



PHILIFINTECH INNOVATION OFFICE

N O T I C E

The Commission hereby request all interested parties to comment on the attached draft proposal on the issuance of the “**SEC REGULATORY SANDBOX FRAMEWORK**”.

Kindly address your comments to **Atty. Paolo Montano M. Ong**, 15th Floor, PhiliFintech Innovation Office (SEC), the SEC Headquarters, 7907 Makati Avenue, Salcedo Village, Barangay Bel-Air, Makati City, 1209, Metro Manila.

You may also email your comments to **fintech@sec.gov.ph** not later than **10 October 2023**.

Issued on 28 September 2023.



SEC MEMORANDUM CIRCULAR NO. _____
Series of 2023

SUBJECT : THE SEC REGULATORY SANDBOX FRAMEWORK
(Regulated Environment for the Exploration, Experimentation, and Examination of Business-Oriented Technologies)

WHEREAS, the Securities and Exchange Commission (SEC) recognizes the importance of innovation and its role in promoting the advancements in technology and business models that may maximize value, increase efficiency, manage risks better, and improve the lives of Filipinos;

WHEREAS, Section 10, Article XIV of the constitution recognizes that science and technology are essential for national development and progress and mandates the State to give priority to research and development, invention, innovation, and their utilization, and to science and technology education, training, and services.

WHEREAS, the Republic of the Philippines–Philippine Development Plan 2023-2028 encourages, as part of the national transformation agenda, the development of a dynamic innovation ecosystem involving knowledge and R&D institutions, product and process design, marketing, and entrepreneurs and encourages the government to support the creation of innovation ecosystems and their evolution to becoming a dynamic ecosystem that eventually generates not only more, but quality jobs.

WHEREAS, Section 37 of the Republic Act 8799, otherwise known as the Securities Regulation Code (SRC), mandates the SEC to encourage competitiveness in the market by promulgating rules for the registration and licensing of innovative and other trading markets or Exchanges including the issuance and trading of innovative securities and technology-based ventures.

WHEREAS, Section 10.2 of the SRC, empowers the SEC to declare transactions involving securities to be exempt from the registration requirements if it is not necessary by the reason of the amount involved or the limited character of the offering;

WHEREAS, a regulatory sandbox is a regulatory tool used by multiple jurisdictions that facilitates the growth of innovative financial products and services in a controlled environment, with appropriate regulatory oversight in place and ensuring investor protection.

WHEREAS, the introduction of a regulatory sandbox may enable firms to explore innovation, test their product or services in a live setting, and eventually adopt the technology to develop a richer financial market;

WHEREAS, the regulatory sandbox will enable regulators, innovators, and other stakeholders to collaborate in the crafting and refining regulations and policies related to emerging technologies that are backed by actual data;

WHEREAS, the establishment of a regulatory sandbox framework will stimulate the development of a vibrant and inclusive digital economy in the Philippines;

Section 1. Definition –

1. Regulatory Sandbox (sandbox) is a regulatory tool that will enable a sandbox participant to test its innovative product or service or a new

business model in a live and controlled environment, within a defined period.

The enrollment in the sandbox will not operate as an exemption to the laws and the applicable rules and regulations, but the Securities and Exchange Commission may grant waivers or modifications, in its capacity as provided by law, to the sandbox participant depending on the risk of their activity. Based upon the financial product or service to be experimented with, the nature and extent of testing, and the applicant involved, the SEC will determine the specific legal and regulatory requirements that it is inclined to waive or modify for each participant.

- 2. Sandbox Participant** is an entity that is duly registered with the Securities and Exchange Commission that is looking to apply technology in an innovative way to provide financial products and services that are, or likely, be regulated by the SEC.
- 3. Sandbox Committee** is the team that will administer the conduct of the regulatory sandbox according to this framework, led by the Philifintech Innovation Office and supported by other relevant SEC departments. The SEC may allow the inclusion of disinterested industry experts to be part of the Sandbox Committee, subject to the following conditions:
 - a. submission of expert credentials and proof of absence of any conflict of interest;
 - b. undertaking that the participation of the disinterested industry expert shall be voluntary and without cost to the SEC.
 - c. approval of the SEC;
- 4. Sandbox Activity Guidelines (guidelines)** pertain to the accompanying publication which shall contain a comprehensive list of eligible activities and innovations that are allowed to enter and operate within the regulatory sandbox. It shall likewise contain the parameters and limitations of the Sandbox Participant's operations, unless different terms are otherwise stated in the participant's acceptance agreement.

Section 2. Objectives – The Securities and Exchange Commission (SEC) aims to develop the financial markets as it seeks to help firms to test their products and services that demonstrate genuine innovation, which may:

1. Increase efficiency;
2. Manage risks better;
3. Create new opportunities; or
4. Enhance the lives of Filipinos.

A sandbox shall include appropriate safeguards to maintain the Commission's regulatory objectives, with emphasis on investor protection.

It should be clear to the applicant that the sandbox is not intended and cannot be used as a means to circumvent legal and regulatory requirements.

The SEC may issue guidelines governing specific innovative activities which will enumerate additional conditions and requirements.

Section 3. Specific Activities Allowed in the Sandbox. To provide clarity to potential Sandbox Participants and the public, the SEC shall periodically post and maintain on its website a comprehensive list of eligible activities and innovations that are allowed to enter and operate within the regulatory sandbox.

To promote stakeholder engagement and ensure the relevance of the sandbox program, the SEC welcomes feedback and suggestions from industry participants, consumer groups, and other interested parties regarding potential additions or modifications to the list of eligible activities. All feedback received will be considered during the periodic review and update process.

Section 4. Regulatory Relief. Upon acceptance into the Regulatory Sandbox program, eligible participants shall be granted regulatory relief, subject to the conditions specified in the implementing guidelines. The SEC may modify or relax specific regulatory requirements that would otherwise apply to the Sandbox Participant's innovative activities during the sandbox period.

The regulatory relief granted to Sandbox Participants shall have a defined duration as posted in the guidelines, unless otherwise stated in the participant's acceptance agreement. The SEC may extend the duration of relief in exceptional cases, provided it aligns with the objectives of the sandbox program.

Section 5. Evaluation Criteria – An entity that intends to be a sandbox participant must show, with the necessary supporting information, the following before it can be enrolled in the sandbox:

1. The proposed financial product or service includes new or emerging technology or uses existing technology in a novel way, addresses a problem, or brings benefits to consumers or the overall financial markets;
2. The applicant must clearly identify that the financial product or service is not prohibited by law in the Philippines and why a regulatory sandbox is appropriate.
3. The entity has the intention and ability to deploy the proposed financial product or service in the Philippines on a broader scale after successfully exiting the sandbox;
4. The entity has the capacity and is ready to test the financial product and service with actual consumers in a controlled environment.
5. Test scenarios and expected outcomes of the sandbox experimentation should be clearly defined;
6. The appropriate limitations and conditions should be clearly defined, for the sandbox to be effectively executed while sufficiently protecting the interest of consumers and maintaining the safety and soundness of the industry;
7. Significant risks arising from the proposed financial product or service should be assessed and mitigated; and
8. An acceptable exit and transition strategy should be clearly defined in the event that the proposed financial product or service has to be discontinued or can proceed to be deployed on a broader scale after exiting the sandbox.

Section 6. Sandbox Process – A regulatory sandbox will include the following stages:

1. Application

An applicant must ensure that the objectives, principles, and criteria specified under Section 2 and Section 5 are satisfied before submitting the application form to the Commission. A firm intending to enter a regulatory sandbox shall submit the requirements as set out in Section 7.

The applicant may demonstrate the proposed innovation to the SEC through a “Present Me Anything” session with the PhiliFintech Innovation Office which may aid the evaluation of the proposal.

The SEC shall review the application and inform the applicant of its potential suitability after receiving the necessary information for the assessment.

2. Evaluation

After the receipt of the documentary requirements, the SEC will evaluate the application based on the eligibility criteria. The time of assessment is dependent on its completeness and complexity, and the specific legal and regulatory implications.

The applicant shall be informed in writing whether it can proceed with the sandbox.

An application may be rejected if it fails to meet the objective and principles of the sandbox or any of the evaluation criteria. The applicant may re-

apply for the sandbox when it is ready to meet the objective, principles, and evaluation criteria of the sandbox.

No regulatory sandbox testing may be started without the approval of the SEC.

3. Testing

Upon notice of approval, the sandbox is launched into the experimentation stage and the financial product or service may be offered. The Sandbox Participant must strictly comply with and operate within the approved testing plan.

The Sandbox Participant shall notify its customers that it is operating in a sandbox and disclose the risks associated with the innovative product or service. An acknowledgment from each of the customers is also required to ascertain that they have read the terms and conditions of the product or service and that they understood the risks involved in the innovation.

4. Exiting the Sandbox

The Sandbox will end based on the period provided by the approved testing plan, notwithstanding the provisions for extension of the period in Section 11 and termination of the Sandbox in Section 12.

At the expiration of the period, the regulatory requirements waived or modified by the SEC will expire.

The Sandbox Participant should ensure that any existing obligation to its customers of the financial product or service under experimentation must be fully fulfilled or addressed before exiting the sandbox.

Section 7. Documentary requirements for application – A corporation that intends to be a Sandbox Participant must submit the following to the SEC:

1. Duly accomplished Sandbox Application Form (Annex 1);
2. Letter of intent to enter a Regulatory Sandbox signed by the president of the corporation;
3. Corporate secretary's certificate on the approval of the board of directors of the intention to apply for a sandbox;
4. Company profile;
5. Profiles of key officers of the corporation; and
6. Proposed testing plan.

The SEC may request additional documents for the applicant to demonstrate its adherence to the objectives, principles, and criteria specified under Section 2 and Section 5.

Section 8. Minimum Requirements – The applicant for a sandbox must incorporate the following safeguards in their proposed testing plan:

1. Confidentiality of customer information;
2. Customer acknowledgment that they understood the risks involved in the financial product or service to be tested;
3. Fit and proper criteria particularly on honesty and integrity of the officers;
4. Separation of sandbox participant funds and customer funds deposited in a bank registered with the Bangko Sentral ng Pilipinas;
5. Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) measures.
6. Cybersecurity and Data Protection measures.

Section 9. Testing Plan – Aside from the requirements of Sections 2, 5, and 8, the proposed testing plan must contain the following:

- Test scenarios;
- Period of testing;

- Outcomes;
- Test parameters;
- Risk assessment;
- Controls and Safeguards;
- Monitoring plans;
- Evaluation plans; and
- Transition plans.

Section 10. Change of Testing Plan – The Sandbox Participant may propose to make material changes to the financial product or service under experimentation by applying for an amendment of the approved testing plan and providing details of the changes with reasons. During the review of the application, the existing approved testing plan will govern the ongoing experimentation until the Sandbox Participant is informed of the approval or rejection of the change.

Section 11. Extension of the period to test – In the event that the Sandbox requires an extension of the period to test, the Sandbox Participant should apply to the SEC at least thirty (30) days before the expiration of the testing period as approved in the testing plan and provide reasons to support the application of the extension.

Section 12. Termination of the Sandbox – The SEC, at any stage of the process, may order to terminate the Sandbox for the following reasons:

1. SEC is not satisfied that the sandbox will achieve its intended purpose based on the latest test scenarios, expected outcomes, and period mutually agreed with the sandbox entity;
2. The Sandbox Participant is unable to fully comply with the relevant legal and regulatory requirements at the end of the sandbox period;
3. A flaw has been discovered in the financial product or service under experimentation where the risks posed to customers or the financial system outweigh the benefits of the financial product or service under experimentation, and the Sandbox Participant acknowledges that the flaw cannot be resolved within the duration of the sandbox;
4. The Sandbox Participant breached any condition imposed in the approved testing plan for the duration of the sandbox; or
5. The Sandbox Participant expressed its decision to exit the Sandbox at its own discretion.

Section 13. Sandbox Graduation – At the end of the sandbox period, the SEC will assess if the Sandbox Participant may graduate from the sandbox with the following criteria:

1. The SEC is satisfied that the sandbox has achieved its intended test outcomes; and
2. The Sandbox Participant can fully comply with the relevant legal and regulatory requirements.

The SEC shall issue a certificate as evidence that the Sandbox Participant had successfully completed the sandbox.

Section 14. Transition to Public Offering - Sandbox Participants that graduated from the regulatory sandbox may formally submit to the SEC an application for the required license to offer the financial product or service to the public at large, with the endorsement of the Sandbox Committee through the completion certificate, subject to the issuance of special rules allowing the registration of the said activity.

Section 15. Penal Provisions. The operation of the Regulatory Sandbox, as described in this Framework, shall be conducted in strict compliance with the existing laws, regulations, and statutes of the Republic of the Philippines.

Nothing in this regulation shall be construed to diminish the authority or oversight of the SEC and shall retain its authority to enforce regulatory requirements, protect consumer interests, and ensure the stability of the financial system.

The SEC reserves the right to prosecute entities and individuals who shall use the Regulatory Sandbox to circumvent the laws for the commission of any fraud, misconduct, or any criminal activity.

Section 16. Effectivity. This Circular shall take effect within fifteen (15) days after its publication in two (2) newspapers of general circulation.

Makati City, Philippines, ____ 2023.

For the Commission:

EMILIO B. AQUINO
Chairperson