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Support to an Enabling Business Environment for MSMEs Development & Financial Inclusion

Guide for Launching Regulatory Sandboxes for Innovative Finance

GOPA
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Why a regulatory sandbox guide?

Harnessing benefits while managing risks

The rapid development in financial technology – FinTech – in recent years has transformed both the economic and financial landscapes. FinTech is offering a wide range of opportunities with attached risks to consumers, financial and nonfinancial firms, service providers and regulators at different pace and levels. Regulators around the globe are eager to promote for FinTech benefits, while avoiding the potential risks. Different regulatory regimes have been adopted by regulators to govern the sector one of which is the Regulatory Sandbox.

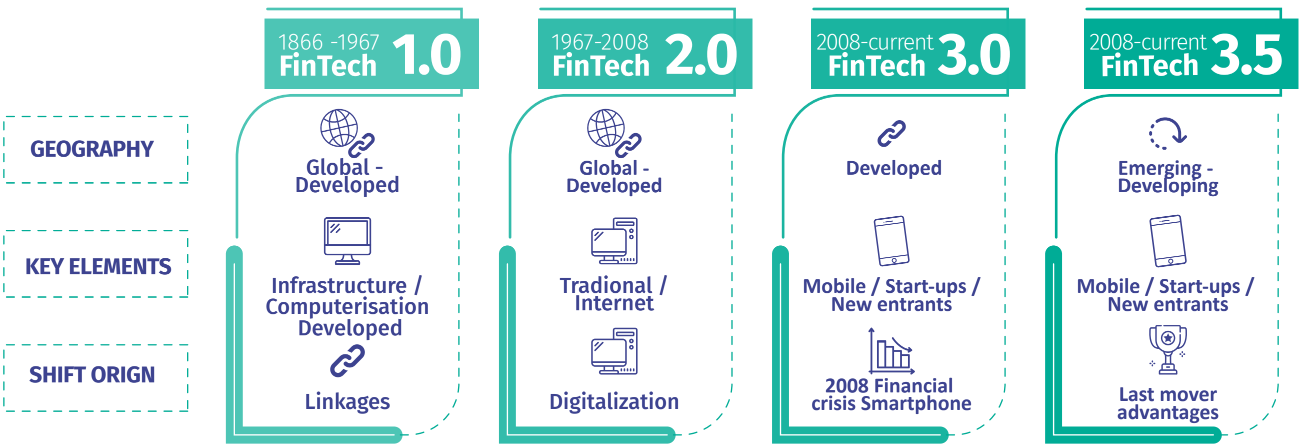
This Guide is intended for Regulators overseeing the FinTech Sector and aims at addressing the following main topics:

1. Historical evolution of the FinTech and Alternative Finance.
2. General practices and regulatory regimes to govern the sector.
3. Main elements for conceptualization, implementation and post implementation of a Regulatory Sandbox according to international good practices.
4. Main benefits and considerations of Regulatory Sandboxes.
5. Tools and examples.
6. MED MSMEs Programme Support.

1. The FinTech Revolution

The interlinkage of finance and technology of what is currently known as FinTech has a long history that goes back to the 1950s with the introduction of the credit cards. However, the emergence of the most recent evolution of FinTech that is currently being led by the start-ups (or what is so called FinTech 3.0) for providing innovative financing tools by utilizing data and technology to bridge the financing gaps is still in its first decade. The following graph presents the topology of the FinTech landscape and evolution as presented in the paper by Arner, Barberis & Ross[1]:

Figure 1 : Evolution of FinTech



Source : Evolution of FinTech – Zigurat Innovation & Technology Business School

FinTech 1.0 is characterized of being an analogue industry despite the fact that there were considerable interlinkages between the financial industry and technology. FinTech 2.0 managed to transform finance from an analogue to a digital industry by the development of the digital technology for communications and processing of transactions, however FinTech 2.0 was still mainly dominated by the traditional regulated financial service providers that utilized technology to offer financial products and services. In the wake of the financial crisis in 2008 and onward, FinTech 3.0 was introduced and was led by the start-ups who started delivering innovative financial products and services directly meeting the needs of its targeted groups (individuals and businesses). During this era, FinTech has become an essential tool for industries like crowdfunding, blockchain, cryptocurrency, mobile payments, insurance, budgeting apps in addition to several other solutions

Box 1 - FinTech Facts & Figures – April 2020

- USD 50 bn – Annual investments in FinTechs.
- 2/3 of Financial transactions are made online.
- 500+ of new FinTechs are created every year.
- 30% increase in operating profits could be gained by Banks.
- 2bn worldwide unbanked individuals could be served through mobile.
- USD 50 million is sufficient to create new digital bank.

Source: https://www.thekerplunk.com/2020/04/03/what-is-fintech-and-why-does-

[1] The Evolution of FinTech: A new Post-Crisis Paradigm

1.1 FinTech's Role in Supporting MSMEs

MSMEs are considered a significant driver and contributor to the economic and social development of emerging markets. As MSMEs account for more than half of most emerging countries' GDP and are responsible for nearly 70-95% of new employment opportunities. However, access to finance is considered one of the major challenges faced by MSMEs restricting their business growth. According to the International Finance Corporation (IFC), the financing gap for MSMEs was estimated at USD 5.2 trillion every year Which is inst of as widen significantly as a result of the COVID-19 outbreak.

Start-ups led FinTech – FinTech 3.0, offers a feasible solution to MSME financing and is supporting regulators in the implementation of financial inclusion strategies in both the developed and developing countries. These alternative and innovative tools are supporting in bridging and closing the financing gaps faced by the MSMEs sector mainly by:

1. Providing products and services at higher efficiency and lower costs.
2. Mitigating information asymmetry: by increasing the scope for efficient and cost-effective collection an analysis of enormous quantities of data for use in financial decision-making.
3. Providing more diverse sources of funding: by having no geographical limitations, funds could be obtained from individual investors, institutional investors and government agencies from anywhere in the world.

Nonetheless, with the COVID-19 outbreak, MSMEs around the world have been significantly impacted by the pandemic and the global lockdown which resulted in a reduced demand, disrupted supply chains and lack of finance. Subsequently, MSMEs now more than ever need all the support to cover their running costs and operations, and maintain their employees. Policy makers and regulators around the globe have introduced different initiatives and programmes to boost their economies including extending credit lines and soft loans to MSMEs with more relaxed conditions.

Yet, government resources are limited, which requires the support from the private sector. FinTechs can even play a more vital role in unlocking finance and drive the economic recovery. More importantly, collaboration between banks and FinTechs could be a key element for finding solutions and new opportunities for the financial sector and ultimately supporting an adaptation to change.

A partnership between banks and FinTechs could result in providing more innovative and affordable financing tools by tapping on the banks' benefits of: capital, distribution channels and compliance infrastructure, while FinTechs can offer their digital solutions by mainly depending on automation, Artificial Intelligence (AI), and machine learning.

1.2 Opportunities & Challenges

The rapid pace of innovation in financial services resulted in an emergent need for the development of a regulatory framework that governs the operations of the Alternative Finance and FinTech with an ultimate objective of creating a balance between the potential **benefits** and possible **risks** of the new innovations.

FinTech main benefits – opportunities could be summarized by the fact that FinTech provides alternative solutions and business models that could complement traditional banking processes and could provide innovative and affordable financing tools. Additionally, banks can drive the digital transformation ahead themselves, open up new sources of revenue and spearhead developments. In a nutshell, FinTech could provide innovative solutions to the following main problems:

1. **Limited access to payment options:** by providing more payment options available for individuals and expanding payment methods accepted by businesses.

2. **Security concerns:** by integrating biometric security measurements into certain programmes such as scanning fingerprints, voice recognition and iris scanning.

3. **Limited access to finance:** by removing many of the traditional barriers to obtaining finance such as high collaterals and introducing new innovative tools such as the Peer-to-Peer Lending[1] (P2P).

4. **Unbanked and underbanked segments:** by expanding the range of financial services available and broadening access to financial services and allowing individuals to open accounts with small deposits.

Despite the fact that FinTech industry has been growing over the past decade and its potential use seems more promising with the emergence of the COVID-19 outbreak, there are several challenges that the industry needs to confront and address. The following are the main challenges and risks associated with the emergence of the FinTech industry:

1. **Privacy Concerns:** the threat of misuse of private information by FinTechs and the risk of cyber-attacks.

2. **Comprehension:** insufficient customer understanding or knowledge of the usage and benefits of a particular solution.

3. **Regulatory Concerns:** the financial sector is heavily regulated to ensure financial integrity and stability of a country. FinTechs require a more relaxed regulatory framework to enable them to successfully implement and run their operations.

[2] Peer-to-Peer Lending: is a debt-based crowdfunding that allows individuals and companies to lend and borrow money through an online platform instead of making use of the traditional bank as an intermediary.

The following graph depicts the main FinTech solutions, their key benefits and associated challenges and risks:

Figure 2 : FinTech & Financial Inclusion

Mobile/Internet

Cloud computing

AI, ML, Big data

BLOCKCHAIN

Internet of things (loT)

	New Business Models / Financial Products	Technology / Products	Examples of Key Benefits	Examples of Key Challenges/Risks
PAYMENTS	1 Mobile Money P2P Transfers		• Simple, more reliable, cost effective, and faster than other methods • Can help lift people out of poverty	• Fraud risk from agents • Lack of interperability • Relatively low active usage rates
	2 Digital Payments & Remittances		• Lower costs, higher transparency, and higher privacy • Significant saving in time and travel costs	• Data security risks • Providing personal information which can be lost or stolen
LENDING	3 Credit Risk Assessment		• Access to loans, which was not possible with traditional credit risk assessment models	• May create gender bias and/or income inequality • Spurious correlations from the data
	4 Alternative Lending / P2P Lending	+ 2 + 3	• Access to loans to unbanked and underbanked • Faster and more efficient	• Higher borrowing costs when compared to bank loans • Risk of over indebtedness
SAVING & INSURANCE	5 Digital Savings		• Lower coast, increased liquidity, and higher transparency • Lower risk of theft	• Significant customer financial capability required • Regulation / protection of the float
	6 Digital Insurance	+ + 2	• Lower cost, increased liquidity, and higher transparency • Faster and more efficient	• Significant customer financial capability

Source: UNSGSA FinTech Working Group and CCAF (2019)

Nonetheless, advantages of FinTech far outweigh its challenges, provided that the industry is well regulated. The following section provides the different regimes that have been adopted by different regulators to properly govern the industry and overcome the above highlighted challenges.

1.3 Regulatory Regimes & Frameworks

In order to decrease and minimize the risks associated with the FinTech rapid development, different innovative regulatory tools and initiatives were put in place and adopted by different regulators to govern the industry depending on the market's sophistication and regulator's objectives, such as:

- **Wait & See Approach:** this approach allows innovations to be developed with no restrictions and this approach is mostly applied in environments with limited regulatory capacity. However, it creates a major risk if not controlled through regulations at later stages. *e.g. China*.
- **Test & Learn Approach:** allows new innovations to be tested in a live environment with direct involvement by the regulators and it is conducted on case by case basis. Nonetheless, adopting this approach shows some limitations in scaling up and raise challenges in providing equal treatment to all participants. *e.g. Philippines & Tanzania*.
- **Regulatory Sandbox Approach:** a regulatory framework that allows businesses and innovators to test their innovative Fintech products, services or solutions in the market under a more relaxed regulatory environment, complemented by a well-defined space and duration arranged and agreed upon with the Regulator. *e.g. United Kingdom, Australia, Singapore, Jordan, Tunisia, UEA, Jamaica, Sierre Leone*.

Regulatory Sandboxes provide greater transparency and replicability and are most relevant to markets with good supervisory capacity and high level of active, potential non-licensed players.

Regulatory Sandboxes showcase the willingness of regulators to engage with industry participants and consumers with the ultimate objective of creating a balance between **financial inclusion**, **consumer protection** and **financial stability**. Additionally, Regulatory Sandboxes offer a faster route to market and a clearer understanding of the challenges that both regulators and Sandbox Participants must overcome.

By definition, a Regulatory Sandbox is a framework and a regime set up by the Regulator that provides a secured and safe environment for innovative FinTech solutions to be developed and tested against rules and regulations in a live environment with real consumers without the need of immediately incurring all normal regulatory consequences.

Box 2 - Regulatory Sandbox is a safe environment with clear boundaries and safeguards, where innovators/participants can:

- Build and test any new innovative solutions!
- Be granted even more relaxed rules!
- Overcome and contain the consequences of failure!
- Provides waivers and relaxed rules.

1.4 Regulatory Sandbox Benefits

Regulatory Sandbox is one of the main innovative and most popular tools that allows FinTech ecosystem stakeholders to work together to modify the regulatory environment without affecting the current financial system or compromising customers protection. Regulatory Sandboxes are attached with several key benefits to the following main three stakeholders:

- **Regulators:**

  The Regulatory Sandbox usually functions through calls for projects and cohorts that facilitates the identification of innovative solutions by the regulator; it acts as an observatory of the FinTech sphere. Dialogues open a transparent communication with stakeholders whom transfer their know-how to the Regulators and actively collaborate to identify key issues and risks before fully materializing new innovations.

- **Innovators:**

  Regulatory Sandbox offers the possibilities for innovators to test their solutions in a live environment with real customers and transaction values, however in a more relaxed regulatory framework and without the need to be fully authorized.

- **Customers:**
  Regulator Sandboxes encourage the launching of innovative products that bring in end - customers benefits; this stimulates competition amongst main industry stakeholders, giving a wider choice and better adapted solutions that meet customers demand.

Regulatory Sandbox benefits are detailed in the following graph:

REGULATOR

-Inform long term policy making for the sector through learning and experimentation.

-Signal commitment to innovation and learning.

- Promote communication and engagement with market participants and FinTech Ecosystem Stakeholders.

- Update regulations that may prohibit beneficial innovation.

INNOVATORS

-Reduce time-to-market by streamlining the authorizationn process.

-Reduce regulatory uncertainty, such as that new technologies and business models will not be prohibited.

- Gather feedback on regulatory requirements and risks.

- Improve access to capital

CONSUMERS

-Promote introduction of new and potentially safer products.

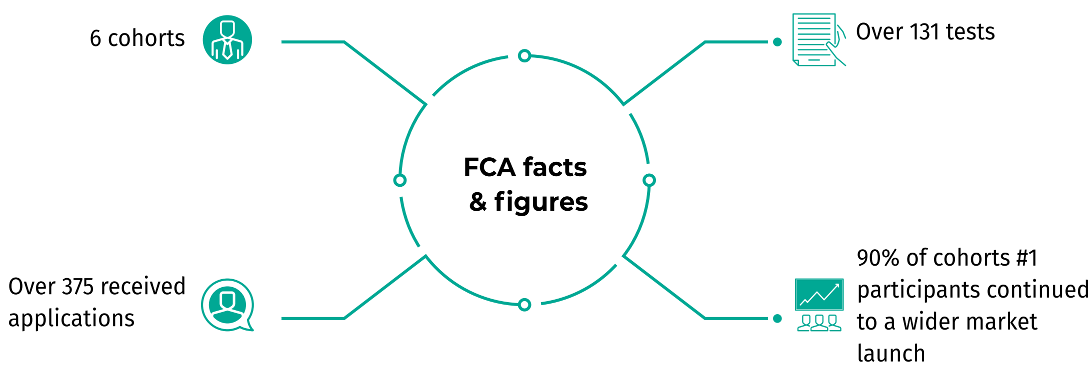
-Increase access to more affordable and competitive financial products and services.

Based on the above, there are significant values and benefits of Regulatory Sandboxes to regulators, participants and consumers alike. Regulators and participants/innovators witnessed significant value in the improved feedback between industry and regulators. Greater regulatory certainty has encouraged innovators to further engage with regulators to facilitate market entry of new ideas which will offer more innovative and affordable financing tools to consumers who will have more competitive solutions to select from.

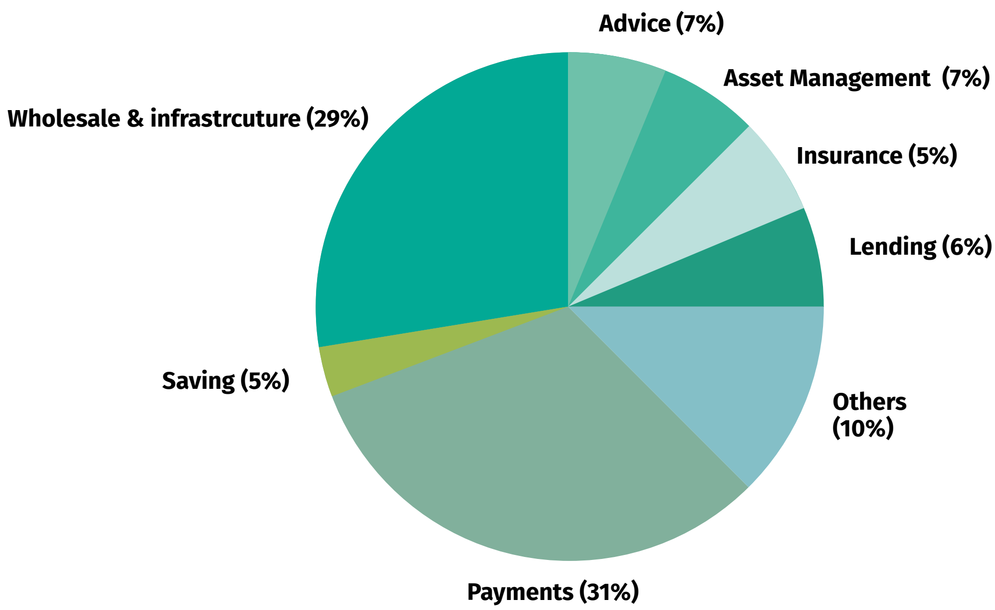
1.5 Regulatory Sandbox Facts & Figures

Regulatory Sandboxes are considered a recent innovation, with limited empirical analysis and short track record to be able to assess or evaluate their performance and impact. However, Regulatory Sandboxes are expected to have a positive impact in the long run, as competition and innovation, *which are the main objectives of a Regulatory Sandbox,* are difficult to measure and would not demonstrate impact in a short period of time.

In 2014, UK Financial Conduct Authority (FCA) was the first in the world to announce the Regulatory Sandbox with main objectives of facilitating innovative solutions to MSME finance, while at the same time safeguarding data security, protecting investors and preventing abuse. The FCA Regulatory Sandbox first cohort was launched in 2016.



The following graph provides an overview with regards to the Regulatory Sandbox Participants by sector in 12 jurisdictions.

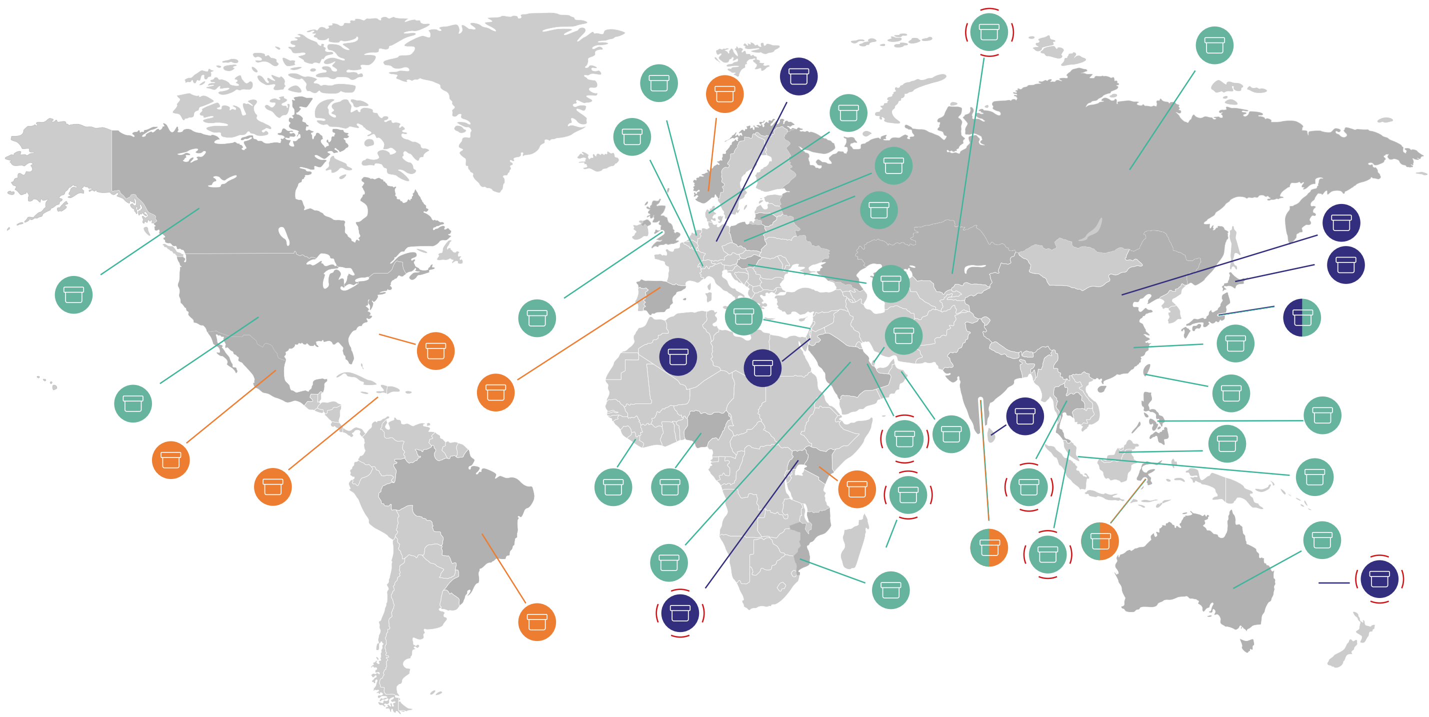


Source : Do Regulatory Sandboxes Impact Financial Inclusion? A Look at the Data

Based on the data above, around 30% of the Sandbox Participants are involved in payment activities including remittances and digital transaction accounts, followed by around 30% in the infrastructure sector exchanges, clearing, settlement and escrow services, and 25% in asset management, lending, insurance and advisory services.

As of today, there are over 30 active Sandboxes operating globally as depicted in the map below:

Figure 3 : Active Regulatory Sandboxes



Operational Sandboxes (Green)

Abu Dhabi
Australia
Bahrain
Brunei
Canada
Denmark
Dubai
Hong Kong
Hungary
India
Indonesia
Japan
Jordan
Kazakhstan
Lithuania
Malaysia
Mauritius
Mozambique
Netherlands
Nigeria
Philippines
Poland
Russia
Saudi Arabia
Sierra Leone
Singapore
Switzerland
Taiwan
Thailand
UK
USA

Forthcoming Sandboxes (Orange)

Bermuda
Brazil
India
Indonesia
Jamaica
Kenya
Mexico
Norway
Spain

Proposed Sandboxes (Blue)

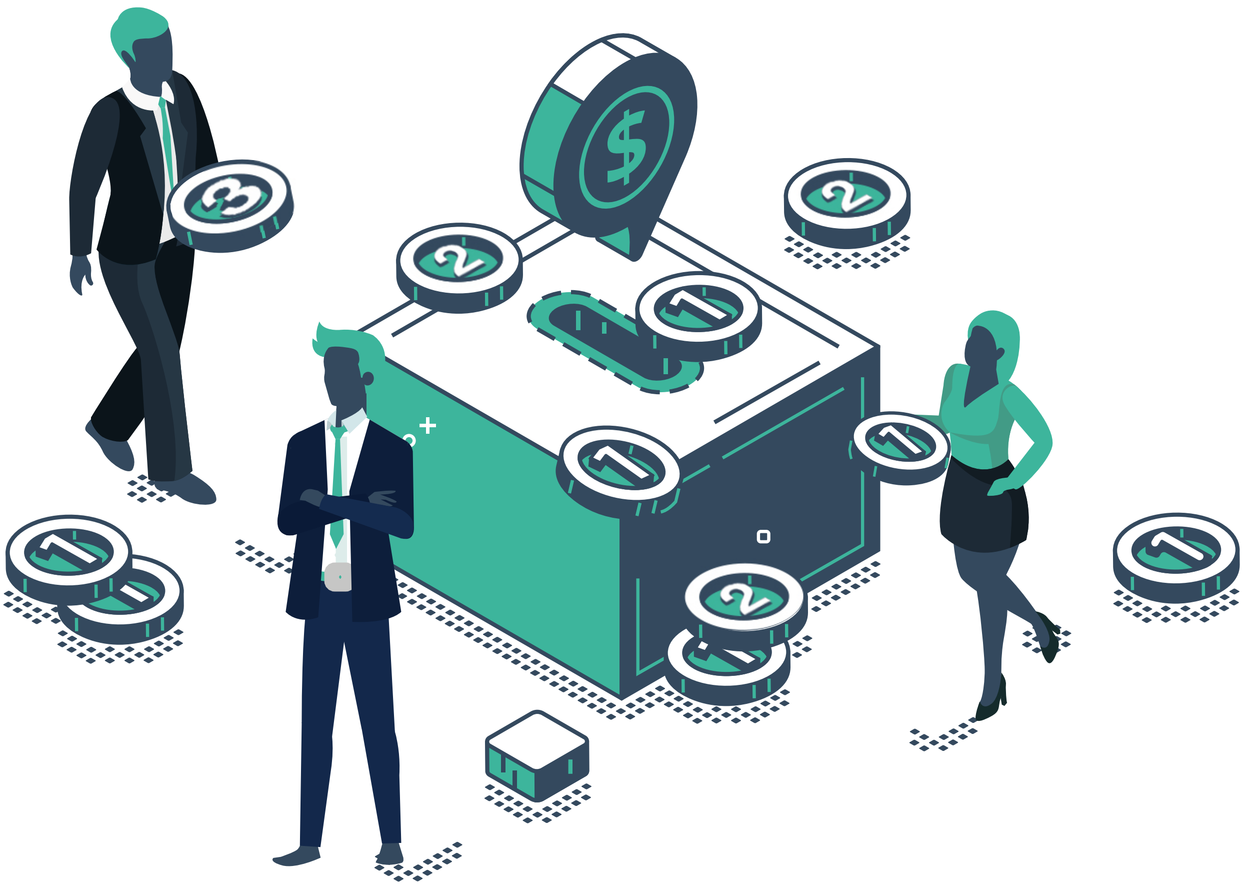
China
EU
Fiji
Israel
Japan
Malta
South Korea
Sri Lanka
Uganda

Financial Inclusion

Source: UNSGSA – Early Lessons on Regulatory Innovations to Enable Inclusive Fintech – 2019

In addition to the above identified Regulatory Sandboxes, in January 2020, the Central Bank of Tunisia (BCT) announced the official launch of the Regulatory Sandbox with main objectives of promoting financial inclusion and innovation and moving towards the restructuring and digitalization of banks.

2. Establishment of a Regulatory Sandbox



Main Stages

The establishment and management of a Regulatory Sandbox involves different steps and stages that require direct integration and interaction between regulators and the FinTech Ecosystem Stakeholders.

The following figure provides a general overview of the main stages for the establishment and management of a Regulatory Sandbox:

1. Conceptualization
2. Operationalization
3. Post Implementation and Key Considerations.

These stages will be described in detail in the following sections.

Figure 4 : The Establishment of a Regulatory Sandbox

Conceptualizing of a Regulatory SandBox	Operationalizing of Regulatory SandBox	Post-Implementation Consideration of a Regulatory SandBox
Governance,Institutional Structure & Objectives	Submission & Evaluation of Applications	Gather & share data
Collaboration & Engagement	Guidance and supervision	External engagement & collaboration
Team Capacity & Resources	Connections with external and internal advisors	Support & feedback
Process & Structure	Monitoring and Evaluation	Internalise lessons & take action
Eligibilility Criteria & Time Frame		International cooperation
Tools & Enforcement		Knowledge sharing & transfer

The following sections provide detailed description about each of the above-mentioned stages.

2.1 Conceptualizing of a Regulatory Sandbox

The following section highlights the main areas that Regulators are encouraged to consider when conceptualizing the formation of a Regulatory Sandbox. Conceptualization includes analysing and identifying the following main areas: 1. Governance 2. Collaboration & Engagement 3. Founding Document 4. Team Capacity & Resources.

2.1.1 Governance

Sandboxes are generally operated, or hosted by the primary financial regulatory authority in the country which are mainly the Capital Market Authority or the Central Bank. Ideally, the Regulator running the Sandbox operations would have the authority on all the key sectors expected to participate in the Sandbox. Sectors could include banking and capital markets, investment management, insurance and real estate just to name a few. Regulatory boundaries would limit the type of innovations, products and services that could be tested within a Sandbox.

New technologies are increasingly utilized to create and develop new financial products that could be overseen or supervised under the authority of two different regulators. For example, Peer-to-Peer Lending or Market Place Lending could fall under both the banking, (*supervised under the central bank*s), and securities regulations (*supervised by the capital market authorities*). Accordingly, and to overcome these challenges, Regulators are advised to establish a coordination and collaboration approach with relevant stakeholders for establishing and running the Regulatory Sandbox operations. FinTech stakeholders will be further explained and described in the following section.

Box 3 -

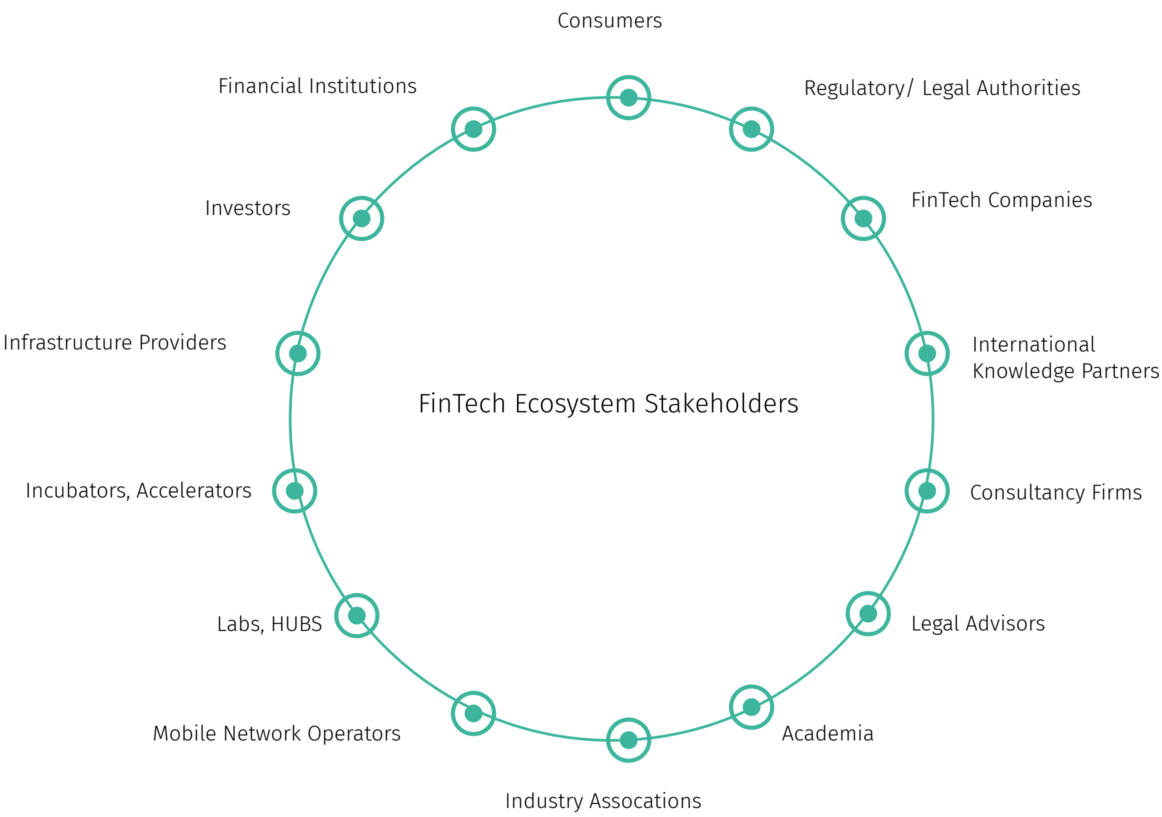
Regulators are encouraged to identify any approvals required for the establishment of the Regulatory Sandbox (i.e. Prime Ministry, Parliament) at a very early stage. Examples: Spain and Australia Parliamentary approvals are prerequisites for the establishment of a Regulatory Sandbox.

2.1.2 Collaboration & Engagement

The main success factor in the development of any Regulatory Sandbox is to identify *achievable* and *reasonable* objectives and goals that are aligned with the country's priorities (i.e. economic growth, financial inclusion) and address the needs and challenges faced by the FinTech Ecosystem (enhancing competition and encouraging innovation).

A well-designed and actionable collaboration and engagement strategy is developed in close coordination between the Regulator and representatives from the FinTech ecosystem. A study conducted by Alliance for Financial Inclusion (afi) – *Creating Enabling FinTech Ecosystem: The Role of Regulators*, has identified broad categories of main potential FinTech Ecosystem Stakeholders that could be present in different countries as follows:

Figure 4: FinTech Ecosystem Stakeholders



Source: https://www.afi-global.org/sites/default/files/publications/2020-01/AFI_FinTech_SR_AW_digital_0.pdf

Champions in this field, *who have both the will and the power to make a change to empower the sector*, and Regulators are expected to facilitate discussions and consultations, collaborate and share knowledge on new technologies, challenges and expected solutions to support empowering the sector and achieving the desired economic development.

By engaging in a proactive consultation approach with the private sector in the form of a Public-Private Dialogue (PPD), both regulators and private sector stakeholders will be able to:

- Reach a mutual understanding of the FinTech innovation and risk profiles.
- Understand their respective roles in promoting financial inclusion.

- Strengthen compliance with local and international standards.
- Identify the main issues and challenges facing the financial sector, giving the Regulator a better position to focus attention on prioritizing and addressing these issues.

2.1.3 Regional and International Consultation

One of the most recent considerations by regulators who have already adopted and started implementing Regulatory Sandboxes is the introduction of a new concept of Regulatory Sandboxes that are not limited to just one jurisdiction. The emergence of such tool will support in building multilateral “FinTech Bridges” that will improve information sharing and will support clarity on FinTech’s cross-border regulatory impacts.

Therefore, consultation should not only be conducted at a local level, Regulators should also consult with the regional and international peers in order to acquire experiences, share information and exchange lessons learned about emerging trends and regulatory issues with an ultimate objective of helping FinTech companies to scale regionally and internationally. This could be established through *Cooperation Agreements*.

Cooperation Agreements are agreements signed between peer-regulators to share information about the financial services in their respective markets including emerging trends and regulatory issues.

The following table depicts the Cooperation Agreements signed between countries:

Localisation	Agreements with others regulators (in order of agreements date)
Abu Dhabi	1: Singapore
Australia	**4 : UK, Singapore, Canada, Kenya**
Canada	2 : Australia, UK,
China	1 : UK
France	1 : Singapore
Honk kong	1 : UK
India	1 : Singapore
Japan	2 : UK, Singapore
Kenya	1 : Australia
Singapore	**8 : UK, Korea, India, Swizerland, Australia, Abu Dhabi, Japan, France**
South Korea	2 : Australia, UK
Swizerland	1 : Singapore
UK	**7 : China, Singapore, Korea, Australia, Hong Kong, Canada, Japan**

Source: Deloitte – Connecting Global Fintech: Interim Hub Review, March 2017

Singapore and UK are considered the leading countries in sharing and exchanging knowledge and information with an objective of being always ahead of the technological development.

Consultation and Engagement as an ongoing process

Regulators must always be up-to-date with the most recent developments in the ecosystem and should consistently engage with the private sector in order to reflect and respond to the most recent developments from both the Sandbox tests and the market needs' viewpoint. Regulators are advised to:

- Actively participate in national and regional FinTech events to stay up-to-date with latest trends, innovations and industry developments.
- Harmonize and align regulatory regimes across local regulatory counterparts by creating working groups or taskforces to regulate new innovations.
- Connect with incubator programs, accelerators, innovation labs and co-working spaces to bring in FinTech start-ups.
- Collaborate with regulatory peers from other regions to promote regional integration through regional working groups.

FCA, showcase the best example in external engagement and consultation activities with at both the national and international levels which was conducted through the conceptualisation, creation and ongoing formulation of the Regulatory Sandbox. The following presents the main engagement activities conducted by FCA:

Box 4-

- Policy Engagement at conceptualisation and creation stages.
- Roundtables : for feedback and improve in operations.
- Thematic Workshops.
- Events and Conferences.
- Consultation processes with the FinTech ecosystem stakeholders.
- Collaboration with international financial services regulators and signing Cooperation Agreements.

Source : FCA Guide to Promoting Financial & Regulatory Innovation

2.1.4 Founding Document[2]

Based on the outcomes of the Consultation and Engagement phase, the Regulator will now be able to formulate the general guidelines and main parameters that set and govern the development and implementation of the Regulatory Sandbox in what is so called the **Regulatory Sandbox Founding Document**. The Founding Document should cover the following main topics and features:

2.1.5 Objectives

Regulator's specific objectives and parameters for creating a Regulatory Sandbox differ from one country to another, however there are general objectives that have been unified across all the 30 Regulatory Sandboxes around the globe that revolves around the following objectives:

1. Support for innovation.
2. Market development and consumer benefits.
3. Enhance Competition and protecting consumers.
4. Economic growth.
5. Financial inclusion.

The objectives of any Sandbox must be consistent with the legal mandate and authorities of the Regulator and must be in line with the national strategies of the country. The following presents examples of the main objectives of the establishment of Regulatory Sandboxes in certain jurisdictions.

Innovation	Competition	Consumer Benefits	Financial Inclusion
Abu Dhabi	Abu Dhabi	Bahrain	Bahrain
Hong kong	Bahrain	Netherland	India
Malaysia	Indonsia	Singapore	Malaysia
Netherland	Thailand	Thailand	Sierra leone
UK	UK	UK	

[3] UK Founding Document : https://www.fca.org.uk/firms/innovation/regulatory-sandbox-prepare-application
https://www.fca.org.uk/firms/innovation/regulatory-sandbox-tools
https://www.fca.org.uk/firms/innovation/regulatory-sandbox
Jordan Founding Document: https://www.cbj.gov.jo/EchoBusV3.0/SystemAssets/9328fddf-3f3d-40d8-9ed3-d98bbc89db20.pdf
Saudi Arabia Founding Document : http://www.sama.gov.sa/en-US/Regulatory%20Sandbox/Documents/Regulatory_Sandbox_Framework_English_Nov4.pdf

2.1.6 Eligibility Criteria

Regulator must set out criteria that enables them to make decisions regarding applications submitted to benefit from the Regulatory Sandbox. In general, most regulators set the following as the main eligibility criteria:

1. **Genuineness of innovation:** the innovation (product/service) is new or is providing a significantly different offering from the currently available in the marketplace.
2. **Benefits to customers:** the innovation (product/service):
    a. Offers better deals for customers by having new tools at better terms that directly meet their needs to better conduct their operations and serve their clients.
    b. Mitigates potential and current risks faced by potential customers.
    c. Provides and promotes effective competition.
3. **No risks are attached to the financial system:** there are certain risks that are associated with the emergence of FinTech that include strategic risks, operational risks, compliance risks in addition to cybersecurity threats and amplifying third-party risks. Accordingly, Applicants must present in their application that there will be no risks attached to the new innovation, and if any, certain measures and safeguards must be proposed in order to overcome such risks.
4. **Testing readiness:** if the innovation (product/service) is ready to be tested in the real market with real customers. This could be demonstrated by having :
    a. A well-developed testing plan with clear objectives, parameters and success criteria.
    b. Initial testing has already taken place and been conducted by the innovator/applicant.
    c. The availability of resources to be tested in the sandbox.
    d. Sufficient safeguards to protect customers/clients and readiness to compensate for any losses/risks if required.
5. **Need of a sandbox:** the actual needs for "Sandboxing". This could be assessed by the following :
    a. The innovation (product/services) could not easily fit within the existing regulatory framework, and could result in some difficulties and more costs to put the innovation into the marketplace.
    b. A live environment is required to enable the innovator/Participant to test the innovation.
    c. The full authorization process would be too costly and difficult for a short viability test.
    d. Innovation is already covered by the existing laws and regulations.
6. **Participants:** Regulatory sandboxes are expected to accept applications from both incumbent (existing companies) and/or start-ups.
7. **Type of products/services:** generally speaking, regulators allow products/services that are of innovative nature as defined by the regulator that ranges from payment and electronic transfer services to Regulatory Technology (RegTech) services.

Box 5 - Eligibility Criteria: Applicants are to be assessed against the following:

- Is it a genuine innovation?
- Is there a consumer benefit?
- Does it entail any risks?
- Is the innovation ready to be tested?
- Is there a need for Sandboxing?
- Does the innovation fall under the eligible sector/type of products and services?

2.1.7 Safeguards

In order not to promote any kind of regulatory arbitrage, generate unacceptable risk or become a vehicle for forbearance or the emergence of a shadow infrastructure sector, Regulators should impose basic regulatory requirements and safeguards on all Participants "playing in the Sandbox". The following are the main safeguards that Regulator should pay special attention to :

1. Minimum capital requirements.
2. Fit & Proper requirements to perform their roles and properly manage the operations of the tested innovation.
3. Anti-Money Laundry (AML)/Combating the Financing of Terrorism (CFT) requirements.
4. Consumer protection.
5. Quantitative limits (maximum number of customers, maximum assets under management, maximum transaction value).
6. Reporting requirements

In this section the Regulator will identify the main safeguards that will not be relaxed and will also identify the requirements that the Regulator might consider to relax during the testing period and according to the type of innovation.

2.1.8 Duration

Testing Period: time "to play" in Regulatory Sandboxes are time-bound either on a case-by-case basis, or previously set by the regulator. In general, periods range from 6 months up to 24 months with some extensions to be offered, however, certain conditions do exist.

2.1.9 Costs

Participating in a Regulatory Sandbox is usually free of charge, and all services offered during the testing period including guidance, support and mentorship are considered part of the Regulator's role in uplifting the sector and achieving the main objectives of the Sandbox. However, application fees are to be paid by applicants to cover part of the running costs of the Sandbox. According to a study conducted by Consultative Group to Assist the Poor (CGAP) and the World Bank during the period between February and April 2019 on regulatory innovation facilitators across 28 countries, the establishment and running costs of a Regulatory Sandbox ranges between USD 25000 up to USD 1 million depending whether salaries of staff members are allocated to the Sandbox or not.

Most of the jurisdictions do not charge fees, however Jordan Regulatory Sandbox charges USD 70.52 (50 JD) non-refundable applications fees and Australia Regulatory Sandbox charge fees for applications who are applying for relief.

2.1.10 Regulator's actions following Sandbox Test

The Founding Document shall also identify the general guidelines to be implemented by the Regulator upon the completion of the test. Guidelines shall cover both successful and failed tests. Examples of these guidelines could include identifying:

1. The legal and regulatory requirements required for deploying the service at a broader scale.
2. The required actions to be undertaken by the Regulator and other relevant authorities to amend relevant laws and/or regulations.

2.1.11 Team Capacity & Resources

Running the operations of a Regulatory Sandbox is considered a demanding load on both the time and skills level of the Regulator. A dedicated team should be responsible for evaluating application forms, assessing complex innovation, testing plans and performance metrics, supervise the Sandbox Participants in addition to keeping up to date with the recent development within the sector and keeping in direct contact with the stakeholders for consultation and feedback.

Accordingly, and before the establishment of the Regulatory Sandbox, Regulators are advised to assess the existing resources, their availability and capability to run the operations of the Sandbox. Regulators might need to consider establishing a dedicated cross-functional team to run the Sandbox operations. Despite the fact that the Regulator is expected to collaborate with different stakeholders to provide assistance and support to the Sandbox Participants, the Regulator's capacity may still become stretched by needs of communication with, oversight and supervision of stakeholders.

Most of the existing Sandboxes have a small number of fully dedicated staff members running the Sandbox's operations. However, those members are to be supported by additional policy, legal, and technical Subject Matter Experts working at the Regulator's other departments.

However, this could result in adding up additional burden on the team who will need to divide their efforts between their primary duties as Regulators and as a support group to the Regulatory Sandbox operations.

Generally speaking, Regulatory Sandbox staff members, their network of advisors and consultants must possess deep understanding of FinTech business and service models, in addition to understanding the underlying technologies of the solutions that might require the need for Sandboxing.

Regulators should at least have the access to expertise in the following main areas :

1. National and International Policy and Regulatory Frameworks.
2. Payment Infrastructure.
3. FinTech and Innovation.
4. Cybersecurity.
5. Data Analytics.

Regulators must be up to date with all the fast-growing developments within the technology-driven financial services, and are highly recommended to have Capacity and Skills Building Programmes in place to enable the Regulator to institutionalize the services provided by the Sandbox. This could be conducted by having training courses and collaborate with national and international industry experts to encourage peer learning and knowledge sharing amongst the FinTech ecosystem stakeholders.

Box 6 -

MAS - Singapore Regulatory Sandbox, each application is reviewed by a cross-functional group including staff members from the supervision, legal, technology risk and the AML department.

Box 7 -

FCA's Project Innovate have 40 staff members running the operations of the Regulatory Sandbox. department.

2.1.12 Human Resources Needs Assessment

In order to be able to identify the exact needs for hiring new staff members, building on the existing resources or adopting a hybrid approach, Regulators need to assess:

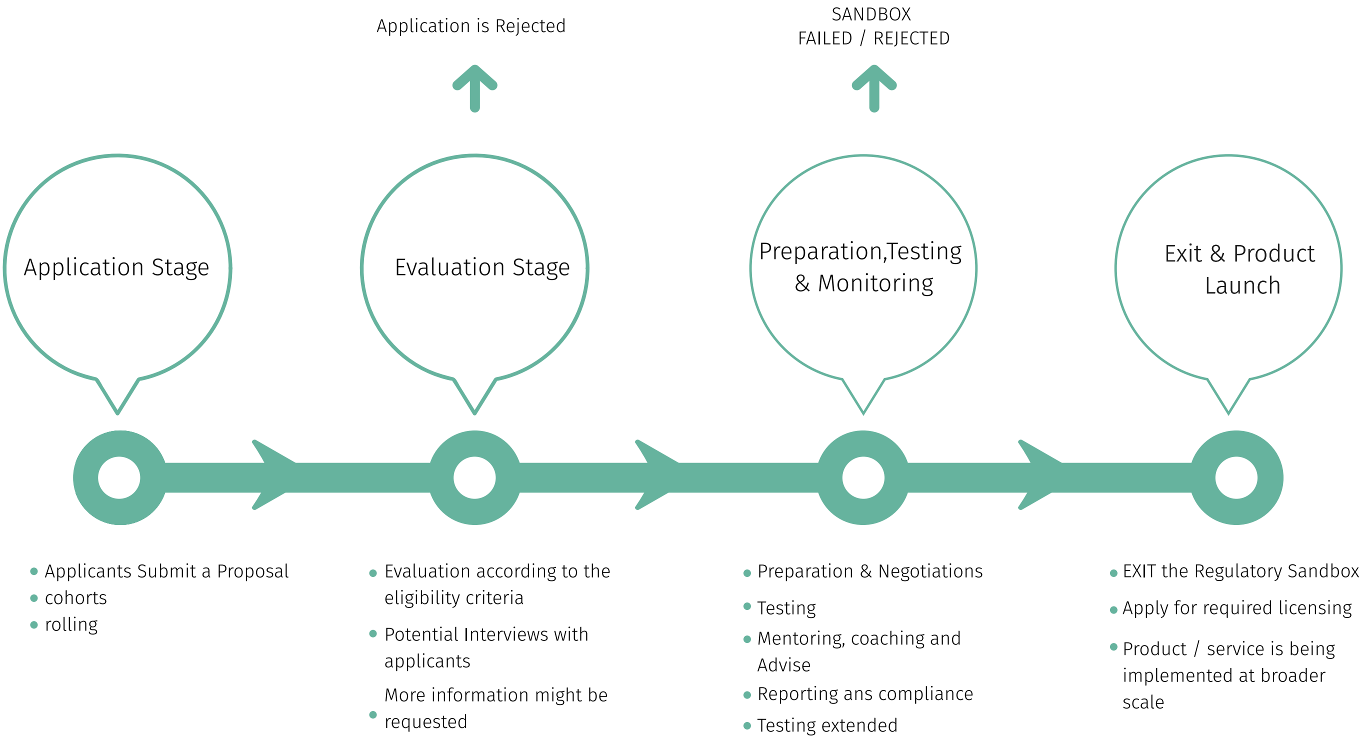
- The existing capacities and competencies of the staff.
- The capacity limits of the Sandbox :
  - The maximum number of sandbox tests that can be in process at any time.
  - Number of applications to be evaluated per year – cohorts vs. rolling approach.
- Potential collaboration with other stakeholders and policy makers.

2.2 Operationalizing the Regulatory Sandbox

This section covers all the stages and the procedures of a Regulatory Sandbox's operations from application submission all the way to exiting the Regulatory Sandbox.

The following graph depicts the different stages:

Figure 5: Regulatory Sandbox Process Chart



The time duration of each of the above identified stages is to be decided by the Regulator, depending on the Regulators' capacity and availability of resources.

2.2.1 Application Stage

Application Submission

There are two models adopted by different Regulators in accepting applications, each model is to be adopted based on the Regulator's capacity and capabilities of evaluating applications and following up with the Regulatory Sandbox Participants. Application submission models are as follows:

1. **Cohorts:** Application windows are opened every few months as decided by the regulator. Number of cohorts per year is to be determined by the Regulator's capacity to evaluate and follow up with the Sandbox Participants. (Examples: UK, Brunei, Malaysia, Thailand, Jordan).
2. **Rolling:** Application window is open throughout the year and applicants are allowed to submit applications at any time during the year. (Examples: Australia, Canada, Malaysia, Mexico, Netherlands).

Application Form

Application forms are intended to support the Regulator in determining whether the innovation qualifies to participate in the Regulatory Sandbox or not. Application forms are to be evaluated against the Regulatory Sandbox Objectives and Eligibility Criteria as identified in the Founding Document. Evaluation weights are to be determined based on Regulator's main priorities.

Below are the main fields that should be included in the Application Form (Annex 1 Provides an example of the Application Form) :

1. **Introduction:** In this section the Regulator shall provide a general description about the main objectives of the Regulatory Sandbox, target audience, general rules for applying for Sandboxing
2. **About the Applicant/Applicant Details:** Under this section, the Applicant is required to submit detailed information about him/herself, name of the business, location and contact information. In addition, the Applicant is required to provide information if the business of the Applicant is active in the country of residence or in any other country and provide detailed information about the business. Collaboration with any other businesses is also to be mentioned under this section.
3. **About the Innovation:** This section is considered the most important section of the Application Form, as it will be evaluated against the eligibility criteria of the Regulatory Sandbox. The Applicant is requested to describe how is the innovation *considered genuine*, with *customer's benefit, ready to be tested* and *requires the support and services provided* under the Regulatory Sandbox.
4. **Testing Plan:** in this section, the Applicant is requested to explain in details the main elements and parameters of the Testing Plan, including but not limited to the cases to be tested, the main objectives and key success and failure factors, Key Performance Indicators (KPIs), testing timeline and milestones, customers, safeguards, and the exit plan.

Box 8 -

Regulators are advised to publish general guidelines for the Applicants to follow while filing out the Application Form. These guidelines should provide examples of Positive Indicators (to accept the Application) and Negative Indicators (to reject the Application) of each section of the Form.

At the submission stage, it is highly recommended that the Regulator and the Applicant sign a Non-Disclosure Agreement (NDA) or a Confidentiality Obligation (Annex 2).

2.2.2 Evaluation Stage

The Regulator is expected to assign an Evaluation Committee to be responsible for evaluating all submitted applications. The Evaluation Committee shall review the applications against the pre-defined eligibility criteria. Scores and weights of each criteria is to be set based on the Regulator's general objectives and main priorities.

During the evaluation process, the Evaluation Committee has the right to call the Applicants for interviews to further discuss the innovation, its business model and product offerings in addition to better understand the need of "Sandboxing". After discussion, Applicants might be asked to review and modify the application for resubmission.

Time frames of the evaluation and approval process depend on the Regulator's capacity, complexity of the innovation in addition to the regulatory requirements involved. However, as a general practice, Applicants are informed within 21 working days of submitting an application about Regulator's decision, and upon approval, Applicants are requested to start testing within 21 working days of approval.

2.2.3 Preparation, Testing & Monitoring Stage

Preparation/Negotiation Stage

Once an Application has successfully passed the evaluation phase, the Applicant becomes a "Participant" and the Applicant/Participant along with the Regulators will work together and agree on the **Sandbox Plan** that shall cover the following main topics:

1. Identify testing parameters.
2. Identify success and failure measures of the innovation.
3. Identify areas that require further actions and engagement by external parties and stakeholders.
4. Determine the frequency and timeframe for the submission of the interim reports.
5. Identify required waived compliance checks whenever applicable.
6. Agree on measures for safeguards.
7. Provide an exit strategy for failure and discontinuation.
8. Provide a transition plan after the sandbox period for full deployment.
9. Set the testing duration.

Sandbox Agreement

An agreement is to be signed between the Regulator and the Participant that shall govern the relationship between both parties and shall at least include but not be limited to the following Articles :

1. Scope of the Regulatory Sandbox.
2. Roles and Responsibilities of each party.
3. Sandbox Plan and Exit Plan.
4. Terms of the Sandbox (testing termination, revoking approvals, discontinuing of testing [4]).
5. Intellectual Property Rights.

[4] Testing will be discontinued if : 1) the Regulator or the Applicant is not satisfied with the testing outcomes 2) Critical flaw(s) has been discovered during the testing process and these flaws could not be fixed/resolved during the testing period.
Testing will be terminated if the Applicant has breached any of the pre-set testing conditions.

6. Confidentiality.

7. Communication and disclosure of information to third parties.

8. Privacy and Data Protection.

9. Conflict of Interest.

10. Dispute and Resolution.

11. General Terms and Conditions.

Upon successfully agreeing on the parameters and signing the Agreement, the Participants officially enter the Regulatory Sandbox and begin testing.

Testing and Monitoring Stage

During the testing and Monitoring phase, Participants are **only allowed** to test their innovation according to the pre-agreed on parameters and waived compliance checks as identified in the Sandbox Plan and the signed Agreement.

As was initially identified in the Sandbox Plan, the Regulator in collaboration with the relevant stakeholders will provide direct supervision and mentorship to the Regulatory Sandbox Participants. Type and level of support will be reviewed and re-evaluated on regular basis, and level of intervention will be decided according to: 1) testing results 2) challenges that might be faced by Participants during the testing phase.

Each Participant will have an assigned officer to ensure that appropriate safeguards are being implemented and there is no breach in any of the pre-agreed on parameters. Additionally, and by working closely with the Participants, the assigned officer will be able to:

1. Provide adequate guidance and oversight .

2. Identify corrective actions, solutions and interventions in a timely manner.

3. Identify required waivers and no-enforcement letters. .

4. Connect with relevant stakeholders.

5. Support with the Participant's fundraising activities and identify potential investors.

2.2.4 Reporting and Approvals

Reports

Participants are requested to submit interim and final reports to the Regulator on a regular basis and as identified in the Sandbox Plan with main objectives of: 1. Identifying the required interventions and support to be provided by the Regulator, stakeholders or Consultants 2. Provide more waivers or re-enforcement letters 3. Revoke the approval of the Sandbox testing 4. Discontinue the test based on a request by the Participant. The interim and final reports shall cover the following main topics:

1. **Customer Information:** Number of customers served and number and type of any incidents and complaints reported by customers and how these incidents were resolved and mitigated.

2. **Operational Aspects:** Operational issues and key challenges that were faced during the testing period and what corrective actions were taken to overcome such challenges, in addition to any fraud, operational inconsistencies, risks and blackouts that were encountered during the testing period.

3. **Business Aspects:** Number of active users, their frequency of usage, transaction size and volumes per user, total profitability and other quantitative factors to be determined based on the type of innovation.

Interim Reports

The Sandbox Agreement shall set and identify the frequency of submitting interim reports and will be determined based on: 1. Testing duration 2. Complexity of the testing/innovation 3. Risks associated with the test.

Interim reports are to include the following information:

1. Key performance indicators, key milestones, statistical and quantitative data and information.
2. Key issues arising as observed during the testing period.
3. Actions or steps required to address the key issues.
4. Required interventions and waivers by the Regulator.

Final Reports

Upon the completion of the testing period, Participants are required to submit a final report to the Regulator. The Final Report will not only help Regulator(s) in improving the Regulatory Sandbox testing journey, but also will support Participants in preparing for the next stage of product/service development.

The Final Report should cover the following information:

A successful testing

1. Main outcomes of the test, key performance indicators compared to the previously agreed for thesuccess or failure of tests conducted.
2. Customer's feedback, complaints, concerns and challenges faced during the testing period and what measures were taken to overcome such challenges.
3. A detailed description about the financial and client limits, consumer protection and risk management arrangements.
4. A summary of recommendations to the Regulator about the testing experience to amend, modify and update the Regulatory Sandbox guidelines.

Failed test

For the failed tests, the final report should include the following additional information, in addition to the above-mentioned points:

1. Lessons learnt from the test.
2. Reason(s) for failure and how these failure(s) were addressed.
3. Customers feedback and response to the innovation.

Revoking Approval & Discontinue Testing

Regulators will always have the right to revoke approvals to participate in the sandbox at any time during the testing if the Participant at any time violates certain measures pre-set or identified by the Regulator. These violations include, but are not limited to the following:

1. Failure in implementing any of the necessary safeguards and if risks associated with the innovation exceed the benefits.
2. Submitting materially false, misleading or inaccurate information, or concealing or failing to disclose material facts in the application.
3. Violating any of the applicable laws that might affect the Participants' integrity and reputation.

Additionally, Regulator and Participants may also agree to discontinue testing in the following circumstances:

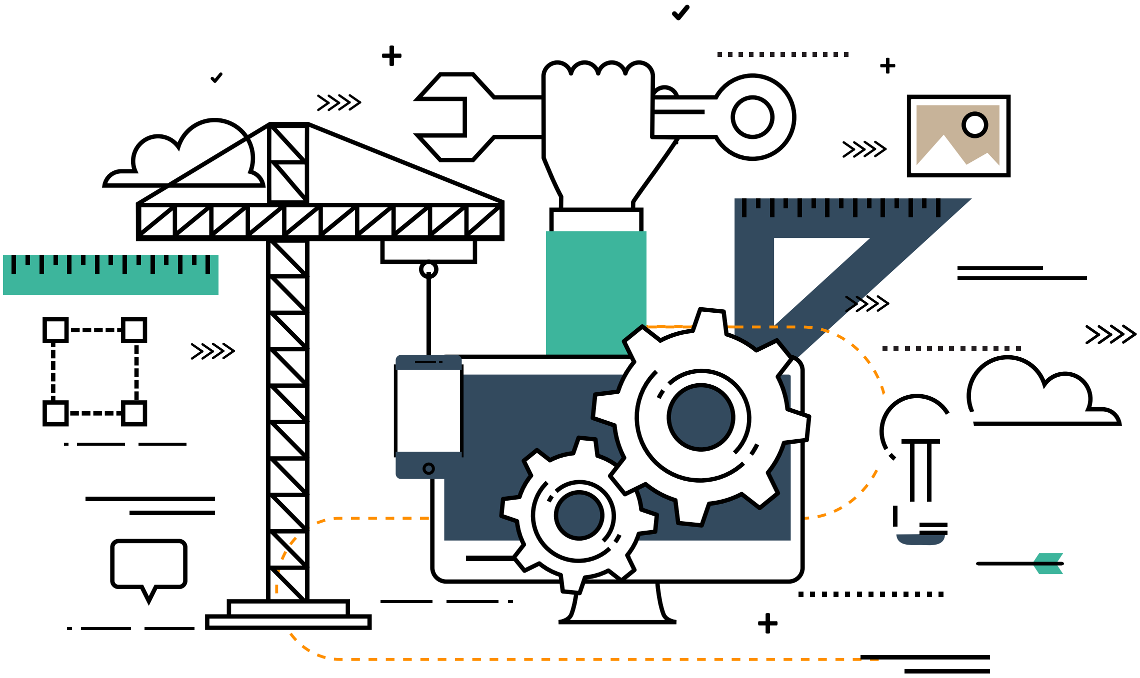
1. The purpose of being in the Regulatory Sandbox is not being achieved.
2. The Applicant decides to exit the Sandbox at its own discretion.

2.2.5 Exit & Product Launch

Upon successful completion of the testing phase, the Participant shall exit the Sandbox. Upon exiting the Regulatory Sandbox, the relaxed waivers and requirements shall expire and the Participant can proceed to deploy the innovation at a broader scale with a wider customer base. However, the Participant is required to fully comply with the relevant legal and regulatory requirements as set by the Regulator and any other relevant applicable laws and regulations.

In case the Participant is not able to fully comply with the relevant legal and regulatory requirements due to the nature of the innovation, the Regulator is expected to support in overcoming these barriers within the Regulator's capacity and as stated in the Founding Document.

3. Post Implementation



Regulatory Sandboxes are considered a learning experience for both Regulators and Participants. Accordingly, and in order to improve the testing journey, enhance the regulatory environment and to come up with the most successful innovation/products/services, Regulators, Participants and the FinTech Ecosystem Stakeholders must collaborate together not only during the testing period, but also after the implementation and testing stage.

Box 9 -

The post implementation stage requires extreme dedication from the Regulator's side and cooperation from the Participant's and stakeholders' sides. Therefore, it is essential to establish a collaborative and constructive relationship between all stakeholders since the inception phase of the Regulatory Sandbox!

Below are the main key elements that must be taken into consideration by the Regulator during the post implementation stage:

Gather & Share Information — **Responsibility**: Regulator, Participants

- Number of received applications vs. number of participants (conversion rate).
- Number of successful tests (type of innovator and innovation).
- Secured investments during and post the testing period.

Improve Sandboxing — **Responsibility**: Regulator

- Based on Participant's experience, Regulators should be able to :
- Identify areas to improve regulatory frameworks.
- Have the flexibility to amend or revise the process or the general guidelines.

Collaborate & Engage — **Responsibility**: Regulators, Participants, Stakeholders

- Identify barriers that were faced during the implementation and testing period and if these barriers were able to be resolved, if not what were the main reasons.
- How did the Sandbox support in bringing in new innovative tools specially tailored to meet the needs of MSMEs.
- Collaborate and engage with other Regulators in order to relax some of the requirements for enhancing competition and innovation.
- Regulators must be fully engaged with the recent industry developments by attending national and international events that cover and discuss the FinTech Industry.
- Participate and attend national and international events and seminars.
- Establish collaboration agreements with regional and international peers.

4. Risks & Considerations

Implementing the activities of a Regulatory Sandbox are associated with some limitations and risks and sometimes its operations and results could result in misleading perceptions by the public. These risks and considerations differ from one country to another and are directly connected with the Regulator's authority and ability to perform and advocate for regulatory changes. Nonetheless, Regulators should take these potential risks into consideration during the conceptualization stage.

The following are some of the potential risks, considerations and perceptions that might encounter Regulators while implementing the Regulatory Sandbox activities.

- **Regulator's Capacity:**
  - Limited human resources to run and manage the operations of the Regulatory Sandbox.
  - Poor selection of sandbox Applicants/Participants due to the limited technical capacity of the Regulator to assess the technology underlying the innovation.
  - Limited authority possessed by the Regulatory to conduct and perform required regulatory reforms.

Box 10 -

Regulators should have the full authority of making or advocating for regulatory reforms. In addition to that, the Regulatory Sandbox should be operated by a skilled and dedicated team to run and manage its operations.

- **Unfairness and Negative Public Perceptions**
  - Participants of Regulatory Sandboxes are expected to get temporarily relaxed conditions and waivers of certain regulatory requirements compared to others who decide not to participate in the Regulatory Sandbox.
  - As part of the Regulatory Sandbox services, Participants will have guidance and advise from the regulator and different industry expert and relevant stakeholders on how to advance their innovation to meet the demand of the market during the testing period. This is expected to create a potential competition bias when compared to those who decided not to Sandbox.
  - Applications that directly address the main objectives of the Regulatory Sandbox are more likely to be accepted into the Regulatory Sandbox compared to other applications that do not directly or clearly address these objectives. For example, applications directly enhancing financial inclusion will be more favourably accepted.

Box 11 -

This could be resolved by enhanced transparency by the Regulator about the 1. Regulatory Sandbox's Objectives 2. Eligibility Criteria 3. Awareness and promotion campaigns about the Regulatory Sandbox operations in general and application submission dates.

- **Reputational Risks**
  - Over-regulated or restrictive Regulators are expected to discourage participation of solutions that might require relaxed conditions and waivers and potentially amending the legal framework to enable the solution to successfully operate. This will result Regulators to reject more applications which would be considered as a failed initiative.
  - Liability issues to Regulators in case of failed testing that resulted in harm to customers or other market participants. This could be perceived as poor supervision by the Regulator which might threaten the Regulator's reputation and customers' trust in the financial system.

Box 12 -

This could be resolved by creating a balance between consumer protection and financial stability and conducting awareness campaigns about the main objectives of a Regulatory Sandbox and the expected testing results.

5. In brief

Key messages in a nutshell...

As highlighted and presented in the above sections, Regulatory Sandboxes are considered a recent innovation adopted by Regulators to monitor the development of the FinTech and ensure a proper balance between innovation and financial stability.

Regulators around the world are somehow adopting similar approaches in managing and implementing the activities of the Regulatory Sandboxes (objectives, eligibility criteria, application submission, implementation and post implementation), but which are tailored to the specific needs and sophistication levels of each country.

There are some success factors that regulators are highly advised to closely monitor and take into consideration during the conceptualization phase throughout the whole process to post implementation. The following is a summary of the main factors:

1. Legal and Regulatory Framework:

In order to be able to successfully establish and run a Regulatory Sandbox, the Regulator should have the minimum required power and authority to enact discretions and/or provide exemptions from existing rules, regulatory and legal frameworks. If the Regulator has no authority on a certain jurisdiction, or there is law or a regulation that supersedes the powers of the Regulator, the effectiveness of the Regulatory Sandbox will be negatively affected.

2. Human Capital and Real Resources:

Running a Regulatory Sandbox requires a skilled labour who is dedicated to evaluate the complex innovations as presented by applicants, follow up, provide direct guidance and advice to Participants and follow up with the different stakeholders.

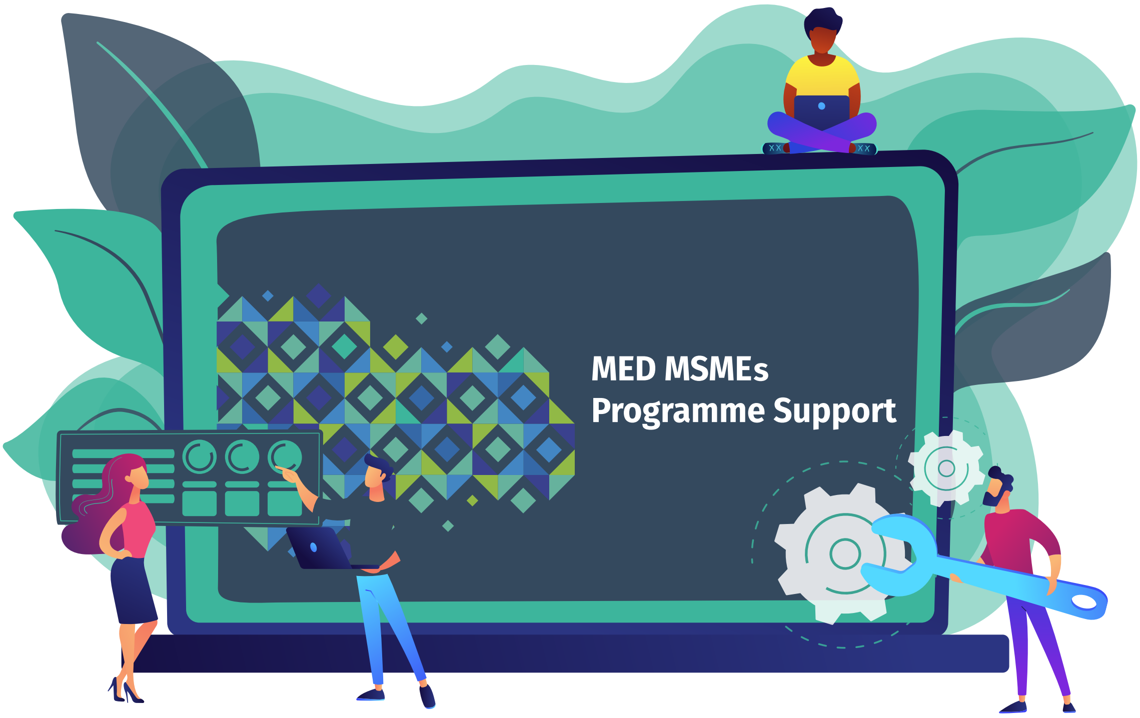
3. Effective Consultation & Communication:

Effective consultation and communication with relevant stakeholders at the different stages of the Sandbox establishment and implementation will help to build trust, facilitate viable partnerships and set appropriate expectations at all levels.

4. National and International Collaborations:

In order to adapt to the fast-changing environment of digital finance and technology-driven financial innovation, Regulators are highly advised to keep a close and strong relationship with the national and international industry players. This could be established by attending industry specific events and seminars, joint ventures and collaborative agreements with national stakeholders and international peers.

6. The MED MSMEs Programme



The EU-funded “MED MSMEs Programme” is a policy support programme contributing to the implementation of the Union for the Mediterranean (UfM) Regional Platform for Industrial Cooperation Work Programme (2018 – 2020) in 8 South Mediterranean countries (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine[5], Syria[6] and Tunisia).

Fostering the North-South and South-South exchange of experience and good practices, the MED MSME Programme developed this Regulatory Sandbox Guide and is expected to further support Participating Countries who are considering the establishment and implementation of Regulatory Sandboxes by conducting the following activities (subject to feasibility):

1. Organizing a webinar with partner Countries and respective regulators to further elaborate and discuss the main features and requirements for the establishment of a Regulatory Sandbox and present the main findings of the Guide.

2. Facilitating an exchange of experience and knowledge sharing between Partner Countries and EU countries.

3. Organizing a study tour to selected EU Countries.

4. On-demand facilitation of discussions for signing Collaboration Agreements.

5. Technical support (e.g. drafting of founding document excluding legal expertise) if included in the MED MSMEs Programme roadmaps developed at the level of the 8 Partner Countries.

[5] This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.
[6] Cooperation with Syria is temporarily suspended until further notice from the European Commission.

Application Form – 1 ANNEX

Regulatory Sandbox Application Form

1. Introduction (By Regulators)

- General introduction about the main objectives of the Regulatory Sandbox.
- Application Submission details:
  - Email address
  - Who to contact for questions or more clarification
- Deadlines and timeframes for cohorts, evaluation, approvals, and testing
- General information about the Testing Journey.

2. About You (Applicant Information)

- Full Name
- Name of Business
- Business Domain
- Address of Business
- Phone Number/Contact Information
- Email Address
- Website URLs
- Is the business already active in the country or abroad? If yes, the Applicant isto provide a brief description of these activities.
- Is the applicant planning to work and collaborate with other firms for this test?
- Is the applicant, the business or any of the associated parties authorized or registered by the Regulator? If yes, registration numbers/references must be included within the application.

3. About Your Innovation

- Briefly provide a clear description about the innovation. If the Applicant already has a business plan, this is to be attached to the Application Form. This section is to include information about the idea/innovation and what stage of development the Applicant has reached to.
- Provide a clear explanation on how would the innovation be considered a regulated activity or supports a regulated business that falls within the Regulator's mandate. If the Applicant believes that the innovation is out of the perimeter, the Applicant is to explain the relationshipwith a regulated business in the Regulator's perimeter.
- Explain how your innovation is considered a genuine innovation. What are the main characteristics of making the innovation a genuine one, who are the main competitors, and how would you distinguish this innovation from the competitors?
- Briefly explain how the innovation provides consumer benefits.
- Briefly explain the innovation readiness for testing.
- Briefly explain the actual needs of the innovation for sandboxing.

4. About Your Testing Plan

- Clearly describe the use case(s) that you are proposing to test in the Sandbox.
- Describe the main objectives of the proposed test, what are the main success and failure factors.
- Describe the timeline and key milestones of your proposed test.
- Identify the type of customers you are targeting, and how you intend to reach out to those customers.
- Identify the key risks associated to the proposed test (consumer, operational and financial stability risks) and elements of the risk mitigation plan
- Identify the safeguards to be adopted.
- Identify the Key Performance Indicators (KPIs) that will be used to determine the success of the test.
- Provide and briefly explain the exit plan, for both failure test or the discontinuation of a test and what factors, in your opinion, would trigger an exit?
- Describe the technology infrastructure, and the location required for testing.

ANNEX 2 – Mutual Non-Disclosure Agreement (NDA)[6]

This Agreement is entered into as of the (Day, Date), the “Effective Date” by and between (______________), hereinafter known as “Party A” and (______________), hereinafter known as “Party B”.

WHEREAS Party A and Party B, hereinafter known as the “Parties”, have an interest in participating in discussion wherein either Party many share information with the other that the disclosing Party considers to be proprietary and confidential to itself (“Confidential Information”); and

WHEREAS the Parties agree that Confidential Information of a Party may include, but not limited to, that Party’s: (1) Business plans, financial model, methods and practices; (2) Operational and Technical Information; (3) inventions, products, patent applications and other proprietary rights; or (4) specifications, information, processes, programmes, testing procedures, software design and architecture, computer code, internal documentation, design and function specifications, product requirements, problem reports, analysis and performance information, or any other related information;

NOW, THEREFORE, the Parties agree as follows:

1. Either Party may disclose Confidential Information to the other Party in confidence provided that the disclosing Party identifies such information as proprietary and confidential either by marking it, in the case of written materials, or, in the case of information that is disclosed orally or written materials that are not marked, by notifying the other Party of the proprietary and confidential nature of the information, such notification to be done orally, by e-mail or written correspondence, or via other means of communication as might be appropriate.
2. When informed of the proprietary and confidential nature of Confidential Information that has been disclosed by the other Party, the receiving Party (“Recipient”) shall, for a period of (______________) from the date of disclosure, refrain from disclosing such Confidential Information to any contractor or other third party without prior, written approval from the disclosing Party and shall protect such Confidential Information from inadvertent disclosure to a third party using the same care and diligence that the Recipient uses to protect its own proprietary and confidential information, but in case less than reasonable care. The Recipient shall ensure that each of its employees, officers, directors, or agents who has access to Confidential Information disclosed under this Agreement is informed of its proprietary and confidential nature and is required to abide by the terms of this Agreement. The Recipient of Confidential Information disclosed under this Agreement shall promptly notify the disclosing Party of any disclosure of such Confidential Information in violation of this Agreement or of any subpoena or other legal process requiring production or disclosure of said Confidential Information.
3. All Confidential Information disclosed under this Agreement shall be and remain the property of the disclosing Party and nothing contained in this Agreement shall be construed as granting or conferring any rights to such Confidential Information on the other Party. The Recipient shall honor any request from the disclosing Party to promptly return or destroy all copies of Confidential Information disclosed under this Agreement and all notes related to such Confidential Information. The Parties agree that the disclosing Party will suffer irreparable injury if its Confidential Information is made public, released to a third party or otherwise disclosed in breach of this Agreement and that the disclosing Party shall be entitled to obtain injunctive relief against a threatened breach or continuation of any such breach and, in the event of such breach, an award of actual and exemplary damages from any court of competent jurisdiction.

[7] This NDA is provided as a general guidance to the Regulators. However, legal consultation is highly advised and recommended.

4. The terms of this Agreement shall not be construed to limit either Party's right to develop independently or acquire products without use of the other Party's Confidential Information. The disclosing party acknowledges that the Recipient may currently or in the future be developing information internally, or receiving information from other parties, that is similar to the Confidential Information. Nothing in this Agreement will prohibit the Recipient from developing or having developed for it products, concepts, systems, or techniques that are similar to or compete with the products, concepts, systems, or techniques contemplated by or embodied in the Confidential Information provided that the Recipient does not violate any of its obligations under this Agreement in connection with such development.
5. Notwithstanding the above, the Parties agree that information shall not be deemed Confidential Information and the Recipient shall have no obligation to hold in confidence such information, where such information:
   a. Is already known to the Recipient, having been disclosed to the Recipient by a third party without such third party having an obligation of confidentiality to the disclosing Party;
   b. Is or becomes publicly known through no wrongful act of the Recipient, its employees, officers, directors, or agents;
   c. Is independently developed by the Recipient without reference to any Confidential Information disclosed hereunder;
   d. Is approved for release (and only to the extent so approved) by the disclosing Party; or
   e. Is disclosed pursuant to the lawful requirement of a court or governmental agency or where required by operation of law.
6. Nothing in this Agreement shall be construed to constitute an agency, partnership, joint venture or other similar relationship between the Parties.
7. Neither Party will, without prior approval of the other Party, make any public announcement of or otherwise disclose the existence or the terms of this Agreement.
8. This Agreement contains the entire agreement between the Parties and in no way creates an obligation for either Party to disclose information to the other Party or to enter into any other agreement.
9. This Agreement shall remain in effect for a period of ______________ from the Effective Date unless otherwise terminated by either Party giving notice to the other of its desire to terminate this Agreement. The requirement to protect Confidential Information disclosed under this Agreement shall survive termination of this Agreement.

Party A's Signature_____________ Date_____________ Printed Name_____________

Party B's Signature_____________ Date_____________ Printed Name_____________

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