-ups.

The Financial Services Regulatory Authority of Ontario (FSRA), which regulates Ontario's non-securities financial services including insurance, pensions, loan

and trust corporations, announced in 2017 that it plans to create a "[regulatory super sandbox](#)", consisting of new rules exempting certain companies from some requirements and to facilitate experimentation with new business models and products. The Ontario government hopes to have this regulatory super sandbox operational when the transition to the new FSRA is complete in 2019.

2 What are the main benefits of the sandbox?

The CSA Regulatory Sandbox allows fintech firms to register and/or obtain exemptive relief from securities law requirements that may be an impediment to their business model. If the fintech firm seeks to operate in multiple Canadian jurisdictions, registration under the CSA Regulatory Sandbox can be made under the passport regime, giving the fintech firm access to capital markets in multiple Canadian jurisdictions.

The OSC LaunchPad helps fintech firms avoid costly regulatory surprises and accelerate time-to-market, by providing coordination and flexibility in how they meet their regulatory obligations, all the while ensuring the OSC mandate to provide protections to investors and promote confidence in Canadian markets is upheld.

3 What are some of the examples of how FIs may benefit from the sandbox?

Large or established financial institutions can still benefit from the flexibility of the sandbox system to help advance their offerings to customers through innovative products and services. For example, a fintech firm that is currently registered with a Canadian regulator, or a large financial institution subject to securities law requirements that has developed an innovative business model, would be eligible to apply to the CSA Regulatory Sandbox.

4 How to apply to be in the sandbox?

Fintech firms should contact the securities regulator in the jurisdiction where their own head office is located. In Ontario, this first step starts with the completion of an online [request for support](#) (RFS) form.

5 When to apply to be in the sandbox?

A fintech firm should apply to a regulatory sandbox when its service, product or application has a business plan, is prepared for live environment testing and has developed appropriate controls and investor protection safeguards.

FAQS ON FINTECH REGULATORY SANDBOXES



CANADA (cont'd)

6 What are the evaluation criteria?

A fintech firm will have its business model analyzed by its local securities regulator on a case-by-case basis.

7 How long will the regulators take to process sandbox application?

CSA staff will review applications on an expedited basis. In Ontario, the timeline after a RFS form is submitted is generally as follows:

- **2 days** – OSC will acknowledge the receipt of a fintech firm's RFS within two working days.
- **10 days** – OSC will conduct an eligibility review within 10 working days. If the fintech firm is eligible, the OSC LaunchPad support team will reach out to schedule a meeting. If the fintech firm is not eligible, the OSC LaunchPad support team will provide feedback as to why the business does not meet OSC requirements.
- **20 days** – OSC will provide direct support within 20 working days, which includes a telephone call or in-person meeting with an OSC LaunchPad support team member.
- **40 days** – If the fintech firm is eligible to receive continued support, the next steps will be taken within 40 working days. This may include providing the OSC LaunchPad support team with additional materials or a filing with the OSC within 20 working days.

8 What is the duration of the sandbox?

Registration and exemptive relief granted to fintech firms in the CSA Regulatory Sandbox will be time limited. The time limit will be determined on a case-by-case basis. Other limits and conditions can be imposed to protect investors, including compliance and reporting obligations.

9 What happens after the sandbox?

If a fintech firm agrees to the CSA Regulatory Sandbox's tailored program, it will receive authorization to operate in Canadian markets subject to limits and conditions. Such limits include a time limit on prospectus or exemptive relief. When the prospectus or exemptive relief expires, the fintech firm must complete the required filings (i.e., prospectus or registration filings) in order to operate under the applicable securities laws for its jurisdiction.

10 Any other issues to be mindful of?

Ontario is viewed as a fintech [innovation hub](#) with a positive and supportive environment for investment. The Toronto-Waterloo [fintech corridor](#) is part of the second largest IT cluster in North America. Located in southern Ontario, just north of the US border, this 100 km stretch has over six million people living and working in the area. Fintech firms should consider if and how prospectus, registration and/or marketplace requirements apply to their offering, technology or service.

Securities regulation may [apply](#) to a fintech firm's business if it involves:

- digital platforms that connect investors with companies seeking to raise capital
- initial token offerings (ITOs), initial coin offerings (ICOs), crypto-asset trading platforms, exchanges or marketplaces, or crypto-asset funds and fund management
- investor networks and organizations and the platforms that support them
- lending platforms that allow investors to fund loans (or portions of loans)
- technology and/or data-driven investment activities or advice, including online advice



GERMANY

1 Who can apply to be in the sandbox?

The Federal Financial Services Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (BaFin) takes the approach that regulation must be applied equally to traditional business models and innovative forms of delivery of financial services. Therefore, no sandbox or similar feature is available for fintech companies in Germany. Consequently, licensing requirements for fintechs do not differ from conventional financial services. Under the current philosophy of BaFin and the Federal Ministry of Finance (the same regulation applies for everyone to create a level playing field), it is unlikely that a sandbox regime would be established in Germany anytime soon.

2 What are the main benefits of the sandbox?

N/A.

3 What are some of the examples of how FIs may benefit from the sandbox?

N/A.

4 How to apply to be in the sandbox?

N/A.

5 When to apply to be in the sandbox?

N/A.

6 What are the evaluation criteria?

N/A.

7 How long will the regulators take to process sandbox application?

N/A.

8 What is the duration of the sandbox?

N/A.

9 What happens after the sandbox?

N/A.

10 Any other issues to be mindful of?

BaFin has created a dedicated section on its website with detailed information on how regulation applies to several different “types” of fintech business models. The section is available in English [here](#). Moreover, BaFin has developed a specific contact form that allows fintech companies to submit questions regarding their business model, and BaFin has promised to respond at short notice. The contact form can be accessed [here](#) (in German).



HONG KONG

1 Who can apply to be in the sandbox?

Banks authorized by the Hong Kong Monetary Authority (HKMA) can apply to be in the sandbox operated by the HKMA.

Firms licensed by the Hong Kong Securities and Futures Commission (SFC) and start-up firms that intend to be licensed by the SFC can apply to be in the sandbox operated by the SFC.

Insurers authorized by the Hong Kong Insurance Authority (IA) can make applications to the IA under the IA’s insurtech sandbox. In addition, a licensing fast track for online-only insurance companies has been introduced.

If a firm intends to conduct a pilot trial of a cross-sector fintech product, it may apply to seek access to the sandbox it considers most relevant. The sandboxes of the HKMA, the SFC and the IA are linked up so that there is a [single point of entry](#), if needed, for pilot trials. The relevant regulator will act as the primary point of contact and assist in liaising with the other regulators for the firm to access the other sandboxes concurrently. A cross-border pilot testing arrangement is also being explored by the HKMA, which links its sandbox with similar pilot testing facilities of overseas supervisory authorities. The Global Financial Innovation Network, a group of international organizations including the HKMA, has invited applications from firms wishing to test innovative financial products, services or business models across more than one jurisdiction.

FAQS ON FINTECH REGULATORY SANDBOXES



HONG KONG (cont'd)

2 What are the main benefits of the sandbox?

Banks which operate within the HKMA's sandbox are allowed to conduct a pilot trial of their initiatives involving actual banking services, without the need to achieve full compliance with the HKMA's usual supervisory requirements during the trial period, subject to certain parameters.

The SFC's sandbox aims to enable qualified firms, through close dialogue with and supervision by the SFC, to identify and address any risks or concerns associated with their regulated activities before their services can be provided to the wider public in Hong Kong. To minimize risk exposure to investors, the SFC may impose licensing conditions such as limiting the types of clients these firms serve or each client's maximum exposure. In addition, they are expected to have adequate investor protection measures in place.

Insurtech applications will be considered by the IA as to whether they can broadly meet the relevant supervisory requirements, without the need for full compliance. The "fast-track" process expedites the authorization process of the IA.

3 What are some of the examples of how FIs may benefit from the sandbox?

Banks which operate within the HKMA's sandbox will be able to conduct more timely live tests of their fintech initiatives before their formal launch. This will enable them to gather real-life data and user feedback on their new fintech products or services more easily in a controlled environment, so that they can make refinements to them as appropriate.

Firms which operate within the SFC's sandbox will be able to, through close dialogue with and supervision by the SFC under the licensing regime, readily identify and address any risks or concerns relevant to their regulated activities. The SFC is also exploring a conceptual framework to license and regulate virtual asset trading platforms (commonly known as cryptocurrency exchanges) by placing interested virtual asset trading platform operators that have demonstrated a commitment to adhering to expected standards in the SFC's sandbox. During the initial exploratory stage within the sandbox, the SFC will assess whether platform operators are appropriate to be regulated.

Insurers testing new insurtech initiatives within the sandbox can gain real market data and information of user experience in a controlled environment before launching them into the market.

4 How to apply to be in the sandbox?

Banks that wish to be in the HKMA's sandbox should write to the HKMA at hkma_sandbox@hkma.gov.hk.

Firms that wish to be in the SFC's sandbox should get in touch with the SFC Fintech Contact Point (which is part of the function of the Licensing Department of the Intermediaries Division of the SFC) by completing the [Fintech Enquiry Form](#).

Insurers that wish to be in the IA's sandbox (either via the normal or fast-track method) should write to the Insurtech Facilitation Team at insurtech@ia.org.hk.

5 When to apply to be in the sandbox?

Anytime. Applicants should have completed their own due diligence and evaluation on how they will meet the objectives and principles of the sandbox and the evaluation criteria prescribed by the regulators, as they are required to demonstrate how they will meet these requirements in the application.

6 What are the evaluation criteria?

Banks that are allowed to use the HKMA's sandbox, should ensure that:

- (i) Boundary: There are clear definitions about the scope and phases (if any) of the pilot trial, timing and termination arrangements.
- (ii) Customer protection measures: Adequate measures will be put in place to protect the interests of customers during the trial, including proper process for selecting customers who understand the associated risks and voluntarily join the trial, enhanced complaint handling procedures, a mechanism for timely and fair compensation of customers' financial losses caused by any failures of the trial, and appropriate arrangements for customers to withdraw from the trial.
- (iii) Risk management controls: Compensating controls to mitigate the risks arising from less than full compliance with supervisory requirements and the risks posed to the bank's production systems and other customers.
- (iv) Readiness and monitoring: Readiness of the systems and processes involved in the trial and close monitoring of the trial.



The SFC's sandbox is available to firms that are fit and proper, utilize innovative technologies and are able to demonstrate a genuine and serious commitment to carry on regulated activities through the use of fintech. The establishment or activities of these firms should also increase the range and quality of products and services for investors and benefit the Hong Kong financial services industry.

The following principles apply to the IA's sandbox:

- (i) Well-defined boundary and conditions: There should be a clearly defined scope with regard to the trial, including timing and duration (or an expected official launch date of the initiative to the market), size and type of insurance business, and targeted users, the technology involved and the expected outcome and success criteria of the trial.
- (ii) Risk management controls: There should be adequate control procedures to achieve the objectives of the relevant supervisory requirements of the IA.
- (iii) Customer protection: Adequate safeguards should be in place to protect the interests of customers during the trial.
- (iv) Resources and readiness of the insurer: The insurer should be ready for the test in the sandbox with adequate resources and should be able to demonstrate that the insurtech initiative is ready for testing.
- (v) Exit strategy: The insurer should present to the IA an exit strategy for the pilot run if it has to be terminated without success.

7 How long will the regulators take to process sandbox application?

The regulators do not specify any particular timeframe for the processing of sandbox applications.

8 What is the duration of the sandbox?

Variable duration.

9 What happens after the sandbox?

Banks may proceed to formally launch their services and products on a broader scale provided that they can comply with supervisory requirements applicable outside the sandbox regime.

In respect of firms operating in the SFC's sandbox, once a qualified firm has demonstrated that its technology is reliable and fit for purpose, and its internal control procedures have adequately addressed the risks identified, the firm may apply to the SFC for removal or variation of some or all of the licensing conditions imposed, so that it may conduct regulated activities and be subject to supervision by the SFC on the same basis as licensed corporations which operate outside the sandbox. If the SFC considers that a qualified firm operating in the sandbox is not fit and proper to remain licensed, its license may be revoked.

Similarly, insurers may proceed to formally launch their services and products on a broader scale provided that they can comply with supervisory requirements applicable outside the sandbox regime.

10 Any other issues to be mindful of?

Generally speaking, the regulatory sandbox is not to be used by financial institutions as a means to bypass applicable supervisory requirements.

Financial institutions and fintech players should be mindful of licensing issues and the regulatory landscape in jurisdictions outside Hong Kong, if the solution targets or has the potential to reach a wider range of customers.

Other legal issues, such as data privacy, data transfers, cyber security, enforceability of e-contracts, and consumer protection laws, are also often prevalent in the use of big data, artificial intelligence/machine learning, distributed ledger/blockchain, cloud computing and e-payments. These issues cut across other regulators and agencies, so financial regulations cannot be considered in isolation.

FAQS ON FINTECH REGULATORY SANDBOXES



INDONESIA

1 Who can apply to be in the sandbox?

Regulated financial services institutions (e.g., banks, securities companies, insurance companies, pension funds, finance companies), unregulated companies looking to provide financial services that are or are likely to be regulated by the Financial Services Authority (*Otoritas Jasa Keuangan*) (OJK), and unregulated companies looking to operate financial technology in the payment system services that are or are likely to be regulated by Bank Indonesia (BI).

Companies registered with BI are often called “fintech operators (*penyelenggara teknologi finansial*)”, while those that fall within the scope of OJK’s regulation on digital financial innovation in the financial services sector are referred to as “digital financial innovation operators (*penyelenggara inovasi keuangan digital*)”.

Although BI’s and OJK’s scoping and categorization of fintech operators overlap to some extent, it is worth noting that after the OJK issued the regulation on digital financial innovation in August 2018: (i) activities in the payment system space are captured by BI’s regulation on fintech, while (ii) activities in financial services, including transaction settlement (not payment system-related), investment management, capital raising, fund raising and lending, and market support, fall within the scope of OJK’s regulation on digital financial innovation. Having said that, we have seen entities with registrations at both the OJK and BI that typically engage in the financial/market aggregator business model, credit scoring or e-KYC.

In a nutshell, BI and OJK consider an applicant or an operator to be worthy of being placed in a sandbox if these criteria are met: (i) whether the entity has been registered as a financial technology operator (with BI) or as a digital financial innovation provider (with OJK) or if the relevant supervisory unit within BI or OJK recommends sandboxing, (ii) that the business model presented is innovative or novel, (iii) that the business model is scalable, or (iv) whether the entity has been registered with the relevant association (e.g., Indonesia Fintech Association).

2 What are the main benefits of the sandbox?

BI may facilitate and allow a registered fintech operator to implement their business model with relative ease, but subject to certain limitations (e.g., area of service, number of customers, or period). With respect to OJK, registered digital financial innovation operators may be exempt from compliance with certain non-

prudential OJK regulations, subject to a sign-off from the relevant supervisory unit within the OJK. Additionally, participation in BI’s or OJK’s sandbox may provide a springboard for new entrants to suggest the direction of the regulators’ approach to updating the existing frameworks so as to accommodate the current innovations.

3 What are some of the examples of how FIs may benefit from the sandbox?

The fact the product is included in the sandbox may give comfort to customers that the services being rolled out during the trial are subject to close scrutiny of the regulators.

4 How to apply to be in the sandbox?

The sandboxing is available at the invitation of BI or OJK.

5 When to apply to be in the sandbox?

Ideally, the application should be made promptly upon request from BI or OJK.

6 What are the evaluation criteria?

BI and OJK will generally consider the following criteria: (i) worthiness and reliability of the system provided by the operator/applicant, and (ii) observance of consumer protection principles, risk management and mitigation, and prudential principles.

7 How long will the regulators take to process sandbox application?

Not specified.

8 What is the duration of the sandbox?

An operator is placed in the sandbox for a maximum period of one year (if done under OJK) or for six months (if done under BI), with a potential extension for another six months.

9 What happens after the sandbox?

At the end of the sandboxing, the regulator will either recommend the operator for registration, order rectification (of aspects of their business model) within a period of six months, or declare that the operator is not to be recommended to proceed with a license application.

10 Any other issues to be mindful of?

N/A

ITALY

1 Who can apply to be in the sandbox?

The regulatory sandbox is available to all firms in the financial, credit, insurance and regulated market sectors. The sandbox allows experimentation relating to fintech activities aimed at pursuing, through new technologies, such as artificial intelligence and distributed ledger technology, services and product innovation.

2 What are the main benefits of the sandbox?

The sandbox allows fintech start-ups to enjoy a simplified regulatory regime for the purpose of developing innovative financial/insurance solutions based on the application of new technologies. Each firm that participates in the sandbox experimentation is entitled to receive specific exemptions from ordinary regulatory regimes tailored according to their specific characteristics and activities, save for the need to meet customer and investor information and protection obligations, and to preserve the correct functioning of the market in which they operate.

3 What are some of the examples of how FIs may benefit from the sandbox?

Firms are subject to reduced capital requirements and simplified administrative duties depending on the activity they perform. They are also subject to quicker authorization procedures (as compared with the ordinary regulatory procedures).

4 How to apply to be in the sandbox?

Fintech regulatory sandboxes are being introduced under the law of 28 June 2019 (no. 58), which amends Law Decree no. 34 of 30 April 2019 ("**Growth Decree**"). This sets a high-level framework for their functioning. The Italian Ministry of Economy and Finance is expected to issue detailed regulations, as indicated in Article 36, par. 2-quarter of the Growth Decree, on the perimeter of operations and applicable regulatory regime within 180 days of the entry into force of the law (i.e., by 27 December 2019).

5 When to apply to be in the sandbox?

See answer to question 4.

6 What are the evaluation criteria?

See answer to question 4.

7 How long will the regulators take to process sandbox application?

See answer to question 4.

8 What is the duration of the sandbox?

Firms can participate for a maximum of 18 months in the context of strictly defined operational parameters. This time limit aims to prevent an indiscriminate disapplication of ordinary regulatory constraints.

9 What happens after the sandbox?

See answer to question 4.

10 Any other issues to be mindful of?

Firms participating in the sandbox cannot perform any regulated activity outside the experimentation parameters, although at the end of this period the regulatory authorities can temporarily authorize them to operate in the market.

FAQS ON FINTECH REGULATORY SANDBOXES



MALAYSIA

1 Who can apply to be in the sandbox?

Financial institutions and fintech companies looking to provide financial services (whether on their own or in collaboration with financial institutions) are likely to be regulated by Bank Negara Malaysia (BNM).

2 What are the main benefits of the sandbox?

BNM may exempt FIs and fintech companies from specific regulations for the duration of the sandbox. This will facilitate FIs and fintech companies, which face challenges in meeting all regulatory requirements, to experiment or roll out their products and services under a more relaxed regulatory framework, but within a well-defined space and duration agreed with BNM.

During the testing period, it is anticipated that the applicant will have an opportunity to engage with BNM by providing information on technological solutions/services to help improve the regulatory framework for the future.

3 What are some of the examples of how FIs may benefit from the sandbox?

Financial institutions may face challenges in complying fully with risk management or outsourcing requirements when collaborating with emerging technology and software companies. Existing conduct of business rules may not fall neatly to financial services that adopt artificial intelligence or big data solutions, which involve a substantial amount of automation. FIs may explore the possibility of relaxing some of these rules with the BNM for the agreed duration.

New players looking to obtain a license, but do not meet the requisite track record or capital resources requirements, may seek exemptions from these requirements.

4 How to apply to be in the sandbox?

All applications must be submitted to the director of financial sector development of BNM using the prescribed form. Electronic submissions are encouraged.

5 When to apply to be in the sandbox?

Anytime. However, applicants should have completed their own evaluation on the functionality of the product, and identified the risks posed by the product and the safeguards that will be implemented. The applicants should also have a business plan to support their proposed roll-out of the product.

6 What are the evaluation criteria?

BNM will consider whether the functionality of the product, service or solution is genuinely innovative to create measurable benefits to consumers and the industry, whether the applicant has a well-developed test plan and the necessary resources to support the test scenarios and expertise to manage potential risks, and whether there is a realistic business plan after exit.

7 How long will the regulators take to process sandbox application?

BNM endeavours to inform applicants of their eligibility to participate in the sandbox within 15 working days upon receipt of the completed application. If the applicant is eligible, they will enter into a preparation stage with BNM to determine the parameters, measures to determine success or failure of the test, and a clear exit and transition strategy before commencement of the test period. If the participant is approved, it may thereafter launch its product, service or solution to its customers.

8 What is the duration of the sandbox?

Twelve months from the date of commencement unless extension is approved by BNM.

9 What happens after the sandbox?

After the sandbox expires, the participant can proceed to deploy the product, service or solution on a wider scale provided it can meet all the legal and regulatory requirements prescribed by BNM. If applicable, the graduating participant may be required to be licensed, or approved, by BNM in the same manner as traditional financial institutions. As of June 2019, MoneyMatch is the first to graduate from BNM's sandbox following MoneyMatch's approval in principle for a Class B remittance license, whereas an additional two companies, Woodpecker Asia Tech Pte Ltd (GoBear) and Jirnexu Sdn Bhd (RinggitPlus) are currently undergoing the live-testing phase.



MALAYSIA (cont'd)

10 Any other issues to be mindful of?

The sandbox framework does not apply to a proposed product, solution or service involving regulated activities under the purview of the Securities Commission Malaysia (e.g., fund management, peer-to-peer lending, equity crowd funding). A separate licensing and regulatory regime would apply.

Financial institutions and fintech companies should also be mindful of licensing issues and the regulatory landscape in jurisdictions outside Malaysia if the solution targets, or has the potential to reach, a wider range of customers.

Other legal issues, such as data privacy, data transfers, cyber security, enforceability of e-contracts, and consumer protection laws, are also often prevalent

in the use of big data, artificial intelligence/machine learning, distributed ledger/blockchain, cloud computing and e-payments. These issues cut across other regulators and agencies, so financial regulations cannot be considered in isolation.



PHILIPPINES

1 Who can apply to be in the sandbox?

The fintech space in the Philippines is primarily regulated by two governmental agencies, namely, the Philippine Securities and Exchange Commission (Philippine SEC) and the Bangko Sentral ng Pilipinas (BSP). Generally, the Philippine SEC regulates those aspects of fintech operations relating to cryptocurrency and related activities, while the BSP regulates fintech activities consisting of mobile financial services (including mobile lending activities and money or value transfer services).

As there are no Philippine laws, rules or regulations establishing regulatory sandboxes, any firm proposing to engage in fintech activities, or the delivery of fintech products and services not otherwise specifically regulated under prevailing legislation, may properly apply for dispensation from either (or both) of the Philippine SEC or the BSP to operate under a supervised and monitored regime — a quasi-sandbox. The decision to grant or permit such firm to operate, however, is purely discretionary on the part of either (or both) of the Philippine SEC or the BSP.

2 What are the main benefits of the sandbox?

In the absence of specific regulation, the benefits of operating under a regulatory sandbox (or its functional equivalent, assuming it is permitted by the applicable regulator) would depend on the terms of the sandbox as approved by the regulator. Generally speaking, participation in the sandbox, if one is permitted to be established, would be beneficial to its participants to the extent that it would allow them to identify and assess, ahead of going out to the wider market, the likely regulatory risks or issues that may arise were the regulator to subsequently permit such activities, products or services to be offered to the general public.

3 What are some of the examples of how FIs may benefit from the sandbox?

At the instigation of certain players looking to establish virtual currency exchanges in the Philippines, the BSP has allowed them to operate under a supervised and monitored regime. Following this experience, the BSP subsequently issued rules and regulations governing the licensing and registration of the establishment and operation of virtual currency exchanges in the Philippines.

FAQS ON FINTECH REGULATORY SANDBOXES



PHILIPPINES (cont'd)

4 How to apply to be in the sandbox?

Please refer to question 1.

5 When to apply to be in the sandbox?

N/A.

6 What are the evaluation criteria?

As the decision to establish a regulatory sandbox for any one or more fintech activity, product or service is discretionary on the part of the regulator, evaluation of a would-be participant or whether the activity could properly be the subject of a sandbox is largely decided on a case-by-case basis, and will depend on the discussions between an applicant and the relevant regulator.

7 How long will the regulators take to process sandbox application?

N/A.

8 What is the duration of the sandbox?

N/A.

9 What happens after the sandbox?

Based on recent experience, if the regulator subsequently decides to permit the relevant fintech activity, product or service, it will typically publish corresponding rules and regulations by which any interested party (including, of course, the participant in the sandbox) may properly qualify or be licensed.

10 Any other issues to be mindful of?

Although, there are no laws, rules or regulations specifically governing the establishment or the conduct of regulatory sandboxes in the Philippines, the Philippine SEC and the BSP have maintained a relatively open approach to firms or entities who are seeking to conduct pilot testing of fintech products or services.



SINGAPORE

1 Who can apply to be in the sandbox?

Sandbox

Both regulated financial institutions (FIs) and unregulated firms looking to provide financial services that are or are likely to be regulated by the Monetary Authority of Singapore (MAS).

Sandbox Express

MAS will take a phased approach by starting with an initial set of activities regulated by the MAS, and will continue to review whether appropriate constructs could be established to facilitate meaningful experiments for other regulated activities. For a start, Sandbox Express will be available specifically for:

- (a) insurance brokers
- (b) recognized market operators
- (c) remittance businesses

2 What are the main benefits of the sandbox?

Sandbox

MAS may exempt FIs and fintech players from specific regulations for the sandbox duration. This will facilitate FIs and fintech players that face challenges in meeting all regulatory requirements to experiment or roll out their products and services under a more relaxed regulatory framework, but within a well-defined space and duration agreed with the MAS.

As an aside, the opportunity to engage with the MAS and the bilateral sharing of information may help shape a more practical regulatory framework in future. At the very least, it may lend insights into regulators' expectations on the application of existing regulations.

Sandbox Express

Sandbox Express shortens the approval process for entry into the sandbox by relying on standard disclosures and pre-determined rules.



3 What are some of the examples of how FIs may benefit from the sandbox?

Sandbox

Banks and other FIs may face challenges in complying fully with technology risk management or outsourcing guidelines when collaborating with emerging technology and software companies. Existing conduct of business rules may not fall neatly to financial services that adopt artificial intelligence or big data solutions that involves a substantial amount of automation. Banks and FIs may explore the possibility of relaxing some of these rules with the MAS for the agreed duration.

New players looking to obtain a license but that do not meet the requisite track record or capital resources requirements may seek exemptions from these requirements.

Sandbox Express

Sandbox Express aims to complement the current sandbox approach by:

- (a) providing enterprising firms carrying on certain activities regulated by the MAS with a faster option to bring innovative financial services or products to the market for testing
- (b) reducing the time and resources required from the applicants

4 How to apply to be in the sandbox?

Sandbox

Existing FIs should approach their institutions' MAS case officer. New players should write to the MAS Fintech Office.

All applications must be submitted in writing, in the template prescribed by the MAS.

Sandbox Express

All applications must be submitted in writing to fintech_sandbox@mas.gov.sg, in the template prescribed by the MAS.

5 When to apply to be in the sandbox?

Anytime. However, applicants should have completed their own due diligence and evaluation on how they will meet the objectives and principles of the sandbox/sandbox express, and the evaluation criteria prescribed by the MAS, as applicants are required to demonstrate how they will meet these requirements in the application.

6 What are the evaluation criteria?

Sandbox

The MAS will consider if the solution involves the use of technology in an innovative way and brings benefits to consumers or the industry, whether the applicant will deploy the solution in Singapore on a broader scale, whether there are clearly defined test scenarios, expected outcomes and boundary conditions, any significant risks involved and whether there is a clearly defined exit and transition strategy.

Sandbox Express

Sandbox Express is only suitable for financial services or products that carry risks which can be reasonably contained by pre-determined, standardized sandbox constructs. In submitting the application to enter the Sandbox Express, applicants agree to be bound by these sandbox constructs, which may be implemented as license conditions or exemption conditions, depending on the type of sandbox.

Firms must comply with all conditions of approval, including providing clear and proper disclosure to the customer, as well as submitting regular progress reports to the MAS. The applicant is required to submit to the MAS: (a) a progress report every two months from the start of the approved period, and (b) a final progress report at the end of the approved period.

7 How long will the regulators take to process sandbox application?

Sandbox

The MAS endeavors to inform applicants of their potential suitability for a sandbox within 21 working days upon receipt of the application. If an applicant is deemed suitable, it will then enter into an evaluation stage with the MAS where the boundaries and duration of the sandbox are discussed and formulated. The MAS will inform the applicant if the sandbox is approved at the end of the evaluation stage. If the sandbox is approved, the applicant may then launch its solution to its customers within the agreed parameters.

Sandbox Express

Eligible applicants can begin market testing in the pre-defined environment of Sandbox Express within 21 days of applying to the MAS instead of taking a longer time to customize their sandboxes under the existing fintech regulatory sandbox.

FAQS ON FINTECH REGULATORY SANDBOXES



SINGAPORE (cont'd)

For applications deemed by the MAS to be complex and requiring more time to assess, the MAS may notify the applicant within 21 days from the date of receipt of the application that the MAS will not consider the application under Sandbox Express and will instead treat it as an application under the current fintech regulatory sandbox.

8 What is the duration of the sandbox?

Sandbox

Varies.

Sandbox Express

Experiments can remain in Sandbox Express for up to nine months.

9 What happens after the sandbox?

The legal and regulatory requirements relaxed by the MAS will expire. The sandbox/sandbox express entity can proceed to deploy the financial service on a broader scale provided that it is able to meet all the legal and regulatory requirements, and both the MAS and the entity are satisfied that the sandbox/sandbox express has achieved its intended test outcomes.

10 Any other issues to be mindful of?

FIs and fintech players should be mindful of licensing issues and the regulatory landscape in jurisdictions outside Singapore if the solution targets, or has the potential to reach, a wider range of customers.

Other legal issues, such as data privacy, data transfers, cyber security, enforceability of e-contracts, and consumer protection laws, are also often prevalent in the use of big data, artificial intelligence/machine learning, distributed ledger/blockchain, cloud computing and e-payments. These issues cut across other regulators and agencies, so financial regulations cannot be considered in isolation.



SOUTH AFRICA

1 Who can apply to be in the sandbox?

The primary authorities governing the fintech sector in South Africa are the South African Reserve Bank (SARB) and the Financial Sector Conduct Authority (FSCA). These authorities have not as yet created a standardized regulatory sandbox framework, however they have engaged on a number of ad hoc projects with the private sector using the concept of a sandbox.

There are no specific laws, rules or regulations establishing regulatory sandboxes in South Africa. However, any firm proposing to engage in fintech activities or the delivery of fintech products and services, not otherwise specifically regulated under prevailing legislation, can engage with the SARB, or other relevant authority to operate under a supervised and monitored regime, noting that the regulator has shown a willingness to participate in such engagements. It should be noted, however, that the decision to grant or permit a firm to operate is purely discretionary at this stage.

2 What are the main benefits of the sandbox?

In the absence of a specific regulatory framework, the benefits of operating under a regulatory sandbox are dependent on the terms of the sandbox, as approved by the SARB. That being said, participation in sandboxes allows participants to identify and assess, ahead of rolling a product out to the wider market, the regulatory risks and/or issues which may arise. This also allows for early stage development under a relaxed regulatory environment, where otherwise such activities would be illegal in terms of local laws.

3 What are some of the examples of how FIs may benefit from the sandbox?

An example of such engagement between regulators and FIs is "Project Khokha," which was hailed as a resounding success and which was aimed at building a system that handles real-time gross settlements, based on distributed-ledger technology. The project sought to replicate some of the functionality of South Africa's interbank settlement system, SAMOS, in a distributed-ledger solution called Quorum.



SOUTH AFRICA (cont'd)

4 How to apply to be in the sandbox?

Please refer to question 1.

5 When to apply to be in the sandbox?

N/A.

6 What are the evaluation criteria?

As the decision to permit and establish the sandbox for any fintech activity, product or service is within the sole discretion of the SARB (as the most active authority in this space), the evaluation criteria on permitting the sandbox are done on a case-by-case basis, and will accordingly depend on the contents of the discussions between the SARB and the firm making the application.

7 How long will the regulators take to process sandbox application?

N/A.

8 What is the duration of the sandbox?

N/A.

9 What happens after the sandbox?

Based on the recent conclusion of Project Khokha, following the establishment and operation of the regulatory sandbox, the SARB would typically decide whether or not to permit the relevant fintech activity, product or service. In this regard, the SARB will then issue a set of rules, regulations and guidelines by which any interested party may qualify for a license to be engaged in such activity, product or service. This is, however, not formalized and a different procedure remains within SARB's discretion.

10 Any other issues to be mindful of?

Reportedly, an innovation hub for the regulation of fintech products is set to be established by the SARB and the FSCA during the first half of 2020, and which will include a more formalized regulatory sandbox.

Notably, the SARB, FSCA and the Financial Intelligence Centre, among other governmental bodies, established the Intergovernmental Fintech Working Group (IFWG), which released a consultation paper on policy proposals for crypto-assets in January 2019. The IFWG aims to, among other things, provide a platform for the SARB and other regulators, together with policymakers, to engage with industry and work towards a harmonized approach to regulation, and this has been welcomed by the SARB as being a valuable source of information. Among other things, the IFWG's focus is: (i) to consider policy and regulatory implications of specific fintech innovations; (ii) to collect data on the local fintech industry; and (iii) to assess the appropriateness of innovation facilitators, including a regulatory sandbox.

FAQS ON FINTECH REGULATORY SANDBOXES

SWITZERLAND

1 Who can apply to be in the sandbox?

Swiss financial market regulators have introduced two sandboxes with regulatory concessions:

- a completely unregulated and unsupervised sandbox for persons who accept funds from the public of up to a total of CHF 1 million (“**Unregulated Sandbox**”)
- an “innovator license” or “banking license light” for persons who accept funds from the public of up to a total of CHF 100 million (“**Innovator License**”)
- The Unregulated Sandbox can be used by anyone who wishes to accept funds of up to CHF 1 million. These are mostly fintech firms in their first market test phase. There are no conditions attached to this. However, the funds may neither be invested nor carry interest. Furthermore, all customers must be warned in writing that the business is not supervised by the Swiss Financial Market Supervisory Authority (FINMA).
- As for the Innovator License, any company that meets certain minimum capital adequacy, liquidity and organizational requirements can apply. As with the Unregulated Sandbox, funds accepted from the public may neither be invested nor carry interest. A booklet with further information on the Swiss Innovator License can be downloaded [here](#).

2 What are the main benefits of the sandbox?

The Swiss Banking Act generally allows the acceptance of monetary deposits from the public only into banks. Therefore, a fintech firm such as a digital payments services provider may not hold any deposits from the public unless it first obtains a banking license. The requirements of such a banking license are quite onerous and the capital, liquidity and organizational requirements are rarely met by start-ups.

To create a space for younger fintech businesses to grow, the Swiss regulators first created the Unregulated Sandbox in 2017 and then in 2018 introduced the Innovator License. These allow fintech firms to accept deposits from the public without requiring a banking license. Fintech start-ups may experiment on the market within the fully Unregulated Sandbox and then to grow further with the Innovator License.

3 What are some of the examples of how FIs may benefit from the sandbox?

Fintech start-ups, such as payment platforms, can use the Unregulated Sandbox to test the market acceptance of their product. However, it should be noted that the limit of CHF 1 million is quite low for a full market test.

The Innovator License can be used by a wide array of companies, particularly from the payments and blockchain area. While certain initial investments are required, the Innovator License is a cost-effective way to start operating a fintech business model and to see it mature on the market.

4 How to apply to be in the sandbox?

As the Unregulated Sandbox is completely unsupervised, no registration or application is necessary.

The Innovator License is granted by the FINMA. Various documents with general information on the business model and business plan, the founders, the directors and officers and other relevant personnel, the balance sheet and the organization of the company (including its auditor) have to be filed with the FINMA. Guidelines on an application for the Innovator License can be found on the [website of FINMA](#).

5 When to apply to be in the sandbox?

Start-ups can use the Unregulated Sandbox as soon as they are operationally viable. The start-up may also directly apply for the Innovator License if the capital, liquidity and organizational requirements are met.

6 What are the evaluation criteria?

The authorities have no discretion in admitting companies for the Innovator License. They have to formally check that the relevant capital, liquidity and organizational requirements are met. Naturally, some of these requirements may vary depending on the specific business plan at hand. Once the FINMA determines that the statutory requirements are met, it must grant the license. Innovator Licenses are not limited by quotas or equivalents.



SWITZERLAND (cont'd)

7 How long will the regulators take to process sandbox application?

It should take no longer than a few weeks or months to process the application for the Innovator License. This depends on the quality of the application, the complexity of the business model, the current workload of the FINMA and other factors.

8 What is the duration of the sandbox?

Neither the Unregulated Sandbox nor the Innovator License are limited in time. However, a growing business will soon pass the relevant deposit threshold of CHF 1 million and CHF 100 million, respectively. In certain cases, the regulator may increase the CHF 100 million threshold.

9 What happens after the sandbox?

After testing a business model in the Unregulated Sandbox, a Swiss fintech accepting deposits from the public would typically move on to apply for an Innovator License. After it grows further and reaches the CHF 100 million threshold, it will have to apply for a banking license. In general, these requirements are substantially higher, but the Swiss regulators have recently enacted significant concessions for small banks. Certain grace periods are applicable for fintech licensees.

10 Any other issues to be mindful of?

The relevant deposit thresholds (CHF 1 million for the Unregulated Sandbox and the CHF 100 million deposits for the Innovator License) are calculated on a consolidated basis. This generally means that established financial institutions are unable to benefit from the exemption and these are lost if a bank acquires a fintech firm. However, the Innovator License allows for an exemption if it can be shown to the FINMA that the fintech business is in fact conducted independently from the financial institution's main business.

In addition, it must be taken into account that the Unregulated Sandbox and the Innovator License are merely concessions from the prudential regulatory regime. If someone acts as a financial intermediary in Switzerland, i.e., as soon as someone holds or administers funds for another person, the Swiss anti-money-laundering (AML) provisions apply. This means that the financial intermediary must become a member of a self-regulatory organization or submit to direct supervision by the FINMA. Certain concessions are also available under AML law for holders of an Innovator License.

FAQS ON FINTECH REGULATORY SANDBOXES



TAIWAN

1 Who can apply to be in the sandbox?

A natural person, sole proprietorship, partnership, or legal person, looking to provide financial services that are or are likely to be regulated by the Financial Supervisory Commission (FSC), may submit an application to the FSC seeking approval for conducting an innovative experiment.

However, there are certain qualifications for an applicant: for a natural person, they must be someone who personally or their agent has residence or domicile in Taiwan. For sole proprietorship or a partnership, its responsible person or its agent must have residence or domicile in Taiwan. As for a legal person, it must be incorporated in Taiwan or registered in Taiwan.

2 What are the main benefits of the sandbox?

While in the sandbox, an applicant may be exempt from certain laws and regulations in accordance with its proposal approved by the FSC. An applicant will be able to test its innovative products and/or service in the real market and the FSC and other government authorities may take the chance to reconsider regulations, laws and policies to see if any amendment needs to be made or any flexibility provided. Also, an applicant may request the FSC to help liaise with other government agencies if its business involves not just the market sectors regulated by the FSC.

3 What are some of the examples of how FIs may benefit from the sandbox?

The first Taiwan sandbox project involved KGI Bank, a local bank in Taiwan, which successfully applied and the project ran until September 2019. In this sandbox experiment, KGI Bank worked with a local telecom company in granting personal loans to customers who were up to date with their telephone bills. This experiment was innovative because KGI Bank and the local telecom company conducted KYC on applicants, by using user behavioral analysis on their use of mobile phones, which was not permitted under the relevant regulations.

4 How to apply to be in the sandbox?

The applicant needs to submit: (i) an application form and (ii) an innovation experiment plan covering the following items:

- (1) description of the source of funds
- (2) the financial services with which the experiment will be concerned
- (3) description of how the experiment is innovative, including whether it is a technological innovation or business model innovation
- (4) the scope, duration and scale
- (5) information on key officers responsible
- (6) significant clauses of the contract signed with participants
- (7) participant protection measures
- (8) potential risks during the experiment period and risk control mechanism
- (9) description of money laundering and terrorist financing risk assessment and risk mitigation measures established using a risk-based approach
- (10) IT systems used and description of security control operation and risk response measures
- (11) expected benefits and benchmarks for measuring the benefits achieved
- (12) exit mechanism when the innovative experiment is terminated on own initiative, or cancelled or revoked by the competent authority, or when the experiment period ends
- (13) relevant information on financial technology patents involved, if any
- (14) cooperation agreements and description of relevant parties regarding their respective rights and obligations, if the experiment is to be conducted in collaboration with other individuals, sole proprietorships, limited partnerships or legal persons

5 When to apply to be in the sandbox?

The application can be made at any time once the application form, innovation experimentation plan and other related documents are completed.



TAIWAN (cont'd)

6 What are the evaluation criteria?

When reviewing a sandbox application, the FSC would consider the following based on the scope, duration and scale of the proposed innovative experiment:

- (1) whether the experiment involves financial services that require the permission, approval or concession of the competent authority
- (2) whether the experiment is innovative
- (3) whether the experiment can effectively increase the efficiency of financial services, reduce operational and use costs or enhance the interests of financial consumers and enterprises
- (4) whether potential risks have been assessed and relevant response measures prepared
- (5) whether participant protection measures have been established and appropriate compensation prepared; and other matters that the FSC requests be evaluated

7 How long will the regulators take to process sandbox application?

The FSC shall complete the review of a sandbox application and make the approval or rejection decision 60 days after receiving the application, and will notify the applicant of the review decision in writing.

8 What is the duration of the sandbox?

The period of the experiment approved by the FSC will be limited to one year. However, an applicant may, one month before the approved experimental period ends, apply to the FSC with reasons attached seeking approval for an extension; the extension shall be limited to one occasion and for no longer than six months. Nonetheless, when an innovative experiment involves any amendment to legislation, the extension is not limited to one time; provided that the entire experiment period shall not be longer than 3 years.

9 What happens after the sandbox?

When applying to enter into the sandbox, an "exit mechanism" is required to be included under the innovation experiment plan. If the applicant's experimentation proves to be a success, it may lead to the amendment of relevant laws or regulations.

10 Any other issues to be mindful of?

The sandbox mechanism in Taiwan not only provides a platform for innovative experimentation, but also for "statutory regulation clarification and consulting services" to assist an applicant in confirming, with relevant competent statutory authorities, whether or not its business involves the application of, or conflicts with any kind of laws based on their business plans. The applicant may decide to continue to promote the original business plan, or modify or change the content of the business plan to conform to existing laws based on the replies from the competent authorities.

FAQS ON FINTECH REGULATORY SANDBOXES



THAILAND

1 Who can apply to be in the sandbox?

For the Bank of Thailand's (BOT) regulatory sandbox, applicants can be financial institutions; companies within the financial business group of financial institutions; non-banks under the supervision of the BOT; fintech firms; or technology firms. However, these firms must be juristic persons incorporated in Thailand. They must have directors, executives, and employees with managerial powers, with specified qualifications and good corporate governance; and have obtained relevant licenses if required under applicable laws. Applicants should also be offering products relating to borrowing/lending, payment, other similar financial transactions or related innovation, or any other financial transactions approved by the BOT.

2 What are the main benefits of the sandbox?

The BOT may exempt applicants from specific regulations for the duration of the sandbox, allowing applicants to test their innovative financial products and services in a live but limited environment, without being fully subject to all requirements that are normally applicable and, therefore, enable them to speed up the process of entering the market. For the BOT, it allows them to facilitate financial innovations, while still ensuring consumer protection and financial system stability, and to develop more appropriate regulatory policies through increased insight into new innovations.

3 What are some of the examples of how FIs may benefit from the sandbox?

Offering new technology, especially in the early stages, may not be successful and is a high risk both for the operators and the public. The sandbox allows for such technologies to be tested in a limited environment before wider release. The specific lenient rules will depend on what the applicant states in their application, as the BOT will grant permission on a case-by-case basis.

Additionally, offering the new technology through the sandbox may assure consumers, as they will be aware that the technology has passed a BOT evaluation and remains under BOT supervision. Hence, issues like consumer protection measures and data security are heavily emphasized, and this may make consumers less hesitant to try the products or services. In addition, the sandbox can help FIs to promote financial inclusion and reduce costs.

Examples of projects which are currently being implemented under the BOT's sandbox, are the use of blockchain for letter of guarantee and cross-border fund transfer, use of iris recognition for identity verification, and QR code payment.

4 How to apply to be in the sandbox?

An applicant must submit the application form and a complete set of supporting documents/information, such as technologies to be used, the scope of the test (e.g., target group, transaction volume and value, duration), innovation tests or research results, benefits to the service providers, consumers and financial systems, consumer protection measures and regulatory requirements that the applicant wants to be relaxed, with supporting reasons, to the BOT.

For consumer protection, the BOT specifically requires an applicant to maintain at least good corporate governance, measures regarding consumers' money and assets, consumer data protection, duties to comply with laws on anti-money laundering and counter-terrorism and proliferation of weapons of mass destruction financing (AML/CTPF) and to maintain security, integrity and availability of its management system.

5 When to apply to be in the sandbox?

Anytime, so long as the application and its supporting documents are completed.

6 What are the evaluation criteria?

The BOT emphasizes that products or services must be innovative involving new technology not already available in Thailand or which will enhance the efficiency of existing products or services. They will look at the applicant's need for the sandbox and evaluate the research demonstrating the feasibility of the product or service. The BOT will also look at how the product or service will be beneficial for the ecosystem.

7 How long will the regulators take to process sandbox application?

The consideration process will take not longer than 45 business days from the date on which the BOT receives the application and a complete set of supporting documents.



THAILAND (cont'd)

8

What is the duration of the sandbox?

Varies. The duration is as specified by the applicant in its test plan approved by the BOT, which should not be more than one year. However, the BOT is allowed to consider granting an extension to the test period, provided that the applicant applies for an extension no less than 30 days before the expiration date, specifying the reason for and period of the extension.

9

What happens after the sandbox?

The lenient rules will expire unless an extension period is granted. If the test results meet the goals initially presented to the BOT, the participant must submit an application for permission to offer the service or introduce the product as required by the law. If the goals are not met, or the applicant fails to comply with the conditions agreed to during participation, the applicant must stop the service after notifying its consumers, taking consumer rights into consideration, and submit a report detailing the cessation of services to the BOT within 30 days after the date of stopping operation. An applicant must provide the exit and transition plan for customers in the sandbox as well as the resolution plans, and how the business would be run or terminated if the proposed financial service or product is successful or has to be discontinued.

10

Any other issues to be mindful of?

During the test, operators must demonstrate sufficient consumer protection measures, risk management and disclosure of information, including that it is a test in the regulatory sandbox, as well as compliance with other applicable laws. Moreover, they will have to submit a report to the BOT on test results, indicators, statistical data, information on risks or errors, or the occurrence of dishonest acts or complaints received from consumers as frequently as mutually agreed upon, during the test and after the test is completed.

For any fintech start-ups interested in applying for the sandbox, the BOT recommends they participate in a community, such as the Thai Fintech Association, in order to encourage better understanding of the sandbox. Additionally, fintech players should be aware of regulatory sandboxes provided by other regulators, namely, the Securities and Exchange Commission (SEC) and the Office of Insurance Commission (OIC). Fintech business operators should apply to the regulatory sandbox that is relevant to their products or services and which could be under the supervision of different regulators.

The current regulatory sandboxes provided by the SEC comprise:

- a regulatory sandbox for securities and derivatives businesses — innovative products such as robo-advisers, algorithm trading, and algorithm-based investment advice, may benefit from this sandbox
- a regulatory sandbox for securities clearing houses, depositories and registrars, focusing especially on the use of blockchain technology to provide these supporting functions
- a know-your-customer regulatory sandbox, which is a regulatory sandbox for the e-trading platform

Application for the OIC sandbox has been open since 1 June 2017, allowing insurers, agents and fintech/insurtech players to beta test their insurtech innovations.

FAQS ON FINTECH REGULATORY SANDBOXES



THE NETHERLANDS

1 Who can apply to be in the sandbox?

The regulatory sandbox is available to all financial services companies looking to operate an innovative financial product, service or business model, whether supervised players or newcomers. Such innovations may result from the application of technology (fintech), but this is not a prerequisite for qualifying for the sandbox, whose scope is decidedly broader than just fintech. The sandbox is open to all innovations that stand to contribute positively to a stable financial sector, smoothly operating financial markets and the sustainable financial well-being of consumers and investors.

Question 6 outlines the relevant evaluation criteria to be eligible for the regulatory sandbox.

2 What are the main benefits of the sandbox?

The main benefit of the regulatory sandbox is that the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM) will focus on the real purposes of policies, rules and regulations when assessing innovative products, services or business models. Accordingly, if these purposes are met, the regulators will utilize the scope offered by the law to provide a bespoke solution. There could be alternative interpretations within the legal framework of open standards or a formal dispensation from specific legal requirements.

Supervisors have considerable discretion in terms of their own policies, e.g., in the interpretation of open legal standards. This applies to a lesser degree to policies set by the European supervisory authorities. The Dutch regulators may deviate from European guidance, or interpret or impose it in a different way; always provided they are able to demonstrate that the legal and regulatory aims are being met in an alternative fashion. In terms of national and European legislation, Dutch regulators will only be able to offer tailored options in as much as the legislation provides scope to do so.

In addition to the regulatory sandbox, the Dutch regulators may grant partial authorizations to financial services companies, in some cases for a predefined period. A partial authorization may be useful if a financial services company does not immediately wish to engage in all operations governed by an authorization and to which rules apply. Partial authorizations may also be permanent, for instance when a financial services company is a specialist niche player.

3 What are some of the examples of how FIs may benefit from the sandbox?

The regulatory sandbox can extend to all forms of innovative financial institutions and financial services. The regulators in their joint [report](#), outline a situation in which a financial institution has developed an innovative method for complying with sound and controlled business operation requirements utilizing blockchain technology. However, this new approach may require the enterprise to deviate from the prescribed rules to comply with these regulatory requirements. Due to the regulatory sandbox, the Dutch regulators can grant dispensations from these rigid methods and provide a bespoke compliance arrangement.

4 How to apply to be in the sandbox?

Provided the applicant meets the regulatory sandbox's evaluation criteria (discussed below), the first step is making contact with DNB's Innovation and organizing an exploratory meeting. After this meeting, the enterprise may submit the application for access to the regulatory sandbox for innovation via the InnovationHub. This application should contain, at least:

- (1) A detailed proposal for an innovative financial concept, showing clearly that it meets the evaluation criteria.
- (2) A comprehensive process proposal, specifying:
 - (a) the moment at which the innovative concept will be introduced
 - (b) the involvement of the supervisor
 - (c) SMART criteria for the assessment of the innovative concept
 - (d) measures to limit any risks during the application of the regulatory sandbox
 - (e) adequate control measures, such as a proper exit plan, guaranteeing that if the innovative concept fails, it does not endanger the sound and ethical operational management of the enterprise
- (3) An analysis describing which rules and regulations constitute an obstacle and explaining why the innovative concept cannot be assessed via a standard license application.

For more information and informal guidance, operators may consult the Dutch regulatory sandbox's [guidance](#).



THE NETHERLANDS (cont'd)

5 When to apply to be in the sandbox?

The regulatory sandbox has been available since 1 January 2017 and financial services companies are able to apply to the AFM and DNB at any time. Such requests are confidential and are treated as such.

6 What are the evaluation criteria?

The evaluate criteria for an enterprise to be provided access to the Dutch regulatory sandbox are as follows:

- the enterprise cannot reasonably meet the standard applicable rules, regulations and guidelines to the letter because of its innovative concept
- the innovative concept meets the aim of the rules and regulations in spirit, i.e., the purpose of the rules and regulations is achieved in some other way
- the rules leave room for interpretation and customization
- the innovative concept contributes to the solidity of the enterprise — to the conditions which the law imposes in terms of financial solidity and sound and ethical operational management — and does not jeopardize the stability of the financial system

7 How long will the regulators take to process sandbox application?

After the enterprise has submitted the request outlined under Question 4, the regulators will consider all interests and determine whether and how they can provide an appropriate bespoke arrangement, for what duration, which conditions will apply and how the regulatory sandbox will be terminated. The regulators have up to four weeks to evaluate the enterprise's application (provided all relevant documents have been submitted in complete form).

8 What is the duration of the sandbox?

It varies. After a successful application, the regulators re-evaluate at an appropriate time whether the bespoke arrangement will be adjusted, extended or terminated.

9 What happens after the sandbox?

When the arrangements of the regulatory sandbox or partial authorization expire, the enterprise can proceed to deploy the financial services on a broader scale if it is able to meet all the legal and regulatory requirements.

10 Any other issues to be mindful of?

Other legal issues, such as data privacy, data transfers, cyber security, enforceability of e-contracts, and consumer protection laws, are also often prevalent in the use of big data, artificial intelligence/machine learning, distributed ledger/blockchain, cloud computing and e-payments. These issues cut across other regulators and agencies, so financial regulations cannot be considered in isolation.

FAQS ON FINTECH REGULATORY SANDBOXES



UNITED KINGDOM

1 Who can apply to be in the sandbox?

The UK Financial Conduct Authority's (FCA) sandbox is open to authorized firms, unauthorized firms that require authorization and technology businesses. It has proved popular, not least with fintech start-ups and those not yet authorized by the FCA, with each group, or "cohort" as they are referred to, being oversubscribed — roughly one in three applicants are accepted into any given cohort.

Successful applicants have come from a variety of sectors and, reflecting the increasingly global nature of fintech, the sandbox has attracted participants from overseas companies (for example, from Canada, Singapore and the US) as well as the UK. The FCA note that the majority of applications for their most recent cohort came from firms looking to operate in the wholesale and retail banking sectors. The FCA has said of its latest participants that:

- examples of accepted propositions include digital identity solutions, platforms which tokenize issuance of financial instruments, and services aimed at facilitating greater access to financial services for vulnerable consumers
- 28% of firms are focused on blockchain or distributed ledger technology in order to, among other things:
 - automate the issuance of debt or equity
 - develop an identity verification service/platform
 - test interest-free salary advance and a cash flow management product
 - integrate such technology with listing and trading venues
- other firms include an alternative offering to ATM, which operates over the LINK network and permits users to withdraw cash over the counter through using payment terminals in local shops
- a service aimed at reducing exclusion from the financial system by providing individuals with a proxy fixed address for use in opening basic bank accounts

2 What are the main benefits of the sandbox?

The sandbox seeks to provide firms with the ability to test products and services in a controlled environment, with reduced time-to-market at potentially lower cost, support with identifying appropriate consumer protection safeguards to build into new products and services, and better access to finance.

It offers participants restricted authorization, individual guidance, informal steers, waivers and no enforcement action letters. Moreover, the very fact that a start-

up has a place in the sandbox can also provide the company with credibility when it is looking for investment or seeking partnerships with established financial institutions.

The sandbox sits within a wider initiative dubbed "FCA Innovate," the aim of which is to encourage innovation for the benefit of consumers. As part of this initiative, the FCA has launched two additional services — "direct support" and the "advice unit." Direct support involves the FCA providing tailored regulatory support for innovative firms considering authorization. The advice unit involves the FCA providing regulatory feedback to firms developing automated models that aim to deliver lower cost advice to customers. We would encourage firms that are considering entering the sandbox to engage with the FCA through these services.

Where an applicant is looking for a banking license, the option of restricted authorization is not available. They should instead contact the FCA's and the Prudential Regulation Authority's joint New Bank Start-up Unit.

3 What are some of the examples of how FIs may benefit from the sandbox?

The FCA has encouraged financial institutions to use the sandbox and there has been a corresponding rise of incumbent firms joining the sandbox in more recent cohorts. The sandbox can be particularly attractive where firms want to invest, particularly, in innovative technologies like DLT and blockchain, or where firms want to facilitate partnerships with innovative start-ups.

4 How to apply to be in the sandbox?

In the UK, the FCA accept applications to the sandbox on a cohort basis with two six-month test periods per year. In July 2019, it was announced that 29 firms have been accepted into the latest (the fifth) cohort of the FCA sandbox (99 applied).

Applications for cohort six are open until 31 December 2019.

5 When to apply to be in the sandbox?

The FCA advertises twice yearly for firms to join new cohorts.

6 What are the evaluation criteria?

In the UK, an applicant needs to meet the FCA's default standards and its eligibility criteria.

In terms of eligibility, firms need to show that they will deliver innovation that is either regulated business or supports regulated business in the UK financial services



UNITED KINGDOM (cont'd)

market. The FCA publishes a table on its website which outlines criteria against which firms can assess their compatibility to enter the sandbox. Factors the FCA consider include:

- the need to show that the innovation is ground-breaking or a significantly different offering in the marketplace
- whether the innovation offers a good prospect of identifiable benefit to consumers (either directly or via heightened competition)
- whether there is a genuine need to test the innovation in the FCA's sandbox

We encourage all prospective applicants to have regard to this table when considering whether to make an application to the sandbox.

As for default standards, the sandbox is intended for small-scale testing and the FCA sets strict limits to the size of the test. However, customer sets should be big enough to enable statistically relevant data to be obtained while managing the risk to customers and the practicalities of obtaining the customers for the testing period. The FCA will also want to ensure that firms have appropriate customer safeguards in place, which it will agree on a case-by-case basis (for example, retail consumers should not bear the risks of sandbox testing, whilst for sophisticated customers, where there is informed consent, their compensation might be limited). Some firms will need to have a UK bank account to be able to carry out testing. The FCA notes that firms which require a partner in order to test their proposition will need to find and secure the relevant contractual agreements before testing.

Testing plans should include:

- a plan for testing in the sandbox setting out the timeline and key milestones
- measures for success for testing
- testing parameters (duration, customer/transaction limit)
- customer safeguards
- risk assessment
- exit strategy

7 How long will the regulators take to process sandbox application?

Normally, applications for authorization to the FCA can take up to six months (or longer, if the application is not complete). However, those made to the sandbox tend to be much quicker and "lighter touch" depending on the nature of the regulatory permission required.

8

What is the duration of the sandbox?

The FCA sandbox is intended for testing for a limited duration. The testing duration should be long enough to enable statistically relevant data to be obtained from the test (e.g., three to six months).

9

What happens after the sandbox?

In the UK, firms must submit a final report summarizing the outcomes of the test before transitioning out of the sandbox.

The FCA refers to having helped reduce the time and cost of getting new, innovative ideas to market and according to their published reports, some 90% of firms that have completed testing continued with their proposition immediately afterwards, and almost all are still in operation today. Of the 24 companies that the FCA accepted into the first cohort and tested in the sandbox, 76% were still active in the UK around two years later.

Following successful sandbox tests both small and large firms have introduced propositions to the mass market.

Large authorized firms have tested innovations in the sandbox that, following a successful test, they have gone on to make available to their wider customer base.

10

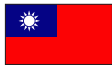
Any other issues to be mindful of?

There remain challenges. The FCA's progress report from last year identifies various obstacles encountered by some sandbox participants. One of these concerns centers on the difficulties faced by some participants in obtaining key banking services in the UK, particularly firms wishing to leverage DLT, become payment institutions, or electronic money institutions.

Crucially, acquiring customers can be an issue for smaller firms that enter testing without a well-established customer base. The FCA points to partnerships between large firms and start-ups in the sandbox as being a successful way to deal with this challenge. Lastly, the FCA concedes that meeting the threshold conditions for authorization can be more complex for new fintechs than for traditional firms. This is because their operations are structured differently from those which the FCA are accustomed to assessing.

Another factor firms need to be aware of is that — at least until Brexit — the FCA cannot waive any rules or requirements on firms which would contravene EU law. This can limit the extent to which the normal constraints can be relaxed.

FAQS ON FINTECH REGULATORY SANDBOXES



UKRAINE

1 Who can apply to be in the sandbox?

Any local or foreign company can apply to test an innovative financial product or service (“**Solution**”) in the Ukrainian regulatory environment. The Ukrainian central bank (NBU) will accept applications for testing both currently deployed solutions as well as solutions in the development stage. An applicant can be either a licensed financial/banking or technology services provider or an entity contemplating applying for such license.

An applicant may apply if a product/service may be regarded as a new financial service and/or payment instrument, technology platform, sales channel or an aggregate of the above, which has no analogy on the Ukrainian financial market. Alternatively, a product/service may be similar to existing ones, but have some distinguishing features.

2 What are the main benefits of the sandbox?

To process an application, the NBU may engage a number of other competent Ukrainian authorities, trade associations and experts. Moreover, the NBU can approach the Ukrainian Government with a recommendation to amend legislation if it impedes the launch of a truly innovative solution.

3 What are some of the examples of how FIs may benefit from the sandbox?

The NBU can provide guidance on the feasibility of launching innovative financial products/services based on the requirements of current legislation of Ukraine.

4 How to apply to be in the sandbox?

An applicant must submit a formal application to the NBU, which includes a description of the applicant, the product/service and the implementation plan.

5 When to apply to be in the sandbox?

Anytime.

6 What are the evaluation criteria?

A candidate’s solution must meet a number of eligibility criteria, which may broadly be divided into product and regulatory requirements. On the product side, a solution should be unique or significantly improve available solutions, should improve user experience, remove friction and facilitate development of the financial market and a candidate should have a clear implementation plan. On the regulatory side — launching the solution should not violate Ukrainian law, including competition legislation. If its use entails risks, a candidate should have a risk management system in place.

7 How long will the regulators take to process sandbox application?

As a general rule, the NBU will take up to 30 business days to process an application from receipt of the submission. If the NBU considers the submission incomplete, it may ask the candidate to provide additional documents/information.

8 What is the duration of the sandbox?

This pilot program will last until the end of 2019.

9 What happens after the sandbox?

Please refer to response to question 3.

10 Any other issues to be mindful of?

This program is not designed as a classical “sandbox” where a product/service is actually trialed (or tested) within an artificial regulatory environment. It is rather an advisory body, which evaluates its potential and advises on the feasibility of implementation in Ukraine. As far as it is known from the market, the NBU has considered seven applications since the launch of the program. However, it is difficult to assess their effect, because there are no official updates as regards this process.



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