



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# **Financial Technology Regulatory Sandbox Framework**

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## PART A OVERVIEW

### 1 Objectives and principles of the financial technology regulatory sandbox

- 1.1 Advances in financial technology (fintech) have led to the introduction of new business models and solutions that have contributed to improvements in customer value and experience as well as financial institutions' efficiency and risk management.
- 1.2 The Bank seeks to provide a regulatory environment that is conducive for the deployment of fintech. This includes reviewing and adapting regulatory requirements or procedures that may unintentionally inhibit innovation or render them non-viable. As part of this process, the Financial Technology Regulatory Sandbox Framework (Framework) is introduced to enable innovation of fintech to be deployed and tested in a live environment, within specified parameters and timeframes.
- 1.3 Risk and failure are an integral part of innovation. Given that a regulatory sandbox (sandbox) operates in a live environment, failure may result in financial loss or other risks to the sandbox participants and their customers. It is therefore imperative for the sandbox to incorporate appropriate safeguards to manage the risks and contain the consequences of failure.
- 1.4 A sandbox cannot be used to circumvent existing laws and regulations. A sandbox is therefore not suitable for proposed product, service or solution that is already appropriately addressed under prevailing laws and regulations. For product, service or solution that is not suitable to be tested in sandbox, the Bank will take the approach of an "Informal Steer" to provide guidance and advice to the financial institutions or fintech companies on the modifications that can be made to align proposed business models or solutions with prevailing laws and regulations. This approach is suitable where the modified business model or solution does not significantly diminish the value proposition of the innovation.
- 1.5 In considering an application to participate in the sandbox and the types and extent of regulatory flexibilities that may be accorded to the financial institutions or fintech companies operating in a sandbox, the Bank will take into account, among others, the following –
  - (a) the potential benefits of the proposed product, service or solution;

- (b) the potential risks and mitigating measures; and
  - (c) the integrity, capability and track record of the financial institutions or fintech companies.
- 1.6 The Bank will consider the number of participants that can be effectively supported within the sandbox at any one time to ensure that adequate guidance and oversight can be provided to participants of the sandbox.

## 2 Applicability

- 2.1 This Framework is applicable to –
- (a) a financial institution as defined in paragraph 4.1;
  - (b) a fintech company as defined in paragraph 4.1 which collaborates with a financial institution; and
  - (c) a fintech company intending to carry on:
    - (i) an authorised or registered business as defined in the Financial Services Act 2013 (FSA) and
    - (ii) an authorised business as defined in the Islamic Financial Services Act 2013 (IFSA); or
    - (iii) a money services business as defined in the Money Services Business Act 2011 (MSBA).

## 3 Effective date

- 3.1 This Framework comes into effect on 18 October 2016.

## 4 Interpretation

- 4.1 For the purpose of this Framework –

**“applicant”** means a financial institution either on its own or in collaboration with a fintech company or a fintech company which intends to apply or has applied for the Bank’s approval to participate in the sandbox;

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

**“fintech company”** means a company that utilises or plans to utilise fintech but excludes a financial institution;

**“financial services”** means authorised, registered or licensed business under the FSA, IFSA and MSBA, as the case may be;

**“financial institution”** refers to –

- (a) an authorised or registered person under the FSA;
- (b) an authorised person under the IFSA;
- (c) a licensee under the MSBA; and
- (d) a prescribed institution under the DFIA.

**“participating institution”** means a financial institution which has been approved by the Bank to participate in the sandbox;

**“participating fintech company”** means a fintech company which has been approved by the Bank to participate in the sandbox;

**“participants”** refers collectively to participating institutions and participating fintech companies;

**“sandbox”** refers to a live, contained environment in which participants may test their product, service or solution subject to the requirements under this Framework.

## **PART B      SANDBOX REQUIREMENTS**

### **5      Eligibility criteria**

- 5.1 An applicant seeking the Bank's approval to participate in a sandbox must demonstrate the following -
- (a) the product, service or solution is genuinely innovative with clear potential to -
    - i. improve accessibility, efficiency, security and quality in the provision of financial services;
    - ii. enhance the efficiency and effectiveness of Malaysian financial institutions' management of risks; or
    - iii. address gaps in or open up new opportunities for financing or investments in the Malaysian economy;
  - (b) the applicant has conducted an adequate and appropriate assessment to demonstrate the usefulness and functionality of the product, service or solution and identified the associated risks;
  - (c) the applicant has the necessary resources to support testing in the sandbox. This includes the required resources and expertise to mitigate and control potential risks and losses arising from offering of the product, service or solution;
  - (d) the applicant has a realistic business plan to deploy the product, service or solution on a commercial scale in Malaysia after exit from the sandbox;
  - (e) the provision of the product, service or solution is either wholly or partly incompatible with laws, regulations or standards administered by the Bank. In such cases, the Bank may consider granting relevant regulatory flexibilities for the purpose of testing a proposed product, service or solution that possesses strong value propositions; and
  - (f) the applicant is led and managed by persons with credibility and integrity.
- 5.2 Fintech companies that collaborate with financial institutions could gain added advantages from guidance and support provided by financial institutions with respect to regulatory requirements and risk mitigations in applying to participate in a sandbox.
- 5.3 Fintech companies with potential to contribute meaningfully to the creation of

high value added jobs in Malaysia will be assessed more favourably by the Bank.

## **6 Potential risks and safeguards**

- 6.1 The applicant must identify the potential risks to financial institutions and financial consumers that may arise from the testing of the product, service or solution in the sandbox and propose appropriate safeguards to address the identified risks.
- 6.2 In assessing the risks and evaluating the proposed safeguards, the Bank will give due regard to –
- (a) preserving sound financial and business practices consistent with monetary and financial stability;
  - (b) promoting the fair treatment of consumers;
  - (c) preventing money laundering and countering terrorism financing;
  - (d) protecting the confidentiality of customer information;
  - (e) promoting the safety, reliability and efficiency of payment systems and payment instruments;
  - (f) ensuring innovative solutions for Islamic financial services are consistent with prevailing Shariah standards; and
  - (g) encouraging healthy competition for financial products and services.
- 6.3 The safeguards referred to in paragraphs 6.1 and 6.2 may include, but are not limited to –
- (a) providing adequate disclosure of the potential risks to customers participating in the sandbox and confirmation from such customers that they fully understand and accept the attendant risks;
  - (b) limiting the number of customers participating in the sandbox and/or the aggregate value or frequency of transactions;
  - (c) restricting the participation of customers to a certain segment or profile of customers;
  - (d) limiting the duration of the testing period;
  - (e) providing a consumer redress mechanism, including the possibility for financial compensation claimable against the sandbox participants under clearly specified circumstances; and

- (f) committing adequate and competent resources to undertake the testing and implement risk mitigation solutions that have been proven to be effective in containing the consequences of failure.

## **7 Application requirements**

- 7.1 An applicant must submit to the Bank –
- (a) an application letter signed by the Chief Executive Officer (CEO) of the applicant or officer duly authorised by the CEO;
  - (b) the application form, in the format set out in Appendix I; and
  - (c) supporting documents to substantiate the information provided in the application form.
- 7.2 The applicant must also include the key outcomes that the testing is intended to achieve and the appropriate indicators to measure such outcomes.
- 7.3 The Bank will inform an applicant of its eligibility to participate in sandbox within 15 working days of receiving a complete application. Thereafter, the Bank will engage the participants on the following –
- (a) testing parameters such as the scope and duration of the test, regulatory flexibilities requested and frequency of reporting;
  - (b) specific measures to determine the success or failure of the test at the end of the testing period;
  - (c) an exit strategy should the test fail or be discontinued; and
  - (d) a transition plan for the deployment of the product, service or solution on a commercial scale upon successful testing and exit from the sandbox.
- 7.4 Details of the application process are set out in Appendix II.
- 7.5 The complete application must be submitted to –

Pengarah  
Jabatan Pembangunan Sektor Kewangan  
Bank Negara Malaysia  
Jalan Dato' Onn  
50480 Kuala Lumpur  
Email: fintech@bnm.gov.my

7.6 Electronic submission is encouraged.

## **8 Submission of information and reports**

8.1 During the testing period in the sandbox, the Bank may require the participant to submit information relating to the test.

8.2 The participant must ensure proper maintenance of records during the testing period to support reviews of the test by the Bank.

### **Interim reports**

8.3 The participant must submit interim reports to the Bank on the progress of the test, which includes 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 the Bank and the participant, taking into account the duration, complexity, scale and risks associated with the test.

### **Final report**

8.5 The participants must submit a final report containing the following information to the Bank 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.

### **Confirmation of reports**

8.6 The interim and final reports must be confirmed by the CEO.

8.7 In a situation of joint testing by a participating institution and a participating

fintech company, the reports must be confirmed by both the participating institution's CEO and the participating fintech company's CEO.

## **9 Expiry of approval**

- 9.1 Upon expiry of the testing period, an approval to participate in the sandbox and any regulatory flexibility accorded to the participants will automatically expire, unless the participant has obtained prior written approval from the Bank for an extension of the testing period.
- 9.2 The initial testing period shall not exceed 12 months from the start date of the test. To extend the testing period, a written application must be submitted by the participants to the Bank no later than 30 calendar days before the expiry of the testing period. The application should state the additional time required and clearly explain reasons for requiring the extension. To minimise market distortion, the Bank will not generally approve a protracted extension of the testing period unless the solution has tested positively in general and it can be demonstrated that the extended testing is necessary to respond to specific issues or risks identified during initial testing.
- 9.3 Upon the completion of the testing, the Bank will decide whether to allow the product, service or solution to be introduced in the market on a wider scale. Where allowed, participating fintech companies intending to carry out regulated businesses will be assessed based on applicable licensing, approval and registration criteria under the FSA, IFSA and MSBA, as the case may be.
- 9.4 The Bank may also prohibit deployment of the product, service or solution in the market upon the completion of the testing due to the following reasons:
- (a) in the event of an unsuccessful testing based on agreed test measures;  
or
  - (b) the product, service or solution has unintended negative consequences for the public and/or financial stability.

In such cases, the obligations in paragraph 10.4 shall apply.

## 10 Revocation of approval

- 10.1 The Bank may revoke an approval to participate in sandbox at any time before the end of the testing period if the participant -
- (a) fails to carry out the safeguards referred to in paragraph 6.3;
  - (b) submits false, misleading or inaccurate information, or has concealed or failed to disclose material facts in the application;
  - (c) contravenes any applicable law administered by the Bank or any applicable law in Malaysia or abroad which may affect the participant's integrity and reputation in Malaysia;
  - (d) is undergoing or has gone into liquidation;
  - (e) breaches data security and confidential requirements;
  - (f) carries on business in a manner detrimental to customers or the public at large; or
  - (g) fails to effectively address any technical defects, flaws or vulnerabilities in the product, service or solution which gives rise to recurring service disruptions or fraud incidents.
- 10.2 Before revoking an approval to participate in the sandbox, the Bank will –
- (a) give the participant 30 days' notice in writing of its intention to revoke the approval; and
  - (b) provide an opportunity for the participant to respond to the Bank on the grounds for revocation.
- 10.3 Where any delay in revoking the approval would be detrimental to the interests of the participant, their customers, the financial system or the public generally, the Bank may revoke the approval immediately and provide the opportunity for participant to respond after the effective date of revocation. If the response is accepted by the Bank, the Bank may reinstate the approval to participate in the sandbox.
- 10.4 Upon revocation of an approval, the participant must –
- (a) immediately implement its exit plan to cease the provision of the product, service or solution to new and existing customers;
  - (b) provides notification to customers informing them of the cessation and their rights to redress where relevant;
  - (c) complies with obligations imposed by the Bank to dispose of all confidential information including customer personal information

- collected over the duration of the testing;
- (d) compensate any customers who had suffered financial losses arising from the test in accordance with the safeguards submitted by the participant under paragraph 6.3(e) above; and
  - (e) submits a report to the Bank on the actions taken under paragraphs 10.4(a) - (d) within 30 days after revocation.

## APPENDICES

### Appendix I: Application form (*fill up where applicable*)

<b>A. Contact details</b>	
<b>Applicant 1: Fintech company</b>	
Name of company	
SSM registration number	
Website URL	
Name of key personnel <sup>1</sup> (e.g. CEO, CFO)	
Email address	
Phone number	
Mailing address	
Shareholders	
Describe the nature and scale of your operations in Malaysia	<i>(Please keep the response below 200 words)</i>
Provide details of high-skilled jobs that your company is creating in Malaysia	
<b>Applicant 2: Financial institution</b>	
Name of financial institution	
Name of designated officer (e.g. CEO or Head of Innovation)	
Email address	
Phone number	
Mailing address	

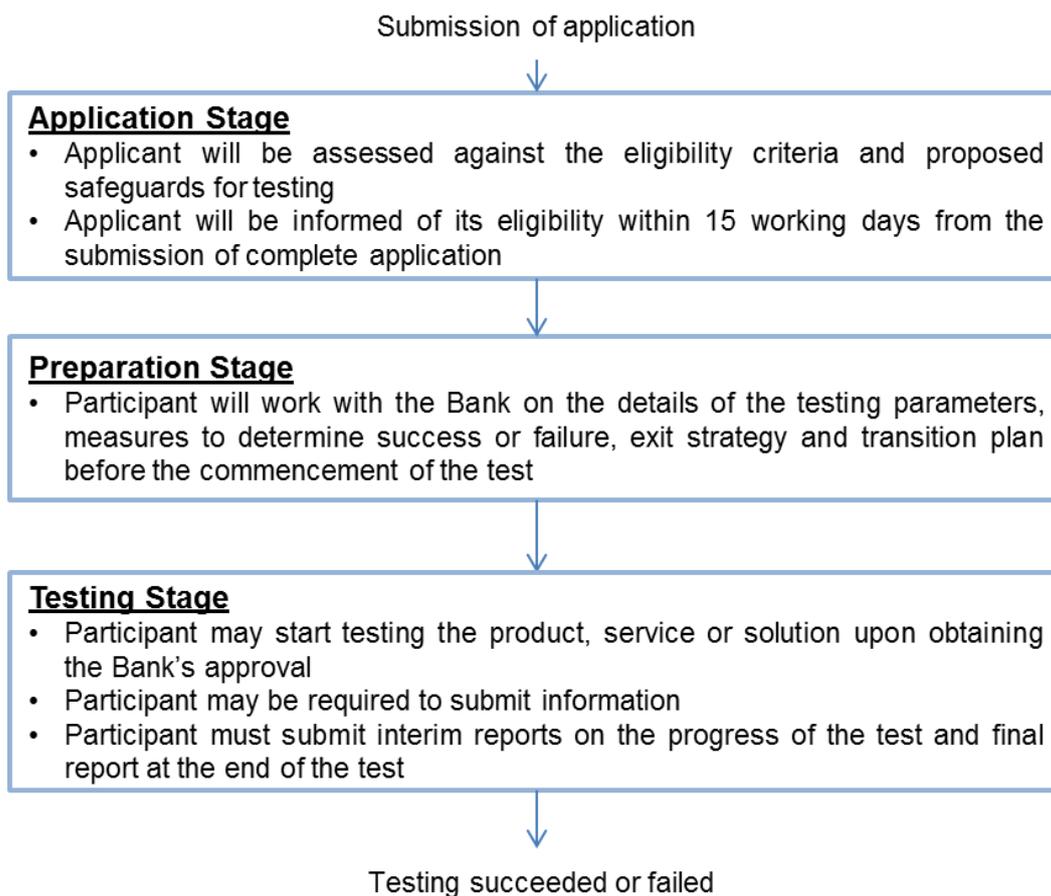
<sup>1</sup> Please attach the curriculum vitae of the key personnel.

<b>B. About the product, service or solution</b>	
Describe the product, service or solution	<i>(Please keep the response below 200 words. Additional information may be provided as supporting documents)</i>
Eligibility criteria (As per paragraph 5.1)	
Explain how the product, service or solution is genuinely innovative with clear potential to – (a) improve accessibility, efficiency, security or quality in the provision of financial services; (b) enhance the efficiency and effectiveness of Malaysian financial institutions' risk management; or (c) address gaps in or open up new opportunities for financing and investments in the Malaysian economy.	<i>(Please keep the response below 200 words. Additional information may be provided as supporting documents)</i>
Describe how the usefulness and functionality of the product, service or solution has been assessed and/or tested	<i>(Please keep the response below 200 words. Additional information may be provided as supporting documents)</i>
Provide evidence of resources available to support testing in the sandbox	<i>(Please keep the response below 200 words. Additional information may be provided as supporting documents)</i>
Explain the business plan for the product, service or solution to be offered on wider commercial scale	<i>(Please keep the response below 200 words. Additional information may be provided as supporting documents)</i>
Identify the legal or regulatory requirements that are incompatible with the proposed product,	<i>(Please keep the response below 200 words. Additional information may be provided as supporting documents)</i>

service or solution and the regulatory flexibilities needed to undertake the test	
Potential risks and safeguards (As per paragraphs 6.1- 6.3)	
Describe the risks associated with the testing and identify appropriate risk mitigation measures/safeguards	<i>(Please keep the response below 400 words. Additional information may be provided as supporting documents)</i>
Application requirement (As per paragraph 7.2)	
Explain the intended key outcomes of the testing	<i>(Please keep the response below 200 words. Additional information may be provided as supporting documents)</i>
Other relevant information	
State the expected duration of the test	
State the location of the IT infrastructure	
State the source of funding for the testing	
Any other information that may support the application	
<b>C. Details of the collaboration between financial institution and fintech company</b> Eligibility criteria (As per paragraph 5.2)	
Describe the collaboration between financial institution and fintech company (e.g. outsourcing of service, equity stake participation, joint venture etc.)	<i>(Please keep the response below 200 words. Additional information may be provided as supporting documents)</i>

**Appendix II: Application process**

1.1. The flowchart below illustrates the application process upon submitting the application for sandbox.



1.2. For a rejected application, a cooling off period of six (6) months shall be observed before the applicant is allowed to resubmit the application.