

Regulatory Sandbox Guidance and Application Guidelines

FinTech Center

Financial Supervisory Commission

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Outline

- ▶ Introduction
- ▶ Introduction of Sandbox Regulations
- ▶ Guidance Procedures
- ▶ Innovative Experimentation Application
- ▶ Conclusion

I Introduction

- A regulatory sandbox is a site for experimenting cross-sector innovations. It helps overcome existing service frameworks to provide consumers with diverse, high-quality, and dedicated services.

● Implementing innovations

It provides a site for experimenting FinTech development and opportunities for testing and verifying innovative ideas.

● Risk management

It examines potential risks in innovation in advance to ensure that products and services set to enter the market in the future can account for both the stability of the financial system and protection of consumer rights and interests.

The confidence of financial consumers and stable operations of the market are the cornerstone for all innovations.

Introduction

- Purpose of legislation

Financial Technology Innovative Experimentation

- Establish a secure environment for R&D and trial operations
- Balance financial market order and consumer protection

Responsible innovation

Business scope

Utilizing technological innovation or business model innovation to undertake experimentation of financial businesses that requires special permission



Safe trials

Verify the feasibility of the innovative concept, exclude the application of regulations and orders, and exemption from penalties and administrative liabilities



Implementation plans

- Review and study financial regulations
- Study differentiated management mechanisms
- Apply the same management for the same businesses



Expected benefits

- Increase the efficiency of financial services
- Reduce management and usage costs
- Increase consumer rights and interests



Promote FinTech development and financial inclusion
Increase financial competitiveness and promote national economic growth

I Introduction



✓ Examples for innovative experimentation applications

1. When **tech companies and startups** use innovative methods and blockchain technologies for fund exchange businesses, the competent authority will review the implementation status of innovative experiments and implement tiered management for regulatory adjustments to help them transform into securities firms and continue business operations.
2. The **finance industry** uses innovative methods to process **financial businesses that require special permits**. For instance, life insurance companies and travel platforms engage in cross-sector collaboration for consumers to purchase travel packages and travel insurance on the same travel platform to implement scenario-based finance.

● Explanation of the eligibility of "pilot programs"

1. **Tech companies and startups only provide the finance industry with related innovative technologies or know-how** such as customer risk assessment, wealth management investment modeling, big data analysis, and real-time supervisory systems. Those that have not engaged in financial businesses that require special permits **are required to request their partner financial institutions to apply to the FSC for approval for their pilot programs.**
2. **When financial institutions improve their existing business technologies** such as diverse cash withdrawal methods, customer signature methods (biometrics or electronic signature), pilot programs or recommendations for amendments shall be proposed in accordance with regulations for each industry.

Introduction of Sandbox Regulations

Financial Technology Development and Innovative Experimentation Act and subsidiary legislation

- Regulations Governing Fees for Handling Civil Disputes Arising from Financial Technology Innovative Experimentation
- Threshold amount for the applicant to accept ombudsman decision

Regulations Governing the Operations of Financial Technology Innovative Experimentation Review Meetings and Evaluation Meetings

Operation methods, members, and items that require recusal

Regulations Governing Financial Technology Innovative Experimentation

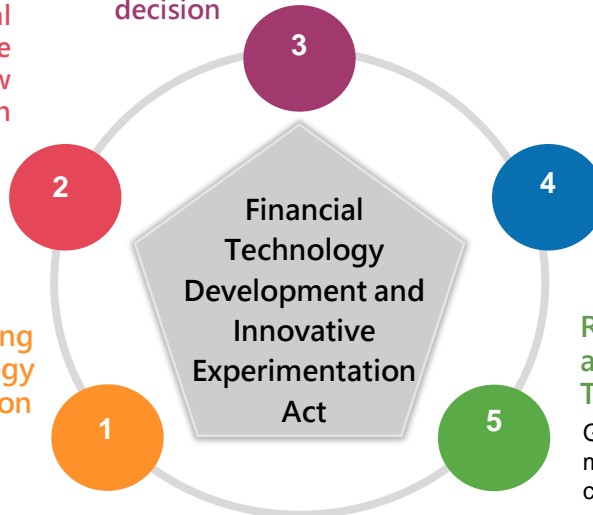
Innovative experimentation applications, extensions,

Regulations Governing Anti-Money Laundering and Countering Terrorism Financing of Financial Technology Innovative Experimentation

Customer identity verification, transaction monitoring, and retention of related records

Regulations on Guiding and Assisting Financial Technology Development

Guidance and assistance measures and setting up physical clusters



Introduction of Sandbox Regulations

(the numbers refer to the article number of the Act)

Key points of regulations

13 Adopt appropriate and adequate information security measures

No fees required for innovative experimentation

19

Protection of participants

Exclusion of applicable regulations



Consultation and guidance

Application review

Experimentation supervision

Assessment of results and exit mechanisms

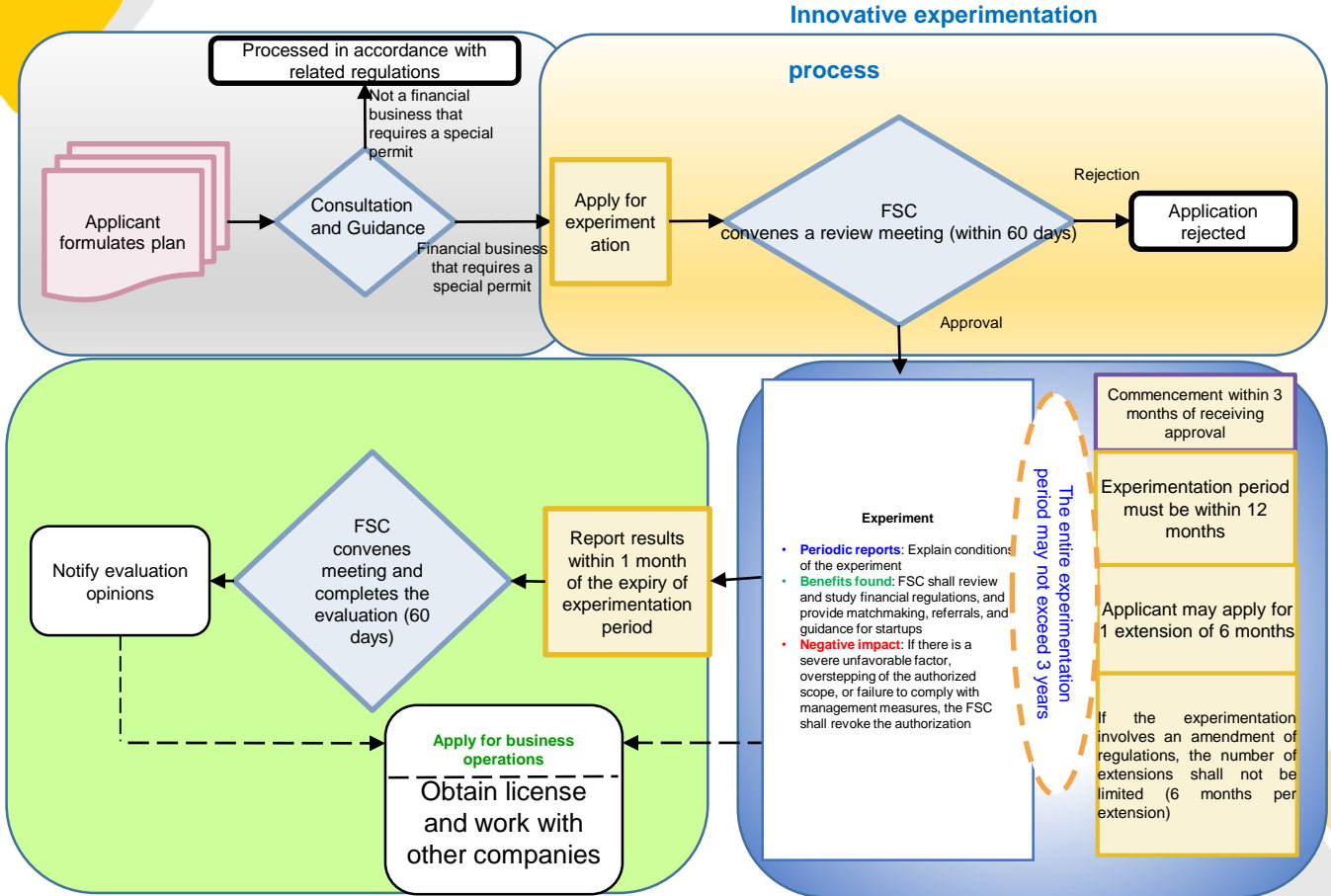
- Verify the necessity of the application and the qualifications of the applicant
- Explanation of the necessary criteria for the experiment
- Guidance for the applicant in the preparation of the experimentation plan

- Inter-agency review including external experts
- Members and regulations of the review meeting
- Review requirements & standards
- Approval and rejection criteria and response measures

- Regulations on the prescribed period
- Verify the compliance and implementation of the plan
- Extend experimentation period
- Change the experimentation plan
- File supervisory report
- Review regulations and measures
- Process consumer disputes

- Members of the review meeting and regulations
- Principles for providing evaluations and recommendations
- Exit mechanism when the innovative experimentation is terminated on own initiative, or cancelled or revoked by the competent authority

II Introduction of Sandbox Regulations



Introduction of Sandbox Regulations

- Exclusion of applicable regulations and exemption in the Act

Exemption from penalties for financial businesses that require special permits

- Regulations in financial laws: Financial institutions that are not established in accordance with requirements for special permits of the law may not engage in financial businesses that require special permits.
- The applicant shall be **exempted from penalties for financial businesses that require special permits** during the experimentation period.

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Exemption from applicable regulations, orders, or administrative rules

The FSC or other government agencies may grant exemption from **regulations, orders, or administrative rules in part or in whole to the innovative experimentation during the experimentation period and release the applicant from relevant administrative responsibilities**. However, the provisions of the Money Laundering Control Act, Terrorism Financing Suppression Act and related regulations, orders, or administrative rules will still apply.

- ◆ **Financial services industry:** Exemption from specific regulations, orders, or administrative rules.
- ◆ **Non-financial services industry:** For entities originally not regulated by financial regulations, the FSC shall define the legal requirements to be followed in the experimentation program, and shall specify the compliance items and required commitments for the applicant

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Introduction of Sandbox Regulations

● Qualification requirements for the applicant

Scope of applicants

- Natural persons, sole proprietorships, partnerships, and legal entities may apply for experimentation
- Applicants that do not reside in Taiwan may also seek assistance from agents for the application

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Negative qualifications

- Natural persons and their agents; sole proprietorships, partnerships, and their agents; legal entities and their agents; key managers of the innovative experimentation
- Not in violation of subparagraphs, Article 30 of the Company Act

5

Penalties for violation of regulations on negative qualifications

Where the applicant, its responsible person, or agent violates the regulations, the approval for the experimentation shall be revoked
If the responsible person and agent violate the regulations, they must be replaced within a specified time or the approval shall be revoked

Introduction of Sandbox Regulations

- Review requirements & standards of the competent authority

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5-7

Whether the experimentation involves financial businesses that require special permission

Business scope

- The experimentation involves financial businesses that require the permission, approval or concession of the competent authority
- It clarifies the key points of regulations for the experimentation application

Whether the experimentation is innovative

- The innovative experimentation uses technology or business model that has not been made public, implemented, or patented by a domestic financial service entity
- The innovative experimentation applies existing or patented know-how to the financial business but using significantly different technology or business model

Whether the experimentation increases efficiency and the rights and interests or lowers costs

- Necessity of participants in the experimentation
- Feasibility of expected benefits
- Reasonableness of the basis of measurement
- Whether measures for increasing efficiency and the rights and interests or lowering costs are detailed and reasonable

Introduction of Sandbox Regulations

- Review requirements & standards of the competent authority

7

8-18

Whether potential risks have been assessed and relevant response measures prepared

- Perform a complete assessment of the biggest risk that may be created: Potential, indirect, and chain reaction risks
- Set up an independent and effective risk management mechanism (risk patterns, monitoring and control mechanism, and response mechanism)
- Establish procedures for submitting periodic reports and special reports

Establishment of participant protection measures and preparation of an appropriate compensation mechanism

- Compensation mechanism
- Establishment of management mechanisms
- Independent accounting and the shared use of personnel and equipment may not damage the interests of participants
- Consent in writing that the complaint, mediation, and ombudsman service procedures in the Financial Consumer Protection Act shall apply
- Matters that must be specified in the contract and the applicant shall inform the participants of related matters in accordance with Article 8 of the Personal Data Protection Act
- Maintain information security

Other matters that require evaluation

- The reasonableness of granting the applicant's innovative experimentation the exemption from applicable regulations, orders, or administrative
- The appropriateness of exit mechanism regarding the rights and obligations between the applicant and the participants
- The completeness of mechanisms for anti-money laundering and combating financing of terrorism
- Partners and their cooperation relationships when it is necessary for the applicant to cooperate with other financial institutions
- The concreteness of the innovative experimentation plan without explicit difficulties for implementation
- The professional proficiency possessed by the applicant to implement the innovative experimentation plan

Introduction of Sandbox Regulations

- Review standards – Scope and scale of the experimentation

5

The number of participants and the monetary amount involved in the experimentation

- The aggregate amount of funds, transactions or risk exposures associated with the contracts shall not exceed NT\$100 million. However, it may be expanded to NT\$200 million with approval.

- Maximum amount for individual participants that are not qualified institutional investors:**

- The amount of consumer credit or loan shall be limited to NT\$500,000 (NTD only).
- The premium or service fees of an insurance product shall be limited to NT\$100,000, or the insured amount shall be limited to NT\$1,000,000 (or equivalent foreign currency thereof).
- Other financial products or services shall be limited to NT\$250,000 (or equivalent foreign currency thereof)

Experimentation
scale

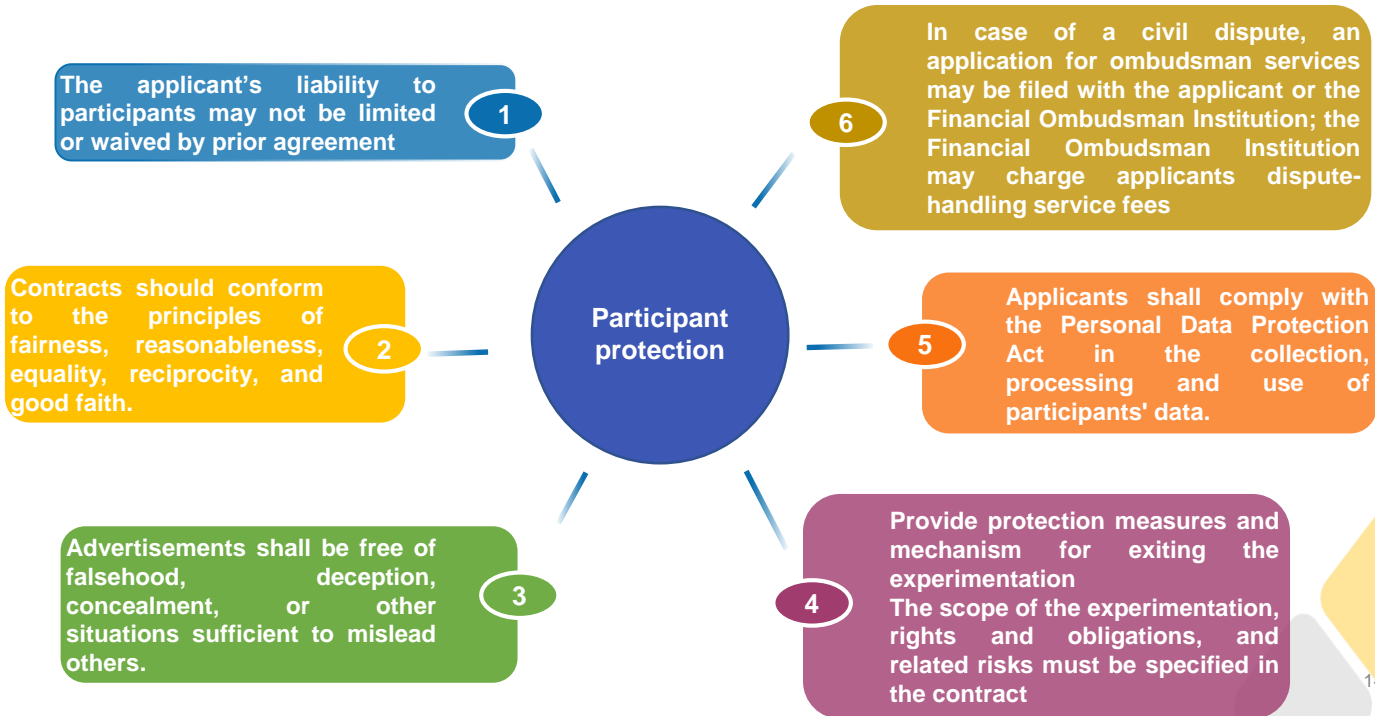
- The legal limits may be reduced or increased based on the resolutions of the review meeting in accordance with requirements for individual cases.
- The amounts of funds do not include investment income or interest income.
- The review meeting should determine the limit of total service fees charged and the limit of service fees charged to any single participant in view of the nature of individual business, protection measures adopted and actual management needs.

How to set the scale?

The limit of financial products or services provided by the applicant to any single participant set by the applicant itself based on the business nature of the innovative experimentation and the protection measures and appropriate compensation planned after evaluating its own financial position and risk capacity.

Introduction of Sandbox Regulations

- Review standards – Protection measures 13-18
- Regulations for the protection of participants in the Act 20-24



Introduction of Sandbox Regulations

- Review standards – Exit mechanisms

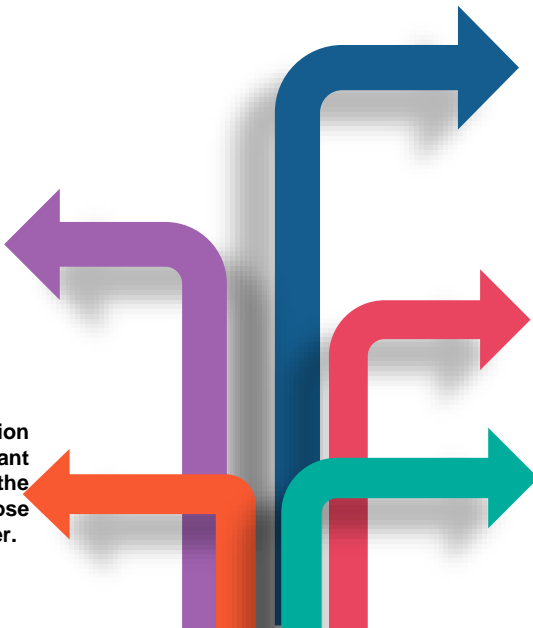
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Introduction of Sandbox Regulations

- Review standards – Exit mechanisms 11, 19



When the innovative experimentation is terminated by the applicant, or canceled or revoked by the competent authority or when the innovative experimentation period ends, the applicant shall handle exit related matters in accordance with the exit mechanism approved by the competent authority and the instructions of the competent authority, and notify the participants.

An applicant shall, **within 3 business days** after completing the exit mechanism, report the implementation results to the competent authority for record.

The report on the innovative experimentation results in accordance with Article 16 of the Act shall include the implementation status of the exit mechanism, and if applicable, subsequent planning for the financial business involved in the innovative experimentation.

After an innovative experimentation ends, the applicant shall handle the personal information of participants in accordance with Paragraph 3, Article 11 of the Personal Data Protection Act.

Where an innovative experimentation involves the receipt of funds, the applicant shall, within **1 month** from the date the experimentation ends, return or dispose the remaining funds in an agreed manner.

Introduction of Sandbox Regulations

- Supervision and Administration of Innovative Experimentation – Commencement regulations

12

1

Commencement of experimentation

- An applicant shall commence an approved innovative experimentation **within 3 months** from the date of receiving the notice of approval decision made by the competent authority pursuant to Paragraph 1 of Article 8 herein.
- Should an applicant fail to commence the approved innovative experimentation within the prescribed period set out in the preceding paragraph, the approval granted by the FSC shall no longer be valid,
- The FSC shall notify the applicant of such decision in writing and disclose the date on which approval of the experimentation is invalidated and reasons therefor on the FSC website.

2

Written notification

- An applicant shall notify the FSC in writing the date on which the approved innovative experimentation commences **within 5 business days from the date of commencement.**

Introduction of Sandbox Regulations

- **Supervision and Administration of Innovative Experimentation – Extension of experimentation**

9

1

Extend experimentation period

- The period of innovative experimentation shall be limited to 1 year. Only 1 extension shall be permitted and must be no longer than 6 months.
- However, when an innovative experimentation involves any law amendment, the extension of the experimentation period is not limited to once (each extension period shall remain 6 months), but the entire experimentation period shall not be longer than 3 years.

Required items in the application form for extending the experimentation period

2

- The current status of innovative experimentation and expected benefits already achieved
- Reason(s) for the extension
- Length of extension requested and expected benefits
- Disputes arising during the experimentation period and how they were handled
- Status of remedial actions taken when the FSC requested the applicant to make improvement within a given time period
- Other matters required by the competent authority

3

Reasons for rejection

- Unreasonable plans, detrimental to the financial market or the interests of participants, or failure to take effective remedial action in accordance with Paragraph 2, Article 14 of the Act

Introduction of Sandbox Regulations

- Supervision and Administration of Innovative Experimentation – Change of experimentation

10

4

1 No changes can be made to an innovative experimentation plan approved by the competent authority

However, if the change

1. does not involve **important elements** of the experimental financial business, and
2. and does not have material impact on the interests of participants, the applicant may make changes after applying for the change and obtaining approval of the FSC

3 Notifications after an experimentation is changed

- After receiving approval, the applicant shall notify the FSC in writing the date on which the approved innovative experimentation commences **within 5 business days from the date of the change of the experimentation.**

Definitions of important elements

- The financial businesses that requires the permission of the FSC
- Utilization of technological innovation or business model innovation
- Benchmarks for measuring the expected benefits of the innovative experimentation

Introduction of Sandbox Regulations

- Supervision and Administration of Innovative Experimentation
— Supervisory reports

20-21

1

Periodic reports

- An applicant shall submit periodic reports signed by the applicant

Statement:

1. The innovative experimentation is carried out in consistence with the content approved by the competent authority
2. Status of regulatory compliance

- Report content:

1. Progress of the experimentation
2. Implementation status of information security
3. Implementation status of matters requested by the competent authority
4. Other matters that should be reported to the FSC

Special reports

2

- When an applicant has any of the following situations during the innovative experimentation period, the applicant shall submit a **special report signed by the applicant no later than the next business day of occurrence:**

- A situation under any of the subparagraphs of Paragraph 1, Article 15 of the Act
- Having material changes to its finance, business or personnel
- Ending the innovative experimentation on own initiative
- Having an information or communications incident
- Media report that may affect the applicant's business reputation
- Where the FSC requests a special report
- Any material situation deemed by the applicant that it should be immediately reported to the FSC

Introduction of Sandbox Regulations

- **Supervision and Administration of Innovative Experimentation – Revocation and approval**

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A materially adverse situation

The innovative experimentation involves a situation that is materially adverse to the financial market or the interests of participants

Deviation from permitted scope

The innovative experimentation outsteps the scope approved by the FSC or violates the additional requirements and obligations set by the FSC

Failure to take timely remedial action

The applicant fails to comply with Paragraph 1, Article 14 of the Act and fails to take remedial action within the given time period as ordered by the FSC

Any of the aforementioned conditions occurs during the experimentation period

FSC may revoke the approval for the experimentation

Introduction of Sandbox Regulations

Supervision and Administration of Innovative Experimentation — Consumer dispute resolution

2

Collection of fees based on the nature of the ombudsman service case

1 Nature of ombudsman service: In a dispute case where the FOI renders an ombudsman decision wholly or partially favorable to the participants of the innovative experimentation, the FOI will charge the applicant a NT\$10,000 dispute-handling service fee for each such case.

2 Nature of other services: Where a dispute case results in withdrawal by the participant, reconciliation reached through mediation or an ombudsman decision wholly unfavorable to the participant, the FOI will charge the applicant a NT\$6,000 dispute-handling service fee for each such case.

3 If an application for ombudsman service is withdrawn before the FOI sends a written notice to the applicant asking the applicant to state his opinion, no dispute-handling service fee will be charged.

3

Collection of fees for group ombudsman services

1 If the number of participants is under 100, two times the fees will be charged.

2 If the number of participants is over 100, the fees will be increased one time for each increment of 100 participants; an increment of less than 100 will be counted as 100.

3 Where the results of a case cover both natures of service, the nature of the case will be determined by the majority results. Where the number of participants is the same in both natures of service, the dispute-handling service fees will be NT\$8,000 based on the standards under the preceding paragraph.

4 A participant who fails to inform the FOI in writing stating the intention to self-continue the ombudsman case within 7 working days and is thereby regarded as having withdrawn the application for ombudsman service will be counted into the number of participants under the nature of other services. The participant will be charged in accordance with the preceding regulations.



Guidance Procedures

Do you want to start a
FinTech service?



Is it a financial business that
requires a special permit?

Does it conflict with existing
financial regulations?

Does the business scope
make it difficult to determine
whether it complies with
regulations?

**Consultation
and guidance**

Guidance Procedures

Front shop, back factory partnership mechanisms

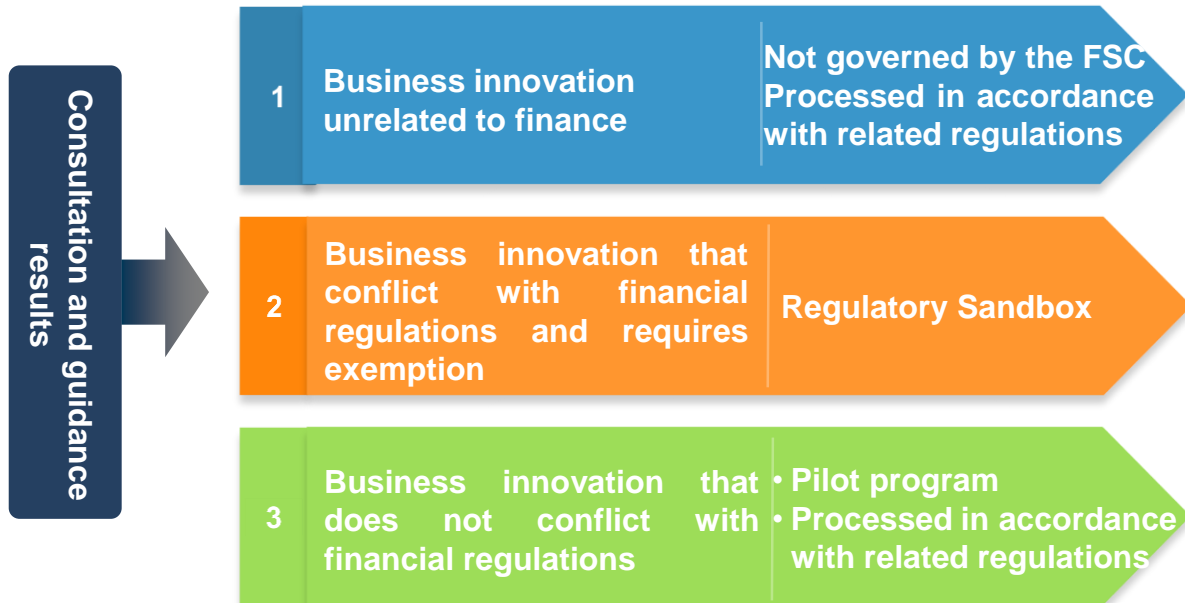
- An R&D concept with FinTech innovation but incomplete plans
- Seek assistance regarding related regulations from the "Innovation Regulatory Sandbox Platform" of the Ministry of Economic Affairs
- <https://www.sandbox.org.tw>

FSC consultation and guidance contact information

- A FinTech business innovation with complete plans
- FSC consultation and guidance contact information
(02)8968-0086, 8968-0240, 8968-0081, 8968-0071, 8968-0108, 8968-0120
- [Send an explanation of the business model in an e-mail to fintechcenter@fsc.gov.tw](mailto:fintechcenter@fsc.gov.tw)

Consultation
and guidance

Guidance Procedures



IV

Innovative Experimentation Application



4 Application documents

1. Application form
2. Applicant information
3. Innovative experimentation plan



Consult with the FSC guidance contact window for guidance before filing an official application

2

Provide three copies of the application form and documents as well as digital files

- Application documents specified in Article 4 of the Act
- A statement that the individuals specified in Paragraph 1, Article 5 of the Act do not have negative qualifications
- The applicant must provide supplementary information within the specified period



Innovative Experimentation Application

- Disclosure of application documents on the FSC website
(Chinese: : <https://www.fsc.gov.tw/ch/home.jsp?id=685&parentpath=0,7,478>)
(English: : <https://www.fsc.gov.tw/en/home.jsp?id=125&parentpath=0,3,117>)



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金融監督管理委員會
Financial Supervisory Commission R.O.C. (Taiwan)

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申請表單下載

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進階查詢

編號	更新日期	資料來源	標題
1	2018-05-09	金融監督管理委員會	金融科技創新實驗其他書件
2	2018-04-30	金融監督管理委員會	金融科技創新實驗申請書件
3	2018-04-26	金融監督管理委員會	金融科技創新實驗結果報告書
4	2018-04-26	金融監督管理委員會	金融科技創新實驗延長實驗期間申請書件
5	2018-04-26	金融監督管理委員會	金融科技創新實驗變更申請書件

IV Innovative Experimentation Application

● Innovative experimentation plan

Management team

- Source of funds
- Information on key managers carrying out the innovative experimentation
- Cooperation agreements and description of relevant parties regarding their respective rights and obligations if the innovative experimentation will be conducted in collaboration with other individuals

Protection of participants

- Major clauses of the contract signed with participants
- Participant protection measures

Contents of the experimentation

- The financial businesses that the innovative experimentation will be involved
- Scope and scale of the experimentation
- Benchmarks for measuring the expected and achieved benefits of the innovative experimentation

Risk management mechanisms

- Potential risks during the experimentation period and risk management mechanism
- Description of money laundering and terrorist financing risk assessment and risk mitigation measures established using a risk-based approach
- Information systems used in the innovative experimentation, and description of security control operation and risk response measures

Innovativeness

- Description of innovativeness
--- Technological innovation or business model innovation
- Relevant information on financial technology patents involved

Exit mechanisms

Exit mechanism when the innovative experimentation is terminated on own initiative, or canceled or revoked by the competent authority or when the experimentation period ends

Innovative Experimentation Application

- Instructions for filling out the innovative experimentation plan

The financial businesses that the innovative experimentation will be involved

- ◉ **6 Ws**
 - **What:** Scope of innovative experimentation products or services
 - **Who:** Whether there are restrictions on the qualifications of participants or the contents of the experimentation, KYC procedures, and product fitness
 - **How many:** Scale of the experimentation
 - **How:** Provide the business model of the product or service, operating procedures, and flowchart
 - **When:** Provide the schedule for the product or service and the timing for the settlement of transaction funds or service fees
 - **What:** Channel for providing products or services
- ◉ **Regulations, orders, or administrative rules that the innovative experimentation may be in conflict with, reason of the conflict, and explanation of the reasonableness of the exemption from such regulations**

V Conclusion

- The FSC encourages all FinTech innovation
- We welcome financial institutions, tech companies, and startups
- We protect consumer rights and interests and maintain order in the financial market
- Create financial value and competitiveness, promote public welfare, and ensure financial inclusion



Financial institutions use technologies

Tech companies participate in finance

Collaborative FinTech development