



Reply form for the FCA Global Sandbox Questions for consideration



Date: 08 March 2017

Responding to this paper

Innovation is an important means of delivering competition in the interest of consumers. We and other regulators in some other jurisdictions make a range of services available to innovative firms, from answering regulatory queries to conducting Tech Sprints, which are designed to encourage and enhance innovation.

We want to ensure we continue to create the right conditions for firms who are looking to develop and launch innovative business models that benefit consumers. Since it was launched in 2016, our regulatory sandbox has supported 60 firms to test their innovation with real customers in the live market under controlled conditions. Insights from tests so far suggest that the sandbox is succeeding in meeting its four objectives:

- Reducing the time and cost of getting innovative ideas to market, with 90% of firms that tested in cohort 1 progressing towards a wider market launch.
- Facilitating greater access to finance for innovators with at least 40% of firms that completed testing in cohort 1 receiving investment during or following their sandbox test.
- Enabling products to be tested and introduced to market by allowing firms to assess commercial viability, consumer reception to pricing strategies, consumer communication channels, business models as well as the actual technology.
- Working to ensure appropriate consumer protection safeguards are built into innovators' products and services through measures such as extra capital requirements, systems penetration testing or secondary review of automated advice by a qualified financial advisor.

Global reach

Our sandbox currently only allows firms to conduct tests in the UK but many aspects of financial markets and FinTech are global. Some firms value being able to work with other regulators to conduct tests in more than one jurisdiction. We have also observed, supported and learned from the work of many other jurisdictions in how they promote innovation in financial services.

We undertake a significant amount of international engagement and cooperation in connection with innovation, and have signed nine bilateral cooperation agreements with other jurisdictions which encourage greater dialogue between regulators. We do not currently offer firms the opportunity to participate in a joint sandbox programme with other regulators.



We therefore want to canvass views on the merits of creating a global sandbox. This could potentially allow firms to conduct tests in different jurisdictions at the same time and allow regulators to work together and identify and solve common cross-border regulatory problems, through tests. Under such a model, testing could span two or more jurisdictions.

We are keen to hear from all interested parties on the viability of this proposal, and ideas for how regulators and other stakeholders can work together to take it forward. To help begin this conversation, we are setting out one view on how a global sandbox could be developed. We also remain open and interested in other ideas.

Whether you're a firm doing business, or looking to do business, here in the UK or overseas, a regulator, a consumer, or any other interested party, we want to hear from you. Please send us your views using our response form or email us at sandbox@fca.org.uk by 2 March 2018. We look forward to hearing from you.

What could a global sandbox look like?

Due to the diverse regulatory structures and features of existing sandboxes, a full multilateral sandbox, which allows concurrent testing and launch across multiple jurisdictions, is an ambitious goal.

The global sandbox could focus on the following activities:

1. Invite applicants to address pre-identified challenges:

We know firms face certain regulatory problems that cross jurisdictional boundaries, for example developing innovative solutions to Anti-Money Laundering (AML) compliance and Know Your Customer (KYC) on-boarding, and payments services that seek to transfer money cross-border. The global sandbox could help regulators and firms work together to define where these common problems exist, and collaborate to find solutions. Under this approach, participating regulators could set out areas where cross-border testing would be most beneficial, and invite firms to participate in the global sandbox to propose tests to explore these. Firms would benefit from having access to support from multiple regulators in the design and supervision of their test.

2. Support specific firms with cross border ambitions across any sector:

Innovation is a powerful way of encouraging greater competition in the market. The global sandbox could allow firms who have ambitions to grow at scale in different markets to bring their idea to market more quickly and easily, creating more effective competition. Our experience with the regulatory sandbox in the UK has identified some firms who may benefit from this, and we are keen to hear from firms who could see value in testing their ideas in multiple markets.



3. Seek to address policy and regulatory challenges:

The global sandbox could convene joint events and/or papers on emerging trends and challenges to leverage the diverse experience of participating regulators and firms, and work toward consistent approaches.

The overall approach would be to better understand and solve common regulatory problems, as well as being more helpful to firms who have aspirations to grow at scale in multiple markets. The degree to which different regulators are involved in each part of the sandbox could vary.

To deliver more immediate results and potentially move us closer to a full multilateral sandbox, there could be other ways to bring regulators together. One option is the global sandbox is initially set up as an international college of regulators who have their own innovation or sandbox models. Firms already working with those regulators would get access to multiple regulators. It also means regulators could collectively share and learn from each other on new innovative business models.

Given the challenges of bringing together a large group of global regulators, longer term consideration will need to be given to creating a more flexible and practical framework for the sandbox.

Questions for consideration

The creation of a global sandbox raises a number of questions about what it could look like and how it would operate. We welcome input on any and all aspects of moving towards a global sandbox. We have set out some questions for consideration but would welcome input on any relevant issues.

We will consider all feedback received and expect to provide a further update in March 2018.



Executive Summary

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to share our views on the Discussion Paper issued by the Financial Conduct Authority on Distributed Ledger Technology published in April 2017 with a deadline for a response by 17 July 2017.

Please do not hesitate to contact Emmanuel Le Marois on 44 203 828 2674, email Emmanuel.LeMarois@afme.eu, or David Ostojtsch on 44 203 828 2761, email David.Ostojtsch@afme.eu, should you wish to discuss any of the points.

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76.



Q1: Are you an organisation with an interest in testing in more than one jurisdiction? If so, what challenges do you face and how might a global sandbox help?

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to share our views on the FCA global sandbox questions for consideration issued on 14 February 2018.

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME believes that there are challenges associated with operating in more than one jurisdiction, such as diverging regulatory requirements or bilateral meetings required with regional supervisors and regulators, and that a global sandbox could help reduce some of that burden. The benefit of a global sandbox for financial service firms will be best realised if there is a clear understanding, from the onset, of regulatory and supervisory expectations, the ownership and governance frameworks underpinning the sandbox, the goal and objectives of the sandbox, and the specific offering to and obligations on participants. Furthermore, regulatory sandboxes aim to create an environment for businesses to test new products within certain parameters, and ultimately facilitate more innovation and competition. A global regulatory sandbox could have the potential to help society, at large, enjoy the benefits of innovative fintech offerings, while mitigating risks to the public and even help mitigate challenges firms are facing in the current regime, such as:

- Differences in regulatory, supervisory and licensing frameworks across jurisdictions;
- Consolidating prudential supervision rules affecting activities within the consolidated perimeter (including non-core business);
- Helping firms comply with regulatory requirements such as data privacy rules (e.g. international considerations in personal data transfers).

However, AFME wishes to highlight several challenges associated with the creation of a global sandbox:

- **Governance and communication:** the FCA will have to consider what is the appropriate governance structure to determine who would own, and operate a global sandbox, and what the liability model is. For example, would a board, with a potential rotating membership, and secretariat, provided by an independent third party, have to be devised to oversee the operation of such a global initiative? Similarly, the FCA will have to consider what is the appropriate communication (e.g. format, frequency, location) between stakeholders, to ensure the results or gains derived from the global sandbox are effectively implemented.
- **Geographical scope:** the FCA will have to consider the key jurisdictions to involve in order to drive the most tangible benefits for the industry. The FCA will have to consider as well, the more practical considerations of such a joined-up approach,



as we note existing differences amongst sandbox regimes, for example regarding eligibility criteria, no-action relief, permitted timeframe for testing, and termination arrangements.

- **Terms of reference:** The global sandbox should have rules for stakeholders engaged so that members proactively contribute to meaningful information.
- **Clear goals:** the FCA will have to clearly identify the goals and use cases for a global sandbox. These could target either new and innovative processes as well as solve for currently existing or legacy problems. The FCA will also need to define whether the global sandbox will allow both consumer and wholesale innovations or focus on one area over another. Lacking a clearly defined scope may pose a serious challenge to firms being involved. Participants should contribute based on an objective, transparent set of criteria.
- **Size:** AFME believes sandboxes will best serve their purpose if there is wider participation, particularly among incumbents that can leverage their expertise and industry experience to help shape standards for developing technologies. If the objective of the sandbox develops to be bringing participants together, the FCA will have to consider what is the optimal number of actors required for a given use case.
- **Composition:** Similarly, while AFME believes there could be benefit in including a broad range of expertise, the FCA will have to consider what is the appropriate set of skills and seniority required for a given use case.

In summary, AFME believes a global sandbox may provide significant benefits to regulators and market players, if clearly structured, governed, represented, and enough detail is provided. Such a sandbox could help develop innovative ideas at scale and identify solutions to new or legacy industry issues that would benefit from a global quorum (e.g. harmonisation of regulatory requirements, diverging KYC or AML processes, or cyber security).

Q2: Do you feel that the proposal outlined would assist firms in launching innovative products?

AFME believes that the proposal outlined is a positive step and would encourage the FCA to continue engaging with industry and other regulators to determine the requirements for a global sandbox. Innovative products that could benefit from a global sandbox, due to their cross-border nature or multi-jurisdictional deployment, could include cross-border payment platforms or distributed ledger technology-based services/infrastructure.

However, AFME notes that further clarifications on, amongst other things, governance (e.g. who 'owns' and administers the global sandbox), and practical implementation considerations (e.g. what does the global sandbox allow firms to do with regards to other jurisdictions, authorisations, regulatory waivers etc.), is required to support adoption.



Q3: Which jurisdictions would be most important to include in a global sandbox?

While AFME believes reach in a global sandbox should ideally be as broad as possible, to amplify the positive effects on information sharing and regulatory convergence, AFME recommends the FCA to aim for G20 countries and jurisdictions with large financial services centres, such as (non-exhaustive):

- **Europe:** EU28, Switzerland;
- **Americas:** USA, Canada, Mexico, Brazil, Argentina;
- **Asia:** China (inc. Hong Kong), India, Japan, Singapore, Australia, New Zealand;
- **Middle East:** Israel, Qatar, UAE.

In terms of approach, depending on the specific scope, objectives, and governance framework that the FCA adopts for the Global Sandbox, AFME would suggest the FCA to first involve the jurisdictions where bilateral agreements or collaboration is already in place before seeking to expand to other jurisdictions.

Q4: What regulatory challenges or topics should be targeted?

AFME believes, beyond the points mentioned in our response to question 1 and 2, that co-operation agreements which enable the FCA to refer fintech firms to its international counterparts (and vice versa) should also include exploration of coordination of sandbox participation procedures. This will allow a firm to easily take part in multiple international sandboxes for a given pilot project, so cross-border firms can explore projects with an international scope. Coordination between sandboxes would help remove challenges firms face today due to different rules and requirements for sandboxes across jurisdictions. While harmonisation of sandbox standard would be most efficient, the passporting¹ or memoranda of understanding would be equally helpful to firms.

AFME believes that an important benefit of a global sandbox would be to support the current approach that many authorities are taking towards the regulation and supervision of innovation. Technology-neutral regulation will remain key for innovation to flourish in financial services, and in this regard, AFME supports recent policymakers' statements, such as from the European Commission, that policies should be "Technology-neutral to ensure that the same activity is subject to the same regulation irrespective of the way the service is delivered, so that innovation is enabled, and level-playing field preserved".

Q5: How would an application process work for firms looking to apply to be considered for the global sandbox?

¹ <https://www.fca.org.uk/firms/passporting>



AFME believes that an application process that allows firms to apply once and provide access to many (e.g. “one-stop-shop mechanism”) would derive the most benefit. However, AFME believes the FCA should provide as much clarity and transparency on the application process to drive more adoption by actors such as large scale financial services firms.

Q6: Are there opportunities for multilateral virtual testing, in addition to live testing and would these be useful?

AFME believes there is opportunity for multilateral virtual testing in the context of a global sandbox, beyond the benefits, and subject to the points of clarification, indicated in our response to Question 1.

Broadly, AFME would welcome multilateral virtual testing opportunities if firms were able to test their potential solutions virtually (with enough flexibility) without entering the real market, using publicly available datasets, data provided by other firms within the sandbox or by the authorities of the jurisdictions involved. This could enable easier collaboration and cooperation between businesses and regulators located in different jurisdictions and be offered as a tool for innovators, irrespective of whether they are authorised in all jurisdictions involved. Depending on how multilateral virtual testing is structured, this could be an opportunity for both firms and regulators to learn from the benefits and risks of a given project: identifying regulatory challenges and envisaging appropriate safeguards to deploy solutions in a given jurisdiction, at a potentially lower cost.

Q7: Do you have any other suggestions as to how a global sandbox might work?

AFME does not have additional comments beyond the answers provided in the questions provided above.