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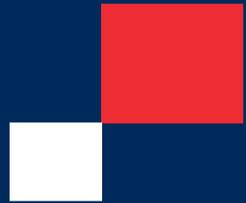
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INTRODUCTION

Regulators around the world are responding quickly to the rapidly evolving financial technology (fintech) landscape. New or emerging financial products, services or delivery channels may not meet all regulatory requirements. As a solution to this, financial regulators in Asia Pacific have implemented their respective fintech regulatory sandbox regimes.

In a nutshell, against the backdrop of whether innovation meets regulatory requirements, a sandbox regime allows entities 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.

The **International Guide to Regulatory Fintech Sandboxes** seeks to provide an overview and comparison of the regulatory sandbox regimes in Australia, Hong Kong, Malaysia, Indonesia, the Philippines, Singapore, Taiwan, Thailand and the United Kingdom.

FAQS ON FINTECH REGULATORY SANDBOXES



AUSTRALIA

1 WHO can apply to be in the sandbox?

Fintech businesses who are looking to provide financial services or engage in credit activities, and are likely to be regulated by the Australian Securities and Investments Commission (ASIC).

Australia's regulatory sandbox is based on three key exemptions, designed to allow businesses to test products and services without the holding the usual Australian financial services license (AFSL) or Australian credit license (ACL). These are:

- existing statutory exemptions or flexibility in the law
- ASIC's fintech licensing exemption (ASIC Fintech Licensing Exemption)
- individual relief from ASIC.

Businesses should also note that, in late 2017, the Australian government released draft legislation to enhance the fintech licensing exemption. The *Treasury Laws Amendment (2018 Measures No. 2) Bill 2018* (2018 Amendment Bill) proposes to amend the Corporations Act 2001 (Cth) (Corporations Act) and the *National Consumer Credit Protection Act 2009* (Cth) (NCCP) requirements such that fintechs can test financial and credit products and services via conditional exemptions made under the regulations. The 2018 Amendment Bill also proposes to amend venture capital and early-stage investor provisions under the *Income Tax Assessment Act 1997* (Cth), as well as the definition of public trading trusts under the *Income Tax Assessment Act 1936* (Cth). For example, under the 2018 Amendment Bill, managed investment trusts would be able to invest in Australian venture capital funds of funds, and there would be additional investment requirements for early-stage venture capital limited partnerships.

ASIC Fintech Licensing Exemption

To rely on the ASIC Fintech Licensing Exemption, businesses must:

- have no more than 100 retail clients
- have a total client exposure not exceeding AUD 5 million
- comply with consumer protection requirements
- have adequate compensation arrangements
- have both internal and external dispute resolution procedures in place

At present, there are only three entities using the ASIC Fintech Licensing Exemption. There are a further three entities who previously used, but are no longer relying on this exemption. ASIC released Consultation Paper 297 (CP 297) in December 2017, seeking feedback on ASIC's proposal to retain the ASIC Fintech Licensing Exemption and not make changes until the Australian government implemented its enhanced regulatory sandbox exemption,

which would supersede the ASIC Fintech Licensing Exemption. The proposed time frame set out in CP 297 included the release of a feedback report in March 2018. However, this report has not yet been released.

Individual Relief from ASIC

There are no specific admissibility requirements for businesses seeking individual relief from ASIC. However, ASIC has made it clear that it is unlikely to provide individual relief where a business has more than 100 retail clients or where granting relief would put consumers at risk.

Existing Exemptions

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 exemption," noting that the "passporting exemption" applies only to the provision of financial services to wholesale clients.

2 WHAT are the main benefits of the sandbox?

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

Generally, businesses will have to obtain an AFSL or ACL before they can test their products or services. This process can take several months. The sandbox exemptions allow businesses to begin testing their products immediately 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 license.

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 ASIC's Fintech Licensing Exemption.

However, an entity must give written notice to ASIC informing it of the intention to rely on the exemption. You must also provide company and contact details and a description of the services or products to be provided to consumers, along with bankruptcy and criminal history checks. When the new regulations commence there will also be specific requirements to include a description of



AUSTRALIA (cont'd)

the procedures, memberships and arrangements through which the business will meet their dispute resolution and compensation obligations, and 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.

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. Business wishing to rely on one of these exemptions should consult the relevant class order or legislative instrument and ASIC Regulatory Guide 51.

5 WHEN to apply to be in the sandbox?

Anytime.

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 ASIC Fintech Licensing Exemption, ASIC will have regard to the type of product or service the business is providing. In relation to financial services, the exemption will apply for businesses providing financial product advice or dealing in financial products. It will not apply to businesses seeking to issue financial products. The types of financial products eligible are payment products issued by authorized deposit-taking institutions (with a maximum of AUD 10,000 balance), deposit products (with a maximum of AUD 10,000 balance), listed Australian securities or simple schemes (with a maximum AUD 10,000 exposure) and general insurance products for personal property and home contents (with a maximum of AUD 50,000 insured).

In relation to credit activities, the ASIC Fintech Licensing Exemption will apply to businesses acting as an intermediary or providing credit assistance for credit contracts which have a loan size not more than AUD 25,000, a maximum annual rate of 24% and are not consumer leases or subject to certain responsible lending obligations.

7 HOW long will ASIC take to process sandbox application?

As a general rule, ASIC will take approximately 3 to 4 weeks to process an application 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?

Twelve months for the ASIC Fintech Licensing Exemption. However, ASIC will consider applications for an extension of the testing period for an additional 12 months. Though not prescribed, it is likely to be the same length of time for individual relief.

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?

Discussions with the ASIC Innovation Hub can be a helpful starting point for any fintech seeking to navigate Australia's financial services regime.

As set out in ASIC's Innovation Hub Progress Report as of October 2018, 314 entities requested and received informal assistance, and 67 new AFSLs/ACLs were granted.

The breakdown of business types approaching the Innovation Hub is as follows:

- digital advice – 53 entities
- payments and remittance – 47 entities
- marketplace lending – 41 entities
- crowd-sourced equity funding – 32 entities
- consumer credit – 29 entities
- markets of financial products – 23 entities
- combined/hybrid business models (combination of two or more of the above categories) – 65 entities
- other (insurance, superannuation, managed investments) – 63 entities

ASIC, through the Innovation Hub, has also signed a number of international fintech cooperation agreements, including referral and "information-sharing" agreements with the following jurisdictions:

- | | | |
|----------|-------------|-----------------|
| • UAE | • Singapore | • Switzerland |
| • Canada | • Hong Kong | • Luxembourg |
| • UK | • Malaysia | • United States |

ASIC also has "information-sharing" agreements with China, Indonesia and Kenya, as well as exchange of letters with Japan. This referral process facilitates smooth expansion of fintechs into a variety of new markets.

FAQS ON FINTECH REGULATORY SANDBOXES



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 program was introduced to expedite applications for new authorizations to carry on online-only insurance business in or from Hong Kong. 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 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.

2 WHAT are the main benefits of the sandbox?

Banks that 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.

The IA's sandbox aims to facilitate initiatives that authorized insurers may have in applying innovative technologies in their business operations, by providing some flexibility in meeting all the supervisory requirements. The sandbox also allows the IA to acquire valuable market data in order to keep abreast of the latest technological applications in the insurance industry and to refine its supervisory requirements accordingly. In addition, the "fast-track" program provides a dedicated queue for tech firms wanting to apply for a digital insurance license within a much shorter time frame than that required for traditional insurance companies.

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. The HKMA sandbox can therefore facilitate banks and their partnering tech firms to roll out fintech initiatives earlier, at a lower cost and with better quality upon full product launch.

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.

Insurers testing new fintech 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 or send a query via the HKMA's Chatroom at chatroom@hkma.gov.hk. The chatroom aims to provide supervisory feedback to banks and technology firms at an early stage when new technology applications are being contemplated. 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 (<https://www.sfc.hk/web/EN/sfc-fintech-contact-point/submit-your-questions-or-ideas.html>).

Insurers that wish to be in the IA's sandbox should write to the Insurtech Facilitation Team at insurtech@ia.org.hk.

5 WHEN to apply to be in the sandbox?

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

6 WHAT is the evaluation criteria?

Banks which are allowed to use the HKMA's sandbox should ensure the following:

- *Boundary* – There are clear definitions about the scope and phases (if any) of the pilot trial, timing and termination arrangements.



HONG KONG (cont'd)

- *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.
- *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.
- *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 which 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:

- *Well-defined boundary and conditions* – There should be a clearly defined scope of the trial, including timing and duration, or expected official launch date of the initiative to the market, size and type of insurance business, and targeted users, technology involved and expected outcome and success criteria of the trial.
- *Risk management controls* – There should be adequate control procedures to achieve the objectives of the relevant supervisory requirements of the IA.
- *Customer protection* – Adequate safeguard should be in place to protect the interests of customers during the trial.
- *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.
- *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 have not specified any particular time frame for the processing of sandbox applications.

8 WHAT is the duration of the sandbox?

Varies.

9 WHAT happens after the sandbox?

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

10 Any other issues to be mindful of?

Regulatory sandboxes are only applicable to regulated activities using fintech. Start-ups must therefore obtain the relevant license or partner with regulated financial institutions if they want to launch regulated activities using fintech and make use of the sandbox.

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 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, cybersecurity, enforceability of e-contracts and consumer protection laws, to name a few, 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?

Upon request from Bank Indonesia (BI), all registered financial technology operators (FTO) would apply to be placed in the regulatory sandbox. Targeting mainly the FTO in the payment system category, financial technology actors whose activities meet these criteria must be aware of the possibility of being requested by BI:

- innovative
- influential to existing products, services, technology or financial business models
- beneficial to the society at large
- non-exclusive in nature
- widely accessible
- available with risk identification and mitigation features

BI reserves the right to determine other criteria or other consideration factors when determining which FTO, along with their products, services, technology or business models, must be in the regulatory sandbox.

2 WHAT are the main benefits of the sandbox?

Generally, the regulatory sandbox scheme is put in place by BI to create a sound financial technology ecosystem, to support continuous and inclusive national economy growth by maintaining monetary and financial stability, as well as to create safer, easier, more efficient and more reliable payment system.

Specifically, a regulatory sandbox allows the FTO to experiment with their financial products, services, technology or business models, and to test them in a safe environment for a defined period of time. The primary benefit, however, lies in the fact that such scheme allows the FTO to conduct pilot trials without regulatory constraints usually arising from the regulators. As a consequence, the regulatory sandbox scheme encourages FTO to develop their financial products, services, technology or business models as the FTO no longer fear enforcement actions if their conduct does not comply with the prevailing laws and regulations.

Additionally, the FTO may also benefit from the close supervision provided by BI throughout the regulatory sandbox period.

3 WHAT are some of the examples of how FTO may benefit from the sandbox?

Within the regulatory sandbox period, the FTO may come up with their own scenario on how their financial products, services, technology or business models will be played out (subject to BI approving the scenario). They can experience a live execution of their business ideas by setting their own target, market area, targeted consumers and features to be tested, etc. By following the scenario, the FTO would be able to sense how well-received their inventions can be in the market and detect any error with or resistance against such inventions.

4 HOW to apply to be in the sandbox?

As suggested above, an application will be triggered once BI requests the FTO to be in the regulatory sandbox. What follows from BI's request is a three-stage process:

(a) Presentation

The FTO would give a presentation before BI (this presentation should at least contain information about the FTO's business model and risk management). Additionally, the FTO must also submit certain documents through BI's website, with the appropriate format specified by BI. Should the website be unavailable during the time of the submission, the relevant FTO may be allowed to physically submit those documents.

(b) Documents Review

BI will check the completeness, suitability and correctness of the submitted documents, and decide whether the FTO may proceed to propose a sandbox scenario. If the documents are incomplete, unsuitable or incorrect, the FTO is given 5 working days to fix the documents. On the other hand, if BI deems the documents complete, suitable, and correct, the FTO must propose a regulatory sandbox scenario within 10 working days after obtaining BI's approval.

(c) Scenario

The FTO must prepare a scenario to be reviewed and approved by BI in a timely manner, which includes at the minimum the following information:

- products, services, technology or business models to be tested
- period of time needed to conduct a trial
- target to be achieved
- regional boundaries, limits on the number of consumers and other restrictions
- reporting mechanism for the implementation of the regulatory sandbox

INDONESIA (cont'd)

5 WHEN to apply to be in the sandbox?

Ideally, the application should be made promptly upon request by BI.

6 WHAT is the evaluation criteria?

In formulating the regulatory sandbox result, BI will consider the following criteria:

- worthiness and reliability of the system provided by the FTO
- implementation of consumer protection, risk management and prudential principles
- compliance with prevailing laws and regulations

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

Not specified.

8 WHAT is the duration of the sandbox?

At the maximum 6 months following BI's determination of the (i) FTO candidate and (ii) trial sandbox scenario, which will be applied to the products, service, technology or business model of the relevant FTO.

When necessary, the duration may be extended for another 6 months (one-time extension only).

9 WHAT happens after the sandbox?

Following the sandbox trial period, BI will determine one of the following trial process results:

- (a) successful
- (b) unsuccessful
- (c) other status as determined by BI

Other status as determined by BI is invoked when the product, service, technology or business model does not fall into the payment system category.

10 Any other issues to be mindful of?

The FTO are not allowed to immediately proceed with deploying their financial products/services on a broader scale upon receiving BI's determination of a successful trial. This is mainly because the trial process of the regulatory sandbox does not in itself constitute a licensing process by BI. A separate application for a license or an approval must be lodged by the relevant FTO following a successful regulatory sandbox trial.

MALAYSIA

1 WHO can apply to be in the sandbox?

Financial institutions (FIs) and fintech companies that are looking to provide financial services (whether on their own or in collaboration with FIs) that are or 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 sandbox duration. This will facilitate FIs and fintech companies who 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 when the applicant is participating in the sandbox, it is anticipated that the applicant will have the opportunity to engage with BNM and provide information on the technological services that may help shape a more practical regulatory framework in future.

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

FIs 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 do you 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.

FAQS ON FINTECH REGULATORY SANDBOXES



MALAYSIA (cont'd)

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 and the evaluation criteria prescribed by the regulators, as applicants are required to demonstrate how they will meet these requirements in the application.

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 endeavors to inform applicants of their eligibility to participate in the sandbox within 15 working days upon receipt of the application. If the applicant is eligible, it 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. BNM will inform the participant if it is approved at the end of the preparation stage. 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?

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

9 WHAT happens after the sandbox?

The regulatory flexibilities accorded by BNM to the participants will expire. The participant can proceed to deploy the product, service or solution on a wider scale provided it is able to meet all the legal and regulatory requirements prescribed by BNM.

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.

FIs and fintech companies should also be mindful of licensing issues and 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, cybersecurity, enforceability of e-contracts, and consumer protection laws, to name a few, 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

The fintech space in the Philippine jurisdiction is primarily regulated by two governmental agencies, namely, the Philippine Securities and Exchange Commission (the Philippine SEC) and the Bangko Sentral ng Pilipinas (the BSP). Generally, the Philippine SEC regulates those aspects of fintech operations having to do with 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).

At present, there are no laws, rules or regulations specifically governing the establishment or the conduct of regulatory sandboxes in the Philippines. Nevertheless, 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 not otherwise regulated under prevailing legislation under a quasi-regulatory sandbox regime.

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



PHILIPPINES (cont'd)

1 WHO can apply to be in the sandbox?

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. The decision to grant or permit such firm to so 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 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 the same would allow them to identify and assess, ahead of going out to the wider market, the likely regulatory risks or issues that may arise in the event that the regulator should subsequently permit (by issuance of subsequent regulation) such activities, products or services to the general public.

3 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 fintech activity may properly be subject of such a sandbox is largely on a case-to-case basis and will depend on the discussions between a proponent and the relevant regulator.

4 WHAT happens after the sandbox?

Based on recent experience, if, following the establishment and operation of the regulatory sandbox (or its functional equivalent), the regulator should subsequently decide to permit the relevant fintech activity, product or service, the regulator typically comes out with the corresponding rules and regulations by which any interested party (including, of course, the participant in the sandbox) may properly qualify or be licensed to engage in such activity, product or service.



SINGAPORE

1 WHO can apply to be in the sandbox?

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

2 WHAT are the main benefits of the sandbox?

MAS may exempt FIs and fintech players from specific regulations for the sandbox duration. This will facilitate FIs and fintech players who 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 regulator's expectations on the application of existing regulations.

3 WHAT are some of the examples of how FIs may benefit from the 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, which 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 do not meet the requisite track record or capital resources requirements may seek exemptions from these requirements.

4 HOW do you apply to be in the 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.

FAQS ON FINTECH REGULATORY SANDBOXES



SINGAPORE (cont'd)

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 and the evaluation criteria prescribed by MAS, as applicants are required to demonstrate how they will meet these requirements in the application.

6 WHAT is the evaluation criteria?

MAS will consider if the solution involves the use of technology in an innovative way and bring 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.

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

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 MAS where the boundaries and duration of the sandbox are discussed and formulated. 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.

8 WHAT is the duration of the sandbox?

Varies.

9 WHAT happens after the sandbox?

The legal and regulatory requirements relaxed by MAS will expire. The sandbox entity can proceed to deploy the financial services on a broader scale provided that it is able to meet all the legal and regulatory requirements and both MAS and the entity are satisfied that the sandbox 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 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, cybersecurity, enforceability of e-contracts, and consumer protection laws, to name a few, 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.

innovative products and/or service in the real market and the FSC and other government authorities may take the chance to re-consider about the regulations, laws and policies to see if any amendment needs to be made or any flexibility is acceptable. Also, an applicant may request the FSC to help liaise with other government agencies if its business involves not just the market regulated by the FSC.

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

As the first case of Taiwan's sandbox project, KGI Bank, a local bank in Taiwan, has successfully applied for the sandbox experiment. It plans to work with a local telecom company in granting personal loans to those who have duly paid their telephone bills. The innovation part is that KGI Bank and the local telecom company will conduct KYC on the applicant by using user behavior analysis in relation to their use of mobile phones.



TAIWAN (cont'd)

4 HOW do you 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:

- description of the source of funds
- the financial services to which the innovative experiment will be related
- description of innovativeness, including technological innovation or business model innovation
- the scope, duration and scale of the innovative experiment
- information on key officers carrying out the innovative experiment
- major clauses of the contract signed with participants
- participant protection measures
- potential risks during the experiment period and risk control mechanism
- description of money laundering and terrorist financing risk assessment and risk mitigation measures established using a risk-based approach
- IT systems used in the innovative experiment, and description of security control operation and risk response measures
- expected benefits of the innovative experiment and benchmarks for measuring the benefits achieved
- 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
- relevant information on financial technology patents involved, if any
- cooperation agreements and description of relevant parties regarding their respective rights and obligations if the innovative experiment will 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 anytime once the application form, innovation experimentation plan and other related documents are completely prepared.

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:

- whether the experiment involves financial services that require the permission, approval or concession of the competent authority

- whether the experiment is innovative
- 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
- whether potential risks have been assessed and relevant response measures prepared
- whether participant protection measures have been established and appropriate compensation prepared
- other matters that the FSC requests to evaluate

7 HOW long will FSC take to process sandbox application?

The FSC shall complete the review of a sandbox application and make the approval or rejection decision in sixty (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 an innovative experiment approved by the FSC shall be limited to one year. However, an applicant may, one month before the approved experiment period ends, apply to the FSC with reasons attached for approval of an extension; the extension shall be limited to once and no longer than six months. Notwithstanding the foregoing, when an innovative experiment involves any law amendment, the extension of the experimentation period is not limited to once. However, the entire experiment period shall not be longer than three (3) years.

9 WHAT happens after the sandbox?

When applying to enter into the sandbox, an "exit mechanism" is required to be covered under the innovation experiment plan. If the applicant's innovative 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 innovation experiment but also "statutory regulation clarification and consulting services" to assist an applicant in confirming with relevant competent statutory authorities about whether or not the applicant's business involves the application of, or conflict with, any kind of laws based on the individual business plans. The applicant may determine whether to continue to promote the original business plan, or modify or change the content of the business plan to be conforming to the existing laws based on the replies from competent authorities.



TAIWAN

1 WHO can apply to be in the sandbox?

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

However, there are certain qualifications for an applicant: for a natural person, it must be someone who himself/herself or his/her agent has a residence or domicile in Taiwan. For sole proprietorship or partnership, its responsible person or its agent must have a residence or domicile in Taiwan. As for juridical 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 exempted from certain laws and regulations in accordance with its proposal approved by the FSC. An applicant will be able to test its

FAQS ON FINTECH REGULATORY SANDBOXES



THAILAND

1 WHO can apply to be in the sandbox?

For the Bank of Thailand's (BOTs) 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; 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 greater visibility 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 specifies in their application as the BOT will grant permission on a case-by-case basis.

Additionally, offering the new technology through the sandbox may help provide assurance for consumers as they will be aware that the technology passed a BOT evaluation and remains under BOT supervision. Hence, issues like consumer protection measures and data security are heavily emphasized, which may make them 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 that are currently being implemented under the BOT's sandbox are 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 do you 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 innovation involving new technology not already available in Thailand or that 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 BOT take to process sandbox application?

The consideration process will take no longer than 45 business days from the date on which the BOT receives the application and a complete set of supporting documents.

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.



THAILAND (cont'd)

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 goals are not met, or the applicant fails to comply with the conditions agreed to during participation, the applicant must stop its 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 startups 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 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 like robo-advisors, 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
- a regulatory sandbox for e-trading platform

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



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 to fintech start-ups and those not yet authorized by the FCA, with each group, or "cohort" as they are referred to, being oversubscribed. 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 has said of its latest participants that:

- they include consumer credit, automated advice and travel insurance propositions
- 40% are using distributed ledger technology, six of which are using it to automate the issuance of debt or equity

- other technology includes geo-location technology, use of APIs and artificial intelligence
- there is a large increase in firms testing wholesale propositions
- a few firms will test propositions relating to crypto-assets

The FCA wishes to explore whether, in a controlled environment, consumer benefits can be delivered while effectively managing the associated risks.

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.

FAQS ON FINTECH REGULATORY SANDBOXES



UNITED KINGDOM (cont'd)

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.

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/blockchain or where firms want to facilitate partnerships with innovative start-ups.

4 HOW do you apply to be in the sandbox?

In the UK, the FCA accepts applications to the sandbox on a cohort basis with two six-month test periods per year. In July 2018 it was announced that 29 firms were accepted into the latest (the fourth) cohort of the FCA sandbox (69 applied).

Applications for cohort 5 open later in 2018.

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 market. Other requirements include the need to show:

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

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 FCA take to process sandbox application?

Normally, applications for authorization to the FCA can take up to 6 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., 3 to 6 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 in the first cohort went on to a wider market launch.

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 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, for example, investment firms under MiFID, which would contravene EU law. This can limit the extent to which the normal constraints can be relaxed.

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