SANDBOX EXPRESS

MAS

Monetary Authority of Singapore

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1.   Preface

1.1.   The Monetary Authority of Singapore ("MAS") encourages experimentation in financial technology ("FinTech") so that promising innovations can be tested in the market and have a better chance for wider adoption, in Singapore and abroad.

1.2.   The FinTech Regulatory Sandbox ("sandbox") was launched in 2016 to facilitate live experiments of innovative financial services and business models within boundaries. We have taken stock of the lessons learned, and have improved how we manage and process sandbox applications.

1.3.   Arising from this review, MAS is proposing the creation of pre-defined sandboxes, known as Sandbox Express, to complement the current sandbox approach. The aim is to enable firms which intend to conduct certain regulated activities – where the risks are generally low and well understood – to embark on their experiments more quickly within pre-defined sandboxes, without going through the existing sandbox application and approval process to customise their sandboxes.

1.4.   MAS invites interested parties to submit their views and comments on the proposed guidelines for Sandbox Express as well as the proposed constructs for the initial set of pre-defined sandboxes.

Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like (i) their whole submission or part of it, or (ii) their identity, or (iii) both, to be kept confidential, please expressly state so in the submission to MAS. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

1.5.   Please submit your comments by **13 December 2018** to –

FinTech and Innovation Group
FinTech Infrastructure Office
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117
Email: fintech_sandbox@mas.gov.sg

1.6.   Electronic submission is encouraged. We would appreciate that you use this suggested format [link] for your submission to ease our collation efforts.

2.   Introduction

2.1.   The sandbox establishes a conduit and strengthens the engagement channels between firms (both regulated and unregulated) and MAS on innovative ideas as well as regulatory clarifications relating to them. Since the launch of the sandbox in 2016, we have engaged over 150 firms and enabled several of them to experiment in customised sandboxes. Many of them have since exited the sandbox and obtained relevant regulatory approvals to continue conducting regulated activities in Singapore.

2.2.   The current approach has been well received by the market. It requires an extensive review of each application as each sandbox is customised to facilitate meaningful experiments while ensuring that the consequences of failure can be contained. We have learned along the way that for certain types of regulated activity, the risks can potentially be well managed within certain specific boundaries.

2.3.   MAS is proposing the creation of Sandbox Express, which comprises of a set of pre-defined sandboxes, to complement the existing approach of customised sandboxes. The objective is:

(a)   to provide enterprising firms carrying on certain regulated activities with a faster option to bring innovative financial services or products to the market for testing; and

(b)   to reduce the time and resources required of the applicants.

2.4.   In order to process the applications within a shorter period of time, the conditions and regulatory reliefs for each pre-defined sandbox will need to be pre-determined. Hence, Sandbox Express is only suitable for financial services or products which carry low risks, or risks that are well understood and could be reasonably contained by the respective pre-defined sandbox's constructs.

3.   Guidelines for Sandbox Express

3.1.   Through engagements with players in the FinTech ecosystem, MAS has identified certain regulated activities where pre-defined sandboxes could be reasonably constructed and yet be able to meet the objective set out in paragraph 2.3. The initial set of pre-defined sandboxes is proposed as follows:

(a)   Insurance broking – Section 4;

(b)   Recognised market operators ("RMO") – Section 5; and

(c)   Remittances – Section 6.

This list will be reviewed over time to meet the evolving needs and interests of the financial industry as well as to address any regulatory concerns.

> **Question 1.**   MAS seeks comments on the initial set of pre-defined sandboxes. MAS also seeks comments on whether there are other activities regulated by MAS that could be suitable for the Sandbox Express, and if so, what would be the key motivations and possible constructs for each specific pre-defined sandbox.

3.2.   All pre-defined sandboxes will be guided by the Sandbox Express principles and governance framework set out in paragraphs 3.3 to 3.7.

3.3.   Any firm interested to conduct an experiment within a specific pre-defined sandbox (the "applicant") must complete an application form to be provided by MAS and submit it to fintech_sandbox@mas.gov.sg. An application that is incomplete or lacks clarity, will be rejected. The information to be provided includes the following:

(a)   Details of the applicant:

(i)   Profile of the organisation, including the organisation structure, past achievements and business profile report with ACRA[1] (or an equivalent document from a relevant companies or business registry);

(ii)   Profile of key stakeholders[2], including their relevant domain knowledge and experience;

(iii)   Financial standing of the organisation, including any funding raised and/or to be raised; and

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[1] Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities, public accountants and corporate service providers in Singapore https://www.acra.gov.sg/about_acra

[2] Key stakeholders includes persons with substantial shareholdings in the applicant, chief executive officers, directors and other relevant persons as necessary.

       (iv)   Regulatory status (e.g. licensing, registration, notification, approval, recognition)[3] with MAS and/or other regulators.

(b)   Details of the proposed financial service/product:

       (i)   Problem statements to be addressed and the new benefits that the solution brings, including a comparison with similar offerings in Singapore;

       (ii)   Business model and use cases, with end-to-end illustrations of the interactions and money flows between the applicant, the target customers and business partners;

       (iii)   Technical architecture and solution, detailing the specific technology and innovative ways in which the technology will be applied; and

       (iv)   Readiness of the prototype and the development timeline.

(c)   Start and end date of the pre-defined sandbox, taking into consideration the processing time required by MAS as set out in paragraph 3.5 and the maximum duration allowed for that pre-defined sandbox.

(d)   Declaration that the applicant will be conducting the specific regulated activity that is permitted by the pre-defined sandbox, and that it fully complies or is able to fully comply with all the conditions for that pre-defined sandbox as set out in Section 4, 5 or 6. Please note that the application will be rejected if the applicant does not or is unable to fully comply with the stated conditions.

3.4.   Given the constructs of pre-defined sandboxes, the scope of assessment conducted by MAS could be optimised and limited to the essential ones in order to fast-track the processing of each application. The assessment will be based on the following two criteria:

(a)   Whether the applicant's key stakeholders[4] are fit and proper[5]; and

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[3] MAS regulations, guidance and licensing: http://www.mas.gov.sg/regulations-and-financial-stability/regulations-guidance-and-licensing.aspx

[4] Please refer to footnote [2] above for definition of key personnel.

[5] In determining whether the applicant's key personnel are fit and proper, MAS will take into account the factors set out in the MAS Guidelines on Fit and Proper Criteria [Guideline No. FSG-G01].

(b)   Technological innovativeness of the proposed financial service or product.

3.5.   MAS will endeavour to complete the assessment and respond to the applicant within 21 days from the date of receiving the application. In addition,

(a)   For applications that are deemed by MAS to be complex and require more time to assess, MAS may decide not to consider the application under the Sandbox Express and instead assess it under the customised sandbox approach.

(b)   For approved applications, information on the pre-defined sandbox entities and their activities will be published on the MAS website.

(c)   MAS reserves the right to withdraw any approval of the application at any time, for example, if the entity is conducting an activity that is not permitted under the specific pre-defined sandbox.

3.6.   The pre-defined sandbox entity must provide clear and proper disclosure to every user and obtain an acknowledgement before the user can be on-boarded as its customer. The disclosure must include the following:

(a)   The entity is permitted to operate in a pre-defined sandbox for a specified period of time ("the approved period") and its scope is limited to the constructs of that pre-defined sandbox. The scope and limitations should be fully disclosed;

(b)   The entity is exempted by MAS from complying with the full legal and regulatory requirements under the relevant Act, during the approved period:

(i)   For an entity that is exempted from requirements to be registered / approved / recognised / licensed (as applicable) by MAS, the entity is not supervised by MAS; or

(ii)   For an entity that is required to be registered / approved / recognised / licensed (as applicable) by MAS, MAS will not conduct on-site supervision on the entity.

(c)   The entity's financial service or product may be discontinued, by MAS or the entity, during the approved period;

(d)   The entity's continued operations after the approved period would be subject to the entity obtaining the required regulatory approvals from MAS;

(e)   The entity may decide to discontinue its service after the approved period; and

(f)   The entity's customers will not have access to the dispute resolution scheme managed by the Financial Industry Dispute Resolution Centre.

3.7.   During the approved period, the entity is required to submit a progress report to MAS every 2 months. MAS may request for clarifications from the entity or for the entity to provide a demonstration of the experiment. The report must include the following:

(a)   Declaration that the pre-defined sandbox conditions have been and are fully adhered to;

(b)   Progress of the experiment;

(c)   A register of issues encountered (e.g. technical, business, customer feedback) and the actions taken to resolve the issues; and

(d)   A register of enhancements made to the solution in relation to the financial service or product.

Question 2.   MAS seeks comments on the proposed guidelines for Sandbox Express as set out in paragraphs 3.3 to 3.7.

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4.   Constructs for Insurance Broking Pre-Defined Sandbox

4.1.   An entity operating under the insurance broking pre-defined sandbox can conduct any one or a combination of the following regulated activities under the Insurance Act (Cap. 142) ("IA"):

(a)   Direct insurance broking;

(b)   General reinsurance broking; or

(c)   Life reinsurance broking.

4.2.   The following conditions and expectations will apply to the insurance broking pre-defined sandbox, to safeguard the interests of the entity's customers and contain potential risks of the experiment:

(a)   The approved period is limited to a maximum of 6 months;

(b)   The total number of completed transactions is limited to 1,000 within the approved period. A completed transaction means a transaction where an insurance policy has been issued by an insurance company to the customer as the insured, pursuant to the entity's insurance broking activities;

(c)   The entity must maintain records of all transactions executed;

(d)   The entity cannot handle or hold onto customer's monies;

(e)   The entity must ensure the fitness and propriety of its shareholders, chief executive officer, directors and broking staff, and submit fit and proper declarations by these persons to MAS;

(f)   The entity must put in place internal controls and processes to mitigate risks associated with the experiment, which includes, but is not limited to, money laundering and terrorism financing risks and technology risks[6];

(g)   The entity must not conduct any activity that is against the interest of the public, or a section of the public; and

(h)   The entity must provide clear and proper disclosures as set out in paragraph 3.6.

4.3.   The entity will be exempted from registration as an insurance broker, i.e. it will be exempted from complying with section 35W(1) of the IA, during the approved period.

4.4.   The entity must submit the relevant application to be registered as an insurance broker at least 6 weeks before the end of its approved period if it intends to continue its insurance broking activities thereafter. This is to allow sufficient time for MAS to determine if the entity can meet the full regulatory requirements expected of a registered insurance broker, so as to minimise potential impact on the entity's existing customers.

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[6] As part of establishing controls and processes to mitigate technology risk, all sandbox entities should take into account cyber risk to protect systems and data from cyber attacks.

> **Question 3.**   MAS seeks comments on the proposed constructs for insurance broking pre-defined sandbox.

5.   Constructs for RMO Pre-Defined Sandbox

5.1.   An entity operating under the RMO pre-defined sandbox can conduct the regulated activity of establishing or operating an organised market as a RMO under the Securities and Futures Act (Cap. 289) ("SFA").

5.2.   The following conditions and expectations will apply to the RMO pre-defined sandbox, to safeguard the interests of the entity's customers and contain potential risks of the experiment:

   (a)   The approved period is limited to a maximum of 6 months;

   (b)   The entity can only on-board institutional investors and accredited investors who are not individuals, as customers;

   (c)   The maximum volume traded is capped[7] at SGD5 billon for securities market or 5 million derivative contracts for derivatives market;

   (d)   The entity must maintain records of all transactions executed;

   (e)   The entity cannot hold onto customer's monies and/or collateral;

   (f)   The entity must ensure the fitness and propriety of its shareholders, chief executive officer and directors, and submit fit and proper declarations by these persons to MAS;

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[7] The caps take reference from the limits proposed for RMO Tier 3 in the MAS consultation paper on review of the recognised market operators regime, May 2018 http://www.mas.gov.sg/news-and-publications/consultation-paper/2018/consultation-paper-on-review-of-the-recognised-market-operators-regime.aspx

(g)   The entity will put in place internal controls and processes to mitigate risks associated with the experiment, which includes, but is not limited to, money laundering and terrorism financing risks and technology risks[8];

(h)   The entity must not conduct any activity that is against the interest of the public, or a section of the public;

(i)   The entity cannot participate in its own markets as a participant or take principal positions;

(j)   The entity must execute trading in accordance with its trading rules and user agreements; and

(k)   The entity must provide clear and proper disclosure as set out in paragraph 3.6.

5.3.   The entity will be exempted from the requirements to be recognised as a RMO under section 7(1) of the SFA, during the approved period.

5.4.   The entity must submit the relevant application for recognition as a RMO at least 6 weeks before the end of its approved period if it intends to continue operating a market as a RMO thereafter. This is to allow sufficient time for MAS to determine if the entity can meet the full regulatory requirements expected of a RMO, so as to minimise potential impact on the entity's existing customers.

Question 4.   MAS seeks comments on the proposed constructs for RMO pre-defined sandbox.

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6.   Constructs for Remittances Pre-Defined Sandbox

6.1.   An entity operating under the remittances pre-defined sandbox can conduct the regulated activity of remittance business under the Money-Changing and Remittance Businesses Act (Cap. 187) ("MCRBA")[9].

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[8] Please refer to footnote [6] above.

[9] MCRBA will be repealed when the proposed Payment Services Bill ("PSB") is implemented. The proposed remittances pre-defined sandbox will then refer to the corresponding activity under the PSB and the clause in paragraph 6.3 of this consultation paper will be updated to the relevant clauses in the PSB.

6.2.   The following conditions and expectations will apply to the remittances pre-defined sandbox, to safeguard the interests of the entity's customers and contain potential risks of the experiment:

(a)   The approved period is limited to a maximum of 6 months;

(b)   The maximum value of outstanding remittance transactions[10] at any point in time is limited to SGD100,000;

(c)   The entity must ensure the fitness and propriety of its shareholders, chief executive officer and directors, and submit fit and proper declarations by these persons to MAS;

(d)   The entity will put in place internal controls and processes to mitigate other risks associated with the experiment;

(e)   The entity must not conduct any activity that is against the interest of the public, or a section of the public; and

(f)   The entity must provide clear and proper disclosure as set out in paragraph 3.6.

6.3.   The entity will be granted a remittance licence under section 8(3)(a) of the MCRBA, and exempted from complying with section 10(1) of the MCRBA to hold SGD100,000 of security deposit for each place of business, during the approved period. For the avoidance of doubt, the entity will be required to comply with all regulatory requirements that a holder of a remittance licence is subject to, including (but not limited to) the following requirements:

(a)   The entity must maintain records of all transactions executed; and

(b)   The entity must comply with all requirements set out in the Notices relevant to remittance businesses, on the prevention of money laundering and countering the financing of terrorism.[11] These include developing and implementing policies,

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[10] This refers to remittance transactions where the beneficiaries have yet to receive the monies arising from the transactions. When PSB is implemented, this definition will be revised to align with the PSB.

[11] In addition, MAS generally expects a holder of a remittance licence to take into account the recommendations in the relevant Guidelines to the AML/CFT Notice.

procedures and controls in relation to the conduct of customer due diligence, transaction monitoring, screening, and reporting of suspicious transactions.

6.4.   The entity must submit the relevant application for a remittance licence at least 4 weeks before the end of its approved period, if it intends to continue its remittance business thereafter. This is to allow sufficient time for MAS to determine if the entity can meet the full regulatory requirements expected of a licensed remittance business, so as to minimise potential impact on the entity's existing customers.

Question 5.   MAS seeks comments on the proposed constructs for remittances pre-defined sandbox.

<div align="right">**ANNEX A**</div>

List of Questions

MAS

Monetary Authority of Singapore