



PAKISTAN STOCK EXCHANGE LIMITED

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NOTICE

December 12, 2019

SECP Regulatory Sandbox Guidelines, 2019

It is hereby informed to all market participants that the Securities and Exchange Commission of Pakistan [SECP] has issued the **SECP (Regulatory Sandbox) Guidelines, 2019**.

The objectives of the guidelines is to promote innovation in the financial services industry through reduction of regulatory uncertainty by allowing testing of new products, business models, services in the Regulatory Sandbox under the close supervision of the regulator. The SECP regulatory sandbox shall be available for all the regulated sectors of the SECP i.e. capital markets, insurance, non-banking financial services and overall corporate sector.

The SECP (Regulatory Sandbox) Guidelines have also been placed at the SECP's official website <https://www.secp.gov.pk/laws/guidelines/>. All concerned are requested to note the above.

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Copy to:

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- The Acting Chief Executive Officer, PSX
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- The Acting Chief Regulatory Officer, PSX
- Notice Board & PSX Website

The Securities and Exchange Commission of Pakistan Regulatory Sandbox Guidelines, 2019



**SECURITIES AND
EXCHANGE
COMMISSION OF
PAKISTAN**

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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
REGULATORY SANDBOX GUIDELINES, 2019

1. Introduction, Objective and Scope

- i. Regulatory Sandbox is a tailored regulatory environment for conducting limited scale, live tests of innovative products, services, processes, and/ or business models in a controlled environment for a limited period of time so as to assess their viability to be launched on full-scale, and to determine the compatible and enabling regulatory environment that will be conducive for the innovative solutions. The objective of these Guidelines is to purposefully meet the above.
- ii. The Regulatory Sandbox is primarily applicable for new products, services or business models which have not been addressed under existing laws and regulations; or these new ideas bring an innovative approach to the market and there exists considerable uncertainty in terms of unexpected adverse outcomes or existing regulatory framework does not fully address the solutions proposed to be experimented through the regulatory sandbox.
- iii. The Commission may nonetheless consider any credible cases evidencing that a proposed model is not envisioned in the existing framework. In all such cases, the Commission's decision shall be final as to whether such threshold has been met.

2. Potential Participants

- i. The applicants can apply for inclusion in a cohort which is a complete lifecycle of the regulatory sandbox implementation in which a set of applicants enter in order to test their innovation in a specified time.
- ii. The applications for experimentation through the regulatory sandbox can be sent by the following:
 - (a) All companies registered with the Commission including, but not limited to, the licensed entities (means entities which have obtained registration or license from the SECP under any of the administered law of SECP), financial technology (FinTech) companies, technology providers, and any other companies;
 - (b) Presently unregistered startups with the intent to get registered in case of successful testing in order to scale out to a larger market;
 - (c) Internationally recognized/ well-known companies or any other persons as deemed appropriate by the Commission.

3. Process for Seeking Permission for Promoting Innovation

- i. The Regulatory Sandbox shall be operated in accordance with the cohort approach i.e. an experimentation cycle will be evaluated and finalized before the commencement of next experimentation cycle.
- ii. It will be prerogative of the Commission to start or not to start the next cohort or experimentation cycle. The cohort i.e. end-to-end-process will comprise of following stages:

(a) Announcement of RSB/ Call for applications

The announcement for call of applications under the regulatory sandbox will be made by the Commission to start the cohort as and when deemed appropriate by the Commission, through whatever means considered appropriate.

(b) Applications from potential innovators

An applicant desiring to promote or implement innovation in financial services shall make an application to the Commission in the prescribed form with such information and documents as prescribed below:

- (1) Form – I
- (2) Certified copies of all registration documents; if applicable
- (3) Certified list of, the unregistered persons may submit the list of all individuals who own and manage the venture and submit any constitutive document of the firm/ venture or such other document as required by the Commission during the application process.
- (4) CVs for all sponsors and key management personnel;
- (5) Paid fee challan for Rs. 5000/ -
- (6) Outline of business model for the product, solution or service which at minimum should include the following:
 - (a) Definition and explanation of the proposed innovation with justifications of uniqueness of the idea to the market
 - (b) The potential benefits of the proposed product, solution or service for consumers and financial markets w.r.t. deepening or broadening;
 - (c) Why a Regulatory Sandbox test is required with perceived outcomes and objectives;
 - (d) A clear testing methodology, limitation of scale and relevant controls;
 - (e) Evidence that the product or service is sufficiently mature to be tested in a live environment;
 - (f) Evidence that the Applicant has adequate arrangements and resources to support live testing, including measures to protect the interests of investors, consumers and other market participants if the test fails;
 - (g) The potential and perceived risks resulting from the Regulatory Sandbox test; and
 - (h) The proposed safeguards and risk mitigation strategies for avoiding potential harm to consumers or the market participants and their likely effectiveness
- (7) The Applicant shall also submit a projected plan and clear strategy for exiting the Regulatory Sandbox which shall include:
 - (a) A clear intent and methodology to scale-up the solution in order to access a larger market at the end of successful testing.
 - (b) Ensuring that the customer does not suffer any negative consequence of unsuccessful testing or the solution being discontinued on SECP's recommendations.
 - (c) Scenarios for transitioning and/or compensating customers in the event the proposed product, solution or service is discontinued.

FORM – I		
S. No.	Applicant's Particulars	
(1)	Company's name/ Person's name	
(2)	CUIN/ Registration number, if applicable	
(3)	Website address	
(4)	Chief Executive Officer/ Managing Director/ Key person	
(5)	Focal person for correspondence related to this project	
(6)	Email address	
(7)	Mailing address and phone No.	
(8)	Description of nature and scale of current business operations	
(9)	Application Category*	

***Potential Categories of Application**

An applicant may apply to the Commission seeking permission for promoting or implementing innovation for the aforementioned objectives in any one or more of the following categories. However, the applicant can also request for testing into a new category altogether.

- (i) Innovative product development and/ or distribution
- (ii) Alternate financial intermediation platform (For example, person to person lending etc.)
- (iii) Crowdfunding, (equity, debt, donation, rewards)
- (iv) Digital Assets
- (v) Innovative insurance underwriting
- (vi) Insurance policy servicing
- (vii) Alternate risk transfer mechanisms
- (viii) Financial/ robotic advisory
- (ix) Claims adjudication and payments
- (x) Artificial Intelligence
- (xi) Any other category as the Commission may deem fit

(c) Preliminary screening of applications

- (i) The Commission shall, on receipt of an application, communicate to the applicant within thirty (30) working days about results of preliminary screening. Incomplete applications and those lacking clarity and vision shall not proceed to the next step.
- (ii) The applications which clear the preliminary screening stage will enter the next stage of evaluation where these will be thoroughly scrutinized by the Commission.
- (iii) The initial screening of applications shall be done on the basis of parameters, including but not limited to, the following:

(1) Genuineness of innovation

The proposed innovation should either:

- (i) Introduce a new idea to the local market
- (ii) Introduce a new use case for an existing idea

(2) Financial Inclusion

The proposed innovation should promote equal opportunity to access financial services in Pakistan and should increase financial literacy.

(3) Consumer Benefit

The proposed innovation should:

- (i) Provide identifiable direct or indirect benefit to the consumer;
- (ii) Adequately identify and address direct and indirect risks for customers and markets;
- (iii) Put in place suitable mitigation plan to manage risks and ensure protection to customers through a complaints redressal mechanism.

(4) Readiness for testing

The innovator shall demonstrate that it:

- (i) Has adequate and necessary resources to support the testing in the sandbox including human capital and technology infrastructure;
- (ii) Identifies specific milestones and a timeline of execution;
- (iii) Presents a clear methodology for testing and controls.

(5) Exit plan

The innovator shall demonstrate:

- (i) A clear intent to scale-up the solution
- (ii) Putting up effective measures to safeguard the consumer

(d) Review and Selection

- (i) After the initial screening, the Commission shall meticulously review and evaluate the applications within forty-five (45) working days and may ask for additional information from the applicant. The Commission shall issue a letter of approval (LoA) Sandbox to the successful applicants to participate in the Regulatory Sandbox. Once approval is granted, the Participant will be allowed to operate in accordance with these Guidelines for the period of up to six months. The contents of the LoA will, at the minimum, include:
 - (1) Serve as a confirmation that the innovator has been accepted into a Cohort and as a certificate issued by SECP as an authority to carry out the test under the agreed methodology for sandbox testing
 - (2) Indicate the date of issuance and expiry
 - (3) Include a brief description of the innovation to be tested
 - (4) List the agreed consumer safeguards
 - (5) Outline the content and frequency of the reports to be submitted to SECP
 - (6) Explain that SECP reserves the right to suspend the test and withdraw the LoA with a public notice or take enforcement action if it becomes aware of deviation from agreed measures
- (ii) The Commission may provide extension in the testing period, if such request is made by the participant and the Commission believes on reasonable grounds that it is suitable to grant such extension.
- (iii) Every Participant shall commit to implementing a Safeguard Plan for the duration of the test. The Safeguard Plan will be designed by the Participant in consultation with the Commission

and shall address, at minimum, the integrity, conduct, and applicable consumer protection requirements. The Safeguards Plan shall, at a minimum, include the following:

- (a) Compliance with applicable rules and regulations regarding the prevention of money laundering, counter-terrorism financing, and other illicit activities included in the Guidelines on the Prevention of Money Laundering and Terrorism Financing; and
 - (b) Address the unique risks presented by the Regulatory Sandbox test and specify any mandatory actions to be taken by the Participant to minimize and/or remediate the impact of such risks on consumers, market participants, and the financial markets.
- (iv) Every participant shall commit to ensure the protection and stability of market participants and consumers and to mitigate the regulatory risks and shall propose to take such measures in this regard including, but not limited to, limits on number and type of customers or transactions or volume of business, requirement to obtain informed consent of customers and such other disclosure requirements, grievance handling mechanism, data protection and information security measures, requirement to have threat mitigation plan in place, ensure the solutions related to Islamic financial services are consistent with prevailing Shariah standards etc. The Commission shall also levy additional limitations and requirements at this stage.
 - (v) It shall be the responsibility of the participant to identify any regulatory impediments at this stage, however the Commission may provide informal guidance to the Participant in this regard.
 - (vi) The Commission may delay or defer acceptance of any applicant for any reason including, among other things, limitations on its current or anticipated supervisory capacity, the anticipated burden of planning and supervising the sandbox test, or any other reason that may affect the quality, effectiveness, or impact of the proposed Regulatory Sandbox test.
 - (vii) In case more eligible applications are received than the Commission's capacity, the Commission may delay the acceptance of eligible participants to the next cohort.
 - (viii) Any decision by the Commission to deny admission to the Regulatory Sandbox shall be supported by a written statement provided to the Applicant which sets forth the rationale for denying the application.
- (e) Testing/ Experimentation**
- (i) The approved participant will be allowed to operate in the sandbox environment for the period of six months, under the monitoring of the Commission.
 - (ii) The participant will provide reports to the Commission with contents, format and frequency as agreed mutually between the participant and the Commission prior to the commencement of testing stage.
 - (iii) In case, the participant encounters an unexpected technical or business difficulty beyond their control, the participant may submit a request for extension in time for commencement of testing period to the Commission.

- (iv) The participant shall inform Commission promptly, if any unforeseen circumstances have impaired its ability to commence or complete the testing. The Commission shall advise the appropriate course of action accordingly.

(f) Completion Report

At the end of the testing period, the participant shall submit a completion report to Commission including:

- (i) The overall results and statistics of the testing.
- (ii) An objective assessment of the potential impact of the solution to be scaled out which would include:
 - (a) A comparison of results with objectives defined at inception;
 - (b) The scope of scaling out to a larger audience in case of success;
 - (c) How the Participant will fully comply with relevant legal and regulatory requirements.

4. Exit Stage

The Commission will analyze the completion report submitted by the participant at the exit stage and will determine the future course of action with respect to the following:

- (i) Facilitating the participant in scaling up its solution in a compliant manner to a larger market in case of success or amicable wind up of its proceedings in case of failure, as the case may be.
- (ii) Decision with regards to formulation of regulatory framework for promotion of the innovative solution, or amendment to the existing regulatory framework for facilitating innovation.
- (iii) Prohibit completely or defer the deployment of the solution to a wider scale if the Commission is not satisfied with the results of the testing or if the product or service has significantly diverged from its original objectives and has perceived negative consequences to the consumer or the market.

5. Suspension or revocation of approval

At any stage, where SECP has possible reasons to believe that the innovator has failed to adhere to the details agreed during the review and selection stage:

- (i) SECP can temporarily suspend the approval until the matter in question has been fully clarified.
- (ii) SECP can completely withdraw the approval with a public notice in case a serious discrepancy has been observed related to consumer detriment or any other serious matter.