



Regulatory sandbox FAQs

Background

The Intergovernmental Fintech Working Group (IFWG) regulatory sandbox (RSB) was launched during April 2020, initially following a cohort-based approach and the first iteration of the frequently asked questions (FAQs) was based on that approach. The IFWG has since moved to an adjusted rolling-based approach and the FAQs have been updated to reflect the new approach. The questions have been listed according to how they may relate to the different phases of the RSB.

Information that is covered in more detail on the https://www.ifwg.co.za/Pages/IFWG_Regulatory_Sandbox.aspx are only briefly mentioned here – therefore it may be useful to consult both resources.

If you have additional questions, please email sandbox@ifwg.co.za

Adjusted rolling-based FAQs

Pre-application phase

What is the IFWG RSB?

The RSB is a controlled environment enabling the testing of innovative products and services against regulation or legislation. Testing occurs within defined timeframes and parameters to facilitate the expedited introduction of innovative solutions with the potential to benefit consumers and society. Regulatory relief from the existing legislative framework may be required to enable testing in certain instances.

What is the purpose of the IFWG RSB?

The objective of the RSB is to provide regulatory clarity to industry and insight on innovation to regulators, in order to effect policy and regulatory change – where appropriate. It is not an objective of the RSB to promote individual firms nor to provide them business support services such as guidance on business plans.

May only regulated entities apply?

Applications are open to both regulated as well as currently unregulated entities. One of the eligibility requirements is also that the firm has the intention to launch its financial product or service in South Africa. Kindly also consult the eligibility requirements on the RSB webpage (see https://www.ifwg.co.za/Pages/Sandbox_Application.aspx) for more information.

Is there a specific period during which I should apply?

The IFWG RSB follows an adjusted rolling-based approach which means that in-principle the RSB remains open for applications at all times, however it is possible that a specific regulator may not have capacity to consider new applications at a specific point in time. Please view the RSB webpage (see https://www.ifwg.co.za/Pages/Relief_and_Regulatory_Focus_Areas.aspx) to see what regulators can allow and want to see in the RSB.



Do I pay to apply to the RSB and are there any participation fees?

There are no application or any other administration fees to participate in the RSB, however participation does not alleviate any existing fees due to regulatory authorities.

Does entry into the RSB result in licensing or exemption from existing regulations?

If you are currently not licensed, participation in the RSB does not automatically result in licensing nor does successful completion of testing. In some instances, participation in the RSB may result in temporary regulatory relief (for the duration of the sandbox test), but this must be agreed with the lead regulator and there may also be instances where a license is required before an applicant is allowed into the RSB. Kindly have a look at the RSB webpage (see https://www.ifwg.co.za/Pages/Relief_and_Regulatory_Focus_Areas.aspx) to see whether regulatory relief is available and whether it may be required.

What regulatory relief or exemptions are possible in the RSB?

This depends on the financial product or services which is being considered for testing in the RSB. Kindly have a look at the RSB webpage (see https://www.ifwg.co.za/Pages/Relief_and_Regulatory_Focus_Areas.aspx) to see whether regulatory relief is available and whether it may be required.

Does regulatory relief extend beyond the RSB?

No, regulatory relief is only granted for the duration of the sandbox test. During sandbox contracting exit options will be discussed between the applicant and the relevant regulator(s) and the appropriate option confirmed at the end of testing. An exit option may include extending regulatory relief, however the preference would be that, where required, financial services and products be provided under an appropriate regulatory framework and not under an exemption for a protracted period.

Does involvement in the IFWG RSB restrict me to launching the product or service in South Africa?

One of the eligibility requirements into the RSB is the intent to launch the financial product or service in South Africa. This, however, does not preclude a firm from launching its products or services in another country, but it should be noted that testing in the IFWG RSB does not result in any form of approval in a foreign jurisdiction.

May I make changes to the RSB application after submission?

It is acknowledged that it may be necessary for a firm to pivot in order to meet market needs and while the application is being considered this could be entertained, however please note that material changes may result in the outright rejection of an application or in asking the applicant to submit an updated application.

Should an application be denied, when may the same applicant re-apply?

An applicant should wait six months before applying again, unless guided differently by the IFWG or regulator(s) who rejected the application e.g., where the regulator(s) rejected an application with the express request to submit an updated application.

How long does it take to complete the evaluation of an application?

This may depend on the complexity of the application, which makes it hard to commit to a specific timeline. The IFWG RSB does however commit to keeping applicants updated throughout the process. If the process does take longer, you would typically be aware, because the RSB team may, for instance, be engaging you for more information.

What is the difference between a regulatory sandbox and an incubator?

A regulatory sandbox is typically exclusively focused on testing innovation against regulation, that is to address areas of regulatory uncertainty in order to provide clarity to industry and insight into innovation for the regulator. Other innovation facilitation structures typically provide a wider array of services, including business advisory services and potentially funding. Incubators, for instance, look to develop ideas and guide young startups to build their businesses, whereas accelerators look to grow existing businesses.

Does the IFWG provide funding to eligible participants?

No, as a regulatory sandbox the IFWG RSB exists to enable testing against regulation, but it does not provide business advisory and financing services similar to structures such as an incubator. As regulators there may also be a conflict of interest in funding companies that we may later have to regulate. There are a number of options which startups could consider for funding including programs offered by government agencies, as well as venture capital and private equity firms, Development Finance Institutions, crowdfunding, etc.

Is there a restriction on the number of firms that will be allowed into the RSB?

Not specifically, but the regulators participating in the IFWG's RSB do not have unlimited resources and an individual regulator would indicate on the IFWG webpage (see https://www.ifwg.co.za/Pages/Relief_and_Regulatory_Focus_Areas.aspx) if it is not taking further applications, at a point in time, due to a lack of capacity.

Are there specific financial products and services that regulators would like to see in the RSB?

The individual regulators will indicate on the IFWG webpage whether they have specific focus areas, or themes, which they would like to see in the RSB. In addition, the website of the respective regulators may indicate what their strategic focus areas are, similarly the IFWG Innovation Accelerator webpage (see https://www.ifwg.co.za/Pages/Relief_and_Regulatory_Focus_Areas.aspx) indicates focus areas that the IFWG is working on. In addition, engagement with regulators, including through the IFWG Regulatory Guidance Unit (see <https://www.ifwg.co.za/Pages/Regulatory-Guidance-Unit.aspx>) may also indicate whether the area of regulatory uncertainty for the potential applicant is something that the regulators either have an existing view on or may be open to seeing in the RSB.

If I'm not sure whether the financial product or service I want to apply for entry into the RSB does not neatly fit within existing regulation, allowing for 'testing against regulation', where can I go to verify this?

If, having done your research, you believe there is regulatory uncertainty surrounding the financial product or service which you are looking to offer, you are welcome to approach the IFWG's Regulatory Guidance Unit (see <https://www.ifwg.co.za/Pages/Regulatory-Guidance-Unit.aspx>) to clarify the regulatory position. Based on the feedback you could consider further pursuing the RSB or not.

What is meant by an adjusted rolling-based approach?

A rolling-based approach means that the sandbox remains open for application at any time, however this always-open position may be adjusted by indicating that a particular IFWG member may not have the capacity to consider further application at a point in time or that that a regulator is only focused on a particular application.

What can I expect from the end-to-end RSB process?

There are five stages that an applicant will go through its journey to becoming a participant and exiting the RSB, namely: (i) application; (ii) assessment and shortlisting of applications; (iii) contracting and defining of testing parameters; (iv) testing and reporting; and (v) close-out. The RSB team will work with you throughout the process, and you will be updated on where you are in the process and what is required of

you.

What are the benefits to testing in regulatory sandbox?

Testing seeks to provide regulatory clarity to the participant and insight into a specific innovation as well as industry trends to the regulator(s).

Does entrance into the RSB create a competitive advantage over firms who have not applied or whose application did not result in acceptance?

Regulators seek to create a level regulatory playing field and do not seek to provide any particular firm with a competitive advantage. Where there are insights or outcomes from testing which may benefit industry, these will be communicated to industry (without communicating the specifics of any sandbox test).

May I launch my financial product or service through the RSB, and at scale?

The IFWG RSB does not serve as an avenue to publicly launch a product. The sandbox contract will define testing parameters, which will place restrictions on testing to mitigate the risk to financial customers participating in the testing. Participants also have to prepare an exit strategy in anticipation of either a successful or unsuccessful exit from the RSB, which may then entail scaling up, if regulatory approval is obtained, or shutting down the sandbox test without harm to the participating customers.

Application phase

Does the IFWG RSB help me obtain requisite partnerships to enable testing?

No, one of the eligibility requirements is that the financial product or service which will be the focus of the sandbox test is 'ready to be tested', which includes that it is ready for live transactions and that partnerships which would support a production launch is in place to support the sandbox test.

If I am a fintech firm, do I need to partner with a regulated entity for entry into the RSB?

Not as a standard rule, but it depends on the financial product or service which will be the focus of the sandbox test. If existing regulation requires partnering with a regulated entity, such as a commercial bank, then it would have to be determined from the relevant regulator(s) whether it is possible to obtain regulatory relief from this requirement.

Do I need a regulatory license as a requirement to enter the RSB?

Not as a standard rule but do consider the possible regulatory relief and considerations surrounding testing on the IFWG RSB webpage (see https://www.ifwg.co.za/Pages/Relief_and_Regulatory_Focus_Areas.aspx). There are some regulators which cannot grant regulatory relief and/or require a license as a prerequisite for testing.

What are the requirements for consideration into the RSB?

The IFWG RSB webpage lists the eligibility requirements (see https://www.ifwg.co.za/Pages/Sandbox_Application.aspx). The application should evidence how your proposition for the RSB meets the entry criteria, including your understanding of its regulatory fit and challenges, your testing plan, and exit strategy.

Are applications treated confidentially?

All engagements between the regulator(s) and applicant are considered confidential and all information shared will be used for purposes of the RSB and in line with that treatment of other data shared with a regulatory entity.

At which stage of development does my financial product or service need to be before I can apply to the RSB?

Since testing in the RSB typically happens with live customers the financial product or service should be fully developed and have been tested and gone through your internal approval processes to be deemed ready for use in a production environment.

May a single firm apply for multiple financial products or services to enter the RSB?

You may apply for multiple financial products or services to enter the RSB, but also bear in mind that testing happens in a controlled environment within predefined testing parameters and overcomplicating applications may reduce the chances of them being approved.

May I apply to the RSB if my product or service is already in production?

It is better, for both participants and regulators, to test financial products and services before they are launched to the public in order to obtain the requisite regulatory clarity and ensure that they are launched safely and in compliance with regulatory requirements – where appropriate. There are, however, instances where innovation outpaced regulation and is in the production environment – in which case applications would be considered.

Is it possible to apply for cross-border testing?

Yes, and some of the initial participants in the IFWG's RSB did test cross-border transactions. Please note that it is up to the applicant to evidence to the IFWG that it is licensed and in good standing in the other jurisdiction or that it has obtained approval from the applicable regulator in the other jurisdiction to participate in a RSB test in South Africa.

Would only firms registered in South Africa be allowed to apply?

It is not a requirement that applicant firms be registered in South Africa, but that you are planning to offer the proposed product or service in South Africa.

Where do I go to apply to the RSB?

You may go to the IFWG RSB webpage (see https://www.ifwg.co.za/Pages/Sandbox_Application.aspx) to apply.

What happens after application - how do I know whether my application has been accepted or rejected?

The IFWG RSB team will acknowledge receipt of your application and keep you updated throughout the process.

Contracting phase

What is involved in the contracting phase?

The applicant will work with the RSB Case Manager and relevant regulator(s) to draw up a sandbox agreement, which will define elements such as the scope of the sandbox test, testing parameters, test plan, timelines, potential regulatory relief, and exit strategy. The agreement must be signed off by the applicant, regulator(s) and IFWG prior to testing progressing.

Testing phase

May I change the details of the sandbox test after entry into the RSB?

Testing is governed by a contractual agreement between the participant (i.e., successful applicant), the relevant regulator(s) and IFWG and any proposed change would have to be considered as a scope change under that agreement and go through the requisite approval process.

May I publicly announce that I have been accepted into the RSB?

Participants in the IFWG RSB are listed on the IFWG website and once your firm's name is published you may mention that you have been accepted into the RSB. You should however not use any 'promotional' language and state anything beyond that which is not in line with the RSB agreement. For instance, indicating that acceptance means support of your firm and/or products and services would not be acceptable. Participants are required to inform customers participating in the RSB that they are participating in a sandbox test and what the implications are.

Does acceptance into the RSB mean that I am compliant with existing regulations with the regulator(s) as my compliance advisors?

Acceptance into the RSB does not result in compliance with regulatory requirements which you were not compliant with prior to entry. As participants progress through the testing process, and should testing be successful, it remains the responsibility of the participant to remain compliant with existing regulation as well as for regulatory requirements which may follow testing.

Does the IFWG RSB provide technical testing support, for instance test data?

As part of the application process applicants must prove that their proposed product or service is ready for a regulatory test in a production environment - this may include security and load testing, which are not tested in the RSB. The IFWG does not provide a technical testing environment, including test data, as a general rule and the expectation is that participants should be able to facilitate the testing, particularly since the expectation is that, should testing be successful, the participant should be in a position to launch the product in production.

What would be expected of me during testing?

You would have to remain in compliance with the requirements set out and agreed during the sandbox contracting phase. It is, for instance, expected that participants provide the regulator(s) and IFWG with monthly reporting, participate in periodic engagements with regulator(s) including addressing questions raised, and provide a close-out report as an appropriate close-out option is determined.

How long is testing expected to take?

The IFWG RSB recommend a standard testing period of six months, however the testing timeline must be agreed during the contracting phase and may be shorter or longer than six months.

What happens if things go wrong during testing?

Applicants are required to include an exit strategy in their application, which should determine exit options under different scenarios, including how to deal with things going wrong during testing. Even should nothing technically go wrong during testing, but the regulator(s) do not support a path to production the exit strategy should indicate how testing will be wound down and participating customers protected.

What happens if the sandbox test closes out successfully?

Applicants are required to include an exit strategy in their application which should determine exit options under different scenarios, including a transition plan (from testing to production) should testing be successful and a road to production is agreed with the regulator(s).



Close-out phase

What happens at the end of the testing period?

The participant must provide the regulator(s) and IFWG with its final monthly report and a close-out report. The relevant regulator(s) will draw up a motivation letter to the IFWG indicating their recommended exit option, which may range from stopping testing and unwinding all relationships permanently or agreeing on a road to production. The IFWG will communicate its final decision to the participant.

Do I have to fully apply to all legal and regulatory requirements after exiting the RSB?

This depends on the final exit option confirmed by the regulator(s) and IFWG, which may range from stopping testing and unwinding all relationships permanently or agreeing on a road to production. A road to production may include a period of extended regulatory relief, however the RSB supports a level regulatory playing field where all firms engaging in similar activities, must comply with all applicable regulatory requirements.

Could an outcome of the RSB result in an amendment to current legislative and regulatory frameworks?

Yes, the purpose of the RSB is to enable testing against regulation to provide regulatory clarity and insight into innovation. Should it be clear that the financial product or service does not fit within existing policy, legislative and/or regulatory frameworks the outcome may be to recommend the amendment to existing, or creation, of new frameworks. Please, however, bear in mind that the updating of, or creation of new, frameworks is a complex process which does take time to execute.

Will the outcomes of testing be made public?

Yes, in order to ensure relevant learning and outcomes which are for the benefit of industry and customers to be aware will be communicated. Such communication will not include confidential information.