



BARBADOS REGULATORY SANDBOX FRAMEWORK

1.0 Introduction

The purpose of this document is to provide a broad framework of the rules and regulations that will govern the Barbados' Regulatory Sandbox Framework (Sandbox). The Sandbox is a space for the live testing of innovative financial products, services, and delivery mechanisms, where the risks to ordinary financial consumers and the financial system have been strictly contained.

2.0 Objectives of the Sandbox

The objective of the Sandbox is to support safe financial innovation. It provides the regulators with an opportunity to assess innovative activities that, as a result of new technologies or practices:

- a. give rise to ambiguity as to its appropriate regulatory regime;
- b. present potential consumer protection concerns; and
- c. pose a potential risk to financial stability.

In a Sandbox, the innovative financial product or service can be observed for a period of time in a space specially designed to strictly limit risks to consumers and the financial system. At the end of the period, the regulators should be in a position to determine whether and how the product or service should be licensed.

3.0 Governance of the Sandbox

It is envisaged that some innovations may blur traditional lines of banking and non-banking financial activity, and as a result the Sandbox is a joint initiative of both the Central Bank of Barbados (CBB) and the Financial Services Commission (FSC).

The Sandbox framework will be governed by a Regulatory Review Panel (RRP) of at least three persons. The panel will consist of members nominated by the FSC, the CBB and the Director of Finance and Economic Affairs. The RRP may invite other competent persons in its discussions, to bring appropriate expertise to bear on final outcomes.

The Chair of the RRP will be appointed from among the nominated members of the RRP and shall be responsible for ensuring that all agreed processes of the RRP are carried out and communicated.

4.0 Functions of the Regulatory Review Panel

The RRP's remit and functions will include, but are not limited to:

- a. Determining, with justification, whether the applicant should be approved for entry into the Sandbox or instead regulated under an existing licensing regime.
- b. Issuing a Certificate of Participation where the application has been approved.
- c. Determining what the main regulatory issues are for the product or service being tested in the Sandbox and whether consumers or investors are at risk, with the rationale for this determination.
- d. Determining and explaining how the main regulatory issues are to be best managed, for instance through capital or liquidity requirements, or caps on customer exposures.
- e. Determining the key performance indicators to monitor and test the robustness, redundancy, scalability and associated risks of the technology being applied.
- f. Determining whether an entity has breached the terms and conditions of the Sandbox and whether they are rectifying that breach with sufficient haste; or whether information produced during the application process was materially misrepresented. In both circumstances the RRP may require the entity to exit the Sandbox.
- g. Determining the duration of the testing period giving reasonable notice and rationale where the duration is to be extended.
- h. Ensuring that the applicant has established standards for Anti-Money Laundering and the Combating of Financing of Terrorism & Proliferation (AML/CFT) in accordance with the Money Laundering and Financing of Terrorism (Prevention and Control) Act, 2011-23 (MLFTA).
- i. Determining at the end of the Sandbox whether the activity can be licensed under an existing licensing regime or whether new legislation will be required.
- j. Providing an opportunity for an applicant to review and comment on the draft report before it is finalized.
- k. Ensuring there is a high degree of transparency surrounding the operations of the Sandbox.
- l. Establishing additional prior conditions that should be met before the Sandbox testing can start, including a review of the applicant's proposed exit strategy, ensuring that controls are sufficient to ensure protection and privacy of consumer data and determining whether the management team possess the necessary competencies to oversee, monitor, evaluate and mitigate the risks that exist.
- m. Establishing any other terms and conditions that will govern the operations of the Sandbox and issue any guidelines as needed to provide clarity on the objectives and principles of the Sandbox.

5.0 Eligibility Criteria

To be eligible to participate in the Sandbox the applicant must be an entity with a product or service:

- a. Where as a result of new technology or practices there is ambiguity as to the appropriate regulatory regime for the product or service. For example whether an activity is deposit-taking or the provision of investments or payment services between third parties.
- b. That uses technologies that are as yet unproven and whose failure would give rise to risks to consumers or financial stability.
- c. That has conducted adequate and appropriate assessments to demonstrate the usefulness and functionality of the product or service and to understand the associated risks.
- d. Demonstrating possession of the necessary resources (financial and human) to participate in the Sandbox, and to mitigate and reasonably control potential consumer risks and losses from activity within the Sandbox.

6.0 Application Process

Application forms are available on the CBB and FSC websites. Entities can apply to participate in the Sandbox by submitting a completed application form and supporting documentation, inclusive of Confidential Statements for each shareholder, director and executive officer¹ of the applicant to regsandbox@centralbank.org.bb² or regsandbox@fsc.gov.bb. The information contained in the Confidential Statement is intended to assist in determining whether persons are fit and proper. Each application must be accompanied by an application fee of \$5,000.

The application will be assessed for completeness and to ensure that all supporting documentation is attached. Applicants may be required to make adjustments to their application for resubmission. Where the application has been completed as required, it will be submitted to the RRP.

The first action of the RRP will be to determine whether the activity is eligible to participate in the Sandbox and the RRP will carry out its functions as set out in Section 4.0 above. Where the RRP has determined that the product or service is not eligible for the Sandbox, the RRP will write to the applicant with a detailed explanation. Fifty percent of the application fee will be returned to applicants that do not proceed to the Sandbox.

¹ Where the entity is already established, a confidential statement must be submitted for persons already in these positions. All shareholders with 10% or more voting shares must complete confidential statements.

² Submissions will be automatically replicated to both regulators.

For the purpose of transparency and the provision of information to the public, relevant information of all approved Sandbox applications, including the name of the applicant, will be published on the websites of the CBB and FSC.

7.0 Applicable Fees

All costs associated with operating in the Sandbox are intended to be recovered from the applicant. There will be an application fee of \$5,000 and additional weekly fees will be capped at a value to be determined. Consideration for discounts or waivers will be made for entities who may engage in the Sandbox on multiple occasions.

8.0 Terms & Conditions of Sandbox and Certificate of Participation

The terms and conditions of the Sandbox will be set by the RRP in consultation with the applicant. It will address the objectives set out in Section 2.0, and the remit of the RRP set out in Section 4.0 above. Once the terms and conditions have been agreed to and signed by the applicant, the RRP will issue a Certificate of Participation that grants the entity permission to participate in the Sandbox for the specific product or service.

A Certificate of Participation in the Sandbox creates no automatic right for an entity so participating to receive regulatory approval, if relevant, at the end of the testing period.

In addition, participation by an approved entity in the Sandbox shall be deemed to be acceptance of the terms and conditions thereof.

9.0 Cancellation or Suspension of a Certificate of Participation

An entity shall have its Certificate to Participation in the Sandbox cancelled or suspended if it breaches any of the terms and conditions of operating in the Sandbox and there are insufficient efforts to rectify these breaches. Breaches of the terms and conditions may be deemed to include:

- a. Unsatisfactory testing and outcomes;
- b. Failing risk management control mechanisms; and
- c. The innovation begins to negatively impact the financial system.

10.0 Completion of the Testing Period

Once an entity has completed the testing period:

- a. A draft report will be issued by the RRP to the entity within thirty (30) working days outlining the following:

- 1) An assessment of how the tested product or service performed relative to the Terms and Conditions issued by the RRP, inclusive of summary data and whether all regulatory issues have been satisfactorily addressed;
 - 2) Any new regulatory issues that were identified during testing and whether satisfactorily addressed;
 - 3) Whether the product or service falls within the scope of existing legislation, and how the entity can make a formal application for a licence under that legislation;
 - 4) Where a product or service does not fall within the scope of existing legislation, and should be regulated, the RRP report will make recommendations on the path forward for the CBB or FSC to follow in developing an appropriate regulatory framework; and
 - 5) A detailed explanation, where the RRP has recommended that the product or service should not be licensed.
- b. The entity will be given ten (10) working days to provide comment to the RRP for consideration prior to the issuance of the final report.
 - c. Within fifty (50) working days of the end of the Sandbox the RRP will publish a summary of its conclusions.

11.0 Extending or Exiting the Sandbox

The RRP may require an extension to the testing period if it determines that there is insufficient information to make a determination. In this case, the RRP will write to the entity no later than ten (10) working days before the scheduled end of the testing period. Similarly, an entity operating in the Sandbox may request an extension using the same notification requirement.

The RRP requires an entity to exit the Sandbox on completion of the testing period or in the case where the Certificate of Participation has been cancelled. Further, an entity will be required to exit the Sandbox where it opts to discontinue testing prior to the agreed date. Under these circumstances, the procedures required for exiting the Sandbox will include:

- a. Immediate execution of the approved exit strategy, including terminating the provision of the product, service or solution to all prospective and existing customers;
- b. Notice to all customers of the intent to terminate operations and the process necessary to recover any unsatisfied financial interest held by the entity on their behalf, as well as their rights to redress where necessary; and
- c. Compliance with all legal obligations and adequate disposal of confidential information, in accordance with the Companies Act and MLFTA.