Regulatory sandboxes
Case studies
Legal aspects

Blockchain in the financial industry – future perspectives in EU and Baltics

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Regulatory sandboxes

• Testing grounds for new business models that are:
  • not protected by current regulation or
  • supervised by regulatory institutions

• Especially relevant in the FinTech world

• Purpose: to adapt compliance with financial market regulations to the growth and pace of the most innovative companies
UK

- Responsible authority: Financial Conduct Authority
- First pioneers, program launched in May 2016
- In total 276 applications received
  
  102 applications fulfilled the criteria set by the FCA
- Cohort 5 is expected to be launched later this year
### Examples of start-ups accepted to UK Regulatory Sandbox

<table>
<thead>
<tr>
<th>Name of the Firm</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tradle</td>
<td>An app and web-based service that creates personal or commercial identity and verifiable documents on a distributed ledger. In partnership with Aviva, they will provide a system for automated customer authentication.</td>
</tr>
<tr>
<td>Swave</td>
<td>A micro-savings app that provides an across-account view, enables a round-up service every time a user spends money and calculates an affordable savings amount based on the user’s spending behaviour.</td>
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<tr>
<td>Evalue</td>
<td>An on-going, fully automated online streamlined advice process for employees in the workplace designed to help them set and achieve realistic retirement goals.</td>
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<tr>
<td>FloodFlash</td>
<td>FloodFlash provides event-based flood insurance, even in high-risk areas. Customers receive a pre-agreed settlement as soon as the company’s sensor detects that flood waters have exceeded a certain depth.</td>
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<tr>
<td>20</td>
<td>30</td>
</tr>
</tbody>
</table>
Singapore

- Responsible authority: Monetary Authority of Singapore ("MAS")
- There is no limit on the number of participants
- First graduate was PolicyPal in 2017
- The sandbox is open to all companies
- Government support for FinTech is $225m
- Challenges: regulatory uncertainty, risk averse culture, underdeveloped startup ecosystem
## Regulatory Sandbox in Singapore

<table>
<thead>
<tr>
<th>Examples of “To Maintain” requirements</th>
<th>Examples of “Possible to Relax” requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confidentiality of customer information</td>
<td>Asset maintenance requirement</td>
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<tr>
<td>Fit and proper criteria particularly on honesty and integrity</td>
<td>Board composition</td>
</tr>
<tr>
<td>Handling of customer’s moneys and assets by intermediaries</td>
<td>Cash balances</td>
</tr>
<tr>
<td>Prevention of money laundering and countering the financing of terrorism</td>
<td>Credit rating, minimum liquid assets</td>
</tr>
<tr>
<td></td>
<td>Financial soundness, relative size, reputation</td>
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<td></td>
<td>Fund solvency and capital adequacy</td>
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<tr>
<td></td>
<td>Licence fees, minimum paid-up capital</td>
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<td></td>
<td>Management experience</td>
</tr>
<tr>
<td></td>
<td>MAS Guidelines, such as technology risk management guidelines and outsourcing guidelines</td>
</tr>
</tbody>
</table>
MAS and the applicant/sandbox entity will be in communication

**Sandbox «pre-application» clarification**

Applicant submits a sandbox application to MAS

**T0**

Up to 21 working days

Application Stage

Experiment potentially suitable

Evaluation Stage

Experimentation Stage

Sandbox application approved

Estimated Timeline

Sandbox extended

Proceed to deploy on a broader scale

Sandbox application is not suitable

adjustments

Sandbox application is not suitable

change requests

Sandbox failed
Switzerland

• Responsible authority: Swiss Financial Market Supervisory Authority

• Have amended their laws to:
  • Reduce regulatory requirements for innovative business models
  • Allows for deposits to be accepted without a license up to a threshold

• FinTech licence
Belgium

• Responsible authorities: Authority for the Financial Market (AFM) and De Nederlandsche Bank (DNB)

• «Regulatory sandbox»:
  • Partial authorization
  • Authorization with requirements or restrictions
  • opt-in authorization

• Tax incentives
  • Innovation box
  • 30% ruling

Eversheds Sutherland Bitâns | 09 August 2018
Baltics – Lithuania

• Responsible authority: Bank of Lithuania
• In 2017 launched its Regulatory Sandbox:
  • Relatively easy and low-cost authorisation process
  • Access to Bank of Lithuania payment infrastructure for non-banking sector companies
  • Newcomer programme
  • Specialised licence
• Introduced service-based blockchain platform
Baltics – Estonia

- **Responsible authority:** Estonian Financial Supervision Authority

- **Current support to FinTech companies:**
  - Direct contact with a specialist
  - Guidance regarding the relevant legal framework
  - Help in qualifying the service
  - Addressing the legal barriers hindering the development of innovative financial technology

- **Future improvements:**
  - Create a live testing environment or ‘sandbox’
Baltics – Latvia

• Responsible authority: Financial and Capital Market Commission
• Around 25-30 applications received: 10 are likely to receive a license

• Innovation Sandbox
  • Ask questions to FCMC experts
  • Prompt, comprehensive advice and friendly attitude by FCMC
  • Learn about the developments in the innovation field and the opportunities opened in the financial sector in Latvia
  • Reduced fees (e.g. document licensing)

• Main purpose: providing guidance on obtaining a license

• Pragmatic approach
The European Commission Action Plan on how to harness the opportunities presented by FinTech
- Hosting an EU FinTech Laboratory
- EU Blockchain Observatory and Forum
- Digitisation of information published by listed companies in Europe
- Improve information-sharing on cybersecurity
- Blueprint with best practices on regulatory sandboxes

Building a Capital Markets Union