



GUIDELINES NO. FTU/G-1/2017/1

FINTECH REGULATORY SANDBOX GUIDELINES

1. INTRODUCTION

- 1.1 AMBD has identified several key areas of development for Brunei Darussalam's financial sector and it envisions a vibrant economy powered by ICT through ICT-Smart Citizens as well as being a connected and efficient nation.
- 1.2 The movement towards being an E-Payment economy is also a focus, i.e. moving away from being paper-based in favour of electronic methods. This move is intended to improve financial institutions operational efficiency and costs, as well as to provide new services and greater convenience to the customers.
- 1.3 AMBD recognizes that the evolution of Financial Technology (FinTech) has given rise to innovations that allow more sophisticated financial services to be offered to customers. Similarly, these innovations may also give rise to ambiguity on whether compliance to regulatory requirements are being met.
- 1.4 The ambiguity that might arise from the need to comply with legal and regulatory requirements may discourage financial institutions or potential FinTech startups from implementing innovative solutions. This situation would be undesirable as missed opportunities may arise if innovation is stifled.

2. DEFINITION OF TERMS

- 2.1 For the purpose of this guideline –

“applicant” means any financial institution or FinTech company which intends to apply or has applied for AMBD's approval to participate in the regulatory sandbox;

“FinTech” means technological innovation to be utilised in the provision of financial services;

“FinTech companies” means any company registered under the Companies Act (Chapter 39) or business registered under the Business Names Act (Chapter 92) that utilises or plans to utilise FinTech but excludes a financial institution;

“financial services” means regulated activities under any of the following: -

- i. Banking Order, 2006
- ii. Islamic Banking Order, 2008
- iii. Insurance Order, 2006
- iv. Takaful Order, 2008
- v. Securities Market Order, 2013
- vi. Payment and Settlement Systems (Oversight) Order, 2015
- vii. Money Changing and Remittance Business Act (Chapter 174)
- viii. Moneylenders Act (Chapter 62)
- ix. Pawnbroker Order, 2002

“financial institution” refers to all institutions licensed under any of the following: –

- i. Banking Order, 2006
- ii. Islamic Banking Order, 2008
- iii. Insurance Order, 2006
- iv. Takaful Order, 2008
- v. Securities Market Order, 2013
- vi. Payment and Settlement Systems (Oversight) Order, 2015
- vii. Money Changing and Remittance Business Act (Chapter 174)
- viii. Moneylenders Act (Chapter 62)
- ix. Pawnbroker Order, 2002

“regulatory sandbox” refers to the framework that enables qualified companies or businesses to experiment with innovative FinTech solutions in a relaxed regulatory environment, for a limited period of time and boundaries

“sandbox entity” refers to the financial institution or FinTech company which has been given approval by AMBD to participate in the regulatory sandbox.

3. THE FINTECH REGULATORY SANDBOX APPROACH

- 3.1 In an effort to provide an environment that is conducive for innovation, AMBD will adopt the FinTech Regulatory Sandbox Approach to encourage safe and responsible experimentation.
- 3.2 Interested parties may apply to enter a regulatory sandbox to experiment and test their solutions in.
- 3.3 AMBD recognizes that risk and failures are fundamental elements of innovation and so a regulatory sandbox should contain all the safeguards necessary to contain the

consequences of these elements, with the overall safety and soundness of the financial system being a prime consideration.

- 3.4 AMBD will work together with the applicant, and depending on the financial service involved, specific legal and regulatory requirements will be identified, which may be relaxed or maintained for the duration of the regulatory sandbox.
- 3.5 Upon obtaining approval of their application from AMBD, the applicant will be responsible for deploying and operating the regulatory sandbox while AMBD will provide the regulatory support, for example, in the form of relaxing the appropriate legal and regulatory requirements for the duration of the regulatory sandbox.
- 3.6 Upon the successful completion of the experiment, the sandbox entity must fully comply with all relevant legal and regulatory requirements if it wishes to proceed with deployment on a wider scale.

4. PURPOSE OF THE GUIDELINES

- 4.1 The FinTech Regulatory Sandbox Guidelines (the “Guidelines”) aims to provide clarity on the objectives and principles of the regulatory sandbox. This document will also serve as a guide for applicants on the application process.

5. TARGET AUDIENCE

- 5.1 The Guidelines may interest any party that wishes to offer financial services that are or likely to be regulated by AMBD using technology in an innovative manner. This may include but is not limited to licensed financial institutions and FinTech companies.

6. OBJECTIVE AND PRINCIPLES OF THE REGULATORY SANDBOX

- 6.1 This section aims to provide the target audience with the rationale for deploying a regulatory sandbox. A regulatory sandbox should not be used to circumvent existing legal and regulatory requirements.
- 6.2 By encouraging the adoption of innovative and safe technologies through FinTech experimentation in a well-defined environment, customers will be able to enjoy the benefits associated with this technology.
- 6.3 It should be emphasized that since the regulatory sandbox operates in a live environment, the consequences of failure should be contained by defining the space and duration of the regulatory sandbox.
- 6.4 Applicants should be able to show that they have done their due diligence before applying, including testing the proposed solution in a laboratory environment, as well as have knowledge on the relevant legal and regulatory requirements for deploying it.

7. REGULATORY SANDBOX EVALUATION CRITERIA

- 7.1 This section outlines the main evaluation criteria that AMBD will use to assess applications submitted. **APPENDIX A** shows the supporting information that an application should contain.
- 7.2 This supporting information should explain how the regulatory sandbox evaluation criteria below will be fulfilled:
 - (a) The proposed financial service is innovative (e.g. is new or emerging technology or uses existing technology in an innovative way) and there are no comparable offerings in Brunei, with clear potential to:
 - i. Improve accessibility, efficiency, security and quality in the provision of financial services;
 - ii. Enhance the efficiency and effectiveness of risk management; and/or
 - iii. Lead to a better deal for consumer directly or indirectly;
 - (b) The applicant has the intention as well as the ability to deploy the proposed financial service on a broader scale after exiting the regulatory sandbox;
 - (c) Clear test scenarios and expected outcomes;
 - (d) Clear and appropriate parameters or boundaries of the regulatory sandbox for the protection of consumers as well as the safety and soundness of the financial industry;

- (e) Identification, assessment and mitigation of the risks arising from the experimentation of the proposed financial service;
- (f) A clear and suitable exit and transition strategy in the event that the proposed financial service has to be discontinued or if it proceeds for deployment on a broader scale.

8. REPORTING AND INFORMATION REQUIREMENTS

- 8.1 During the regulatory sandbox period, AMBD requires the sandbox entities to submit information relating to the test.
- 8.2 In order to meet this requirement, the sandbox entity must ensure proper maintenance of records during the sandbox period to support reviews of the test by AMBD.
- 8.3 The sandbox entity must submit interim reports to AMBD on the progress of the test, which may include information on the following:
 - (a) key performance indicators, key milestones and statistical information;
 - (b) key issues arising as observed from fraud or operational incident reports; and
 - (c) actions or steps taken to address the key issues referred to in paragraph 8.3(b).
- 8.4 The frequency and specific details to be included in interim reports will be agreed between AMBD and the sandbox entity, taking into account the duration, complexity, scale and risks associated with the test.
- 8.5 A final report containing the following information to AMBD within 30 calendar days from the expiry of the testing period:
 - (a) Key outcomes, key performance indicators against agreed measures for the success or failure of the test and findings of the test;
 - (b) a full account of all incident reports and resolution of customer complaints; and
 - (c) in the case of a failed test, lessons learnt from the test.
- 8.6 All reports must be confirmed by the CEO, or in situations of joint testing where more than one sandbox entity of the regulatory sandbox is involved, both CEOs confirmation is required.

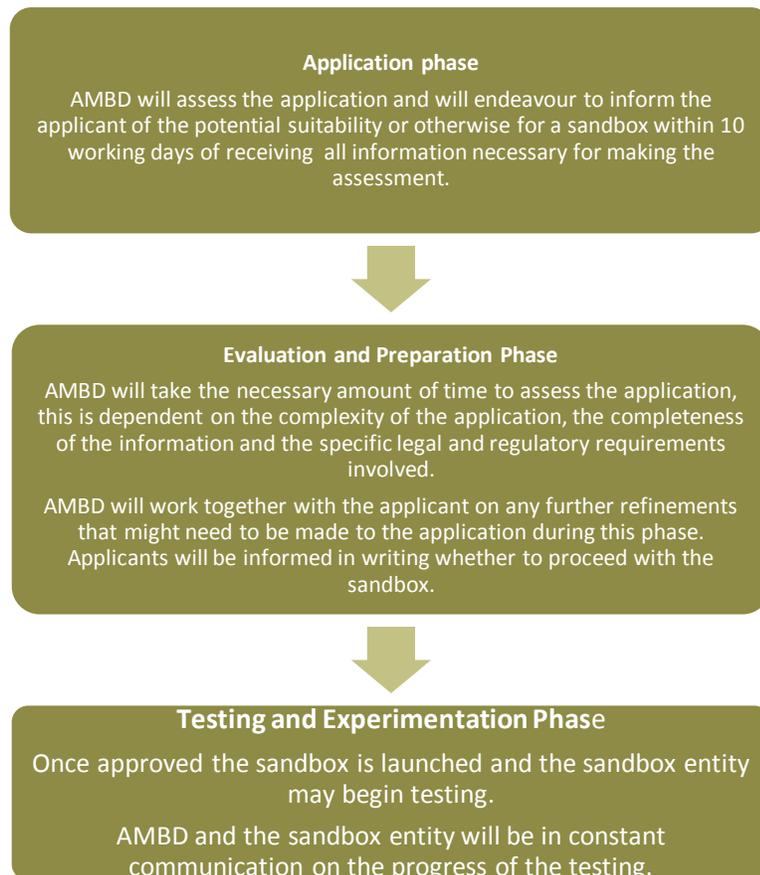
9. EXTENDING OR EXITING THE REGULATORY SANDBOX

- 9.1 Once the regulatory sandbox period ends, the legal and regulatory requirements relaxed will expire and the sandbox entity must exit from the regulatory sandbox.
- 9.2 If an extension is required then the sandbox entity should make an application to AMBD for the extension at least 1 month before the expiration of the regulatory sandbox period, providing reasons to support the application. AMBD will review applications of this nature on a case-by-case basis and its decision on the application for extension is final.
- 9.3 Upon exiting, the sandbox entity can proceed to deploy on a broader scale if:
 - (a) Both AMBD and the sandbox entity are satisfied that the regulatory sandbox has achieved its intended test outcomes; and
 - (b) The entity can fully comply with relevant legal and regulatory requirements.
- 9.4 The regulatory sandbox will be discontinued when:
 - (a) AMBD is not satisfied that the regulatory sandbox has achieved its intended purpose, based on the test scenarios, outcomes and schedules which were mutually agreed;
 - (b) The sandbox entity is unable to fully comply with the relevant legal and regulatory requirements at the end of the regulatory sandbox period. If such a situation is anticipated, the sandbox entity is encouraged to engage with AMBD at least 30 calendar days before the date of the regulatory sandbox's expiry;
 - (c) A flaw is discovered in the proposed financial service where the risks outweigh the benefits of the service and the sandbox entity acknowledges that the flaw cannot be addressed within the duration of the regulatory sandbox;
 - (d) AMBD terminates the regulatory sandbox due to the sandbox entity breaching any conditions imposed during the duration of the regulatory sandbox; or
 - (e) The sandbox entity has informed AMBD of its decision to exit the regulatory sandbox at its own discretion.
- 9.5 The sandbox entity must ensure that any existing obligation to the customers of the financial service under experimentation shall be fully fulfilled or addressed before exiting the regulatory sandbox or discontinuing the regulatory sandbox. This may include but is not limited to the following:
 - (a) immediately implementing its exit plan to cease the provision of the product, service or solution to new and existing customers;

- (b) providing notifications to customers informing them of the cessation and their rights to redress where relevant;
- (c) complying with any obligations imposed by the AMBD to dispose of all confidential information including customer personal information.

10. APPLICATION AND APPROVAL PROCESS

10.1 Applicants should ensure that the objective, principles and criteria specified under Section 6 (Objective and Principles of the Regulatory Sandbox) and Section 7 (Regulatory Sandbox Evaluation Criteria) are satisfied before submitting the application in **APPENDIX A** to AMBD at fintech@ambd.gov.bn. Applicants may and should clarify any questions regarding applying for the regulatory sandbox by contacting AMBD at fintech@ambd.gov.bn.



- 10.2 Applicants will be informed if their applications are rejected. Applicants may re-apply when the reasons for their rejection have been addressed.
- 10.3 At the beginning of the Experimentation and Testing Phase the sandbox entity shall notify its customers that they are offering their services in a regulatory sandbox, explain key risks associated with it, as well as obtain customer acknowledgement that these risks have been understood.
- 10.4 If the sandbox entity intends to make material changes to the service that is under experimentation an application should be made to AMBD at least 30 days in advance with reasons for the change. The sandbox entity may continue with the existing service while AMBD reviews the request.
- 10.5 AMBD will publish all relevant information regarding sandbox entities onto the AMBD website for the purposes of informing the general public.
- 10.6 An example of the application and approval process is provided in **APPENDIX C**.

APPENDIX A: APPLICATION TEMPLATE FOR THE FINTECH REGULATORY SANDBOX

1. Applicant's Information

Organization	
Address	
Telephone	
Company Licence Number	

Name of Authorized Representative	
Designation	
Email	
Telephone	
Signature	
Date	

2. Overview

S/N	Description	Response
1	Provide a brief description of the organization and its core businesses.	
2	Provide a brief description of the proposed financial service to be experimented in the regulatory sandbox.	
3	Does the applicant currently have the relevant licence to deploy the proposed financial service in the live environment? Please provide the details.	
4	Does the applicant require AMBD to relax any specific legal and regulatory requirements prescribed by AMBD, for the duration of the regulatory sandbox? Please provide the details.	

3. Details of the proposal to support the regulatory sandbox evaluation criteria

Requirements	Supporting Information or Attachments
<p>i. The technology and innovative ways in which the technology will be applied, including a comparison of the key features against similar or competing technologies, or manner in which competing financial services are operating.</p>	
<p>ii. Benefits of the proposed financial service, such as improvements in security, customer experience, cost efficiency, operational efficiency, or expansion into new market segments. Provide quantifiable estimations where applicable.</p>	
<p>i. Assessment of the suitability and readiness of the proposed financial service for the Bruneian market, including a brief comparison against similar markets globally.</p>	
<p>ii. Brief overview of the business strategy and plan, including the roadmap to continue development in Brunei on a broader scale. The business plan should also address the gaps (if any) in meeting the relevant legal and regulatory requirements after exiting the regulatory sandbox.</p>	

Requirements	Supporting Information or Attachments
iii. Financial standing of the applicant, including any funding raised from investors.	
iv. Relevant technical and business domain knowledge and experience of the applicant.	
i. Test scenarios aimed at removing the uncertainty which could be arising from regulatory, technology or business model, and could not be reasonably or effectively simulated in a test environment.	
ii. Appropriate targets which allow AMBD and the applicant to assess whether the test outcomes have been achieved.	
iii. Boundary conditions for the regulatory sandbox (with justifications), such as: <ul style="list-style-type: none"> ▪ Start and end date of the regulatory sandbox; ▪ Target customer type; ▪ Limit on the number of customers involved; and ▪ Other quantifiable limits such as transaction thresholds or cash holding limits. 	
iv. Processes and controls to ensure that the boundary conditions are not breached.	

Requirements	Supporting Information or Attachments
i. Quantification of the maximum loss and impact that the proposal could potentially create, including any potential knock-on effects.	
ii. Channels for handling customer queries, feedback or complaints.	
iii. Monitoring plan to ensure the prompt notification of any breach,	

<p>for example breach of the regulatory sandbox test scenarios, boundary conditions or safeguards, to AMBD.</p>	
<p>iv. Risk assessment and mitigation plan to minimize the impact of failure on customers and the broader financial ecosystem.</p>	
<p>v. Exit and transition plan for customers, in the event that the proposed financial service has to be discontinued, or can proceed to be deployed on a broader scale after exiting the regulatory sandbox.</p>	
<p>vi. Communications plan to inform customers, including:</p> <ul style="list-style-type: none"> ▪ the duration, boundary conditions and associated risk disclosure for participating in the regulatory sandbox; ▪ advance notification of the termination or extension of the regulatory sandbox, or when the proposed financial service can proceed to be deployed on a broader scale. 	

APPENDIX B: AN EXAMPLE OF A REGULATORY SANDBOX APPLICATION

Scenario

- A company has developed a new prototype that can offer a financial service in a more efficient manner for an activity regulated or likely to be regulated by AMBD.
- By providing a financial service through this new prototype, some of the existing gaps within the financial sector can be addressed.
- The company has performed its own research and due diligence on the proposed financial service prototype in its testing environment given the adequate technical knowledge and has taken into account the evolving landscape of financial sector.
- However, the company has limited experience in the financial sector, taking a step ahead to apply for the financial service licence may not be a preferable move as the company may not be able to fully comply with the existing legal and regulatory requirement.
- The company is looking for certain exemptions from AMBD.

Existing Approach

- The firm submits a licence application to AMBD and indicates the specific exemptions required.
- Given the novelty of the proposed financial service and that the firm does not have a track record comparable with established FIs, AMBD could take a longer time to understand the business model and technology, and clarify the potential risks.
- With the existing approach, the scenario could potentially develop into the following outcomes, whereby promising innovations were being stifled and the doors to potential opportunities were being closed:
 - The firm could face uncertainty during the application process; or
 - The firm may drop the idea and stick to business-as-usual.

Regulatory Sandbox Approach

- Given AMBD’s encouragement of experimentation of FinTech innovations through the adoption of a regulatory sandbox, the firm submits an application in accordance with the regulatory sandbox guidelines.
- As the firm does not have a contact point with AMBD, it submits the application and supporting information to fintech@ambd.gov.bn.
- AMBD receives the application and assesses it against the regulatory sandbox evaluation criteria, including the specific legal and regulatory requirements to be relaxed for the duration of the regulatory sandbox.
- To facilitate the firm with its business and resource planning, AMBD will inform the applicant whether the application is potentially suitable for a regulatory sandbox within 10 working days after receiving the information necessary for the evaluation.
- AMBD continues with the evaluation and clarification with the firm. The firm will be informed in writing whether to proceed with the regulatory sandbox, as the sandbox entity.

Evaluation Criteria	Assessment (illustrative and non-exhaustive)
<p>Is the proposed financial innovative and are there any comparable offerings in Brunei with the clear potential to:</p> <ul style="list-style-type: none"> i. Improve accessibility, efficiency, security and quality in the provision of financial services; ii. Enhance the efficiency and effectiveness of risk management; iii. New or emerging technology, or uses existing technology in an innovative way; or v. Lead to a better deal for consumer directly or indirectly? 	<p>The proposed financial service is not available in Brunei. It utilizes technology to improve customer experience and streamline operations. Requirements to be relaxed for the duration of the regulatory sandbox, as it is unable to fully meet the relevant legal and regulatory requirements now.</p>
<p>Does the applicant have the intention and ability to deploy the proposed financial service in Brunei on a broader scale after exiting the regulatory sandbox?</p>	<p>The applicant has recently secured \$1m funding. It has doubled its headcount over last year, and has provided a business plan and roadmap to deploy the proposed financial service in Brunei on a broader scale.</p>

Are the test scenarios and expected outcomes clear?	The regulatory sandbox will be limited to 50 customers and run for a period of 6 months to measure improvements in customer experience and to validate the risk exposure and mitigation measures.
Are the boundary conditions appropriate?	
Are significant risks assessed and mitigated?	The proposed financial service has been tested under various risk scenarios in an internal test environment. In the event that the proposed financial service has to be discontinued, the regulatory sandbox customers will be informed in advance to ensure a smooth exit.
Is there a clear exit and transition strategy?	

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