



# BANGKO SENTRAL NG PILIPINAS

## OFFICE OF THE GOVERNOR

CIRCULAR NO. \_\_\_\_\_  
Series of 2022

### Subject: Regulatory Sandbox Framework

The Monetary Board, in its Resolution No. \_\_\_ dated \_\_\_\_\_, approved the institutionalization of the BSP's Test and Learn Framework or Regulatory Sandbox, which shall be incorporated as Section \_\_\_ of the Manual of Regulations for Banks (MORB) and Section \_\_\_ of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI).

**Section 1.** Section \_\_\_ of the MORB and Section \_\_\_ of the MORNBFI are hereby created to read as follows:

#### **SECTION \_\_\_ GUIDELINES FOR THE REGULATORY SANDBOX**

**Policy Statement.** It is the thrust of the Bangko Sentral to foster an enabling environment for responsible innovation to promote the development of an inclusive digital financial ecosystem that is complemented by sound risk management system. In this light, the Bangko Sentral has welcomed transformative and game-changing technologies over the years under the "test and learn" approach. The institutionalization of this approach through the adoption of the regulatory sandbox framework aims to promote a more active, evidence-based, and results-driven assessment of new and emerging financial solutions.

**Coverage.** The Regulatory Sandbox Framework applies to all BSP-Supervised Financial Institutions (BSFIs), third-party service providers, and new players that intend to offer or use a financial solution to deliver products/services pertaining to activities under the regulatory purview of the Bangko Sentral.

**Definition of Terms.** The terms used in this Section, are defined, as follows:

1. *Applicant* shall refer to an entity that intends to test its financial solution within the Regulatory Sandbox Framework.

2. *Eligibility Standards* shall refer to the set of qualification criteria of the Bangko Sentral to assess the entities applying to be part of the regulatory sandbox.
3. *Participant* shall refer to an entity that has been assessed as eligible to take part in the regulatory sandbox.
4. *Regulatory Sandbox* shall refer to a controlled, time-bound, live testing environment, which may feature regulatory waivers at the regulators' discretion. The testing environment may involve limits or parameters within which firms must operate.<sup>1</sup>
5. *Testing Parameters* shall refer to the rules or guidelines agreed upon by the Bangko Sentral and the participant in implementing the testing exercise. The testing parameters shall include metrics to assess the viability of the solution being offered.
6. *Testing Period* shall refer to the time duration of the testing phase of the regulatory sandbox.
7. *Thematic Cohort* shall refer to a regulatory sandbox implementation strategy wherein the regulator may define the sandbox parameters and set the theme of financial solutions or experimentations to be deployed in the sandbox.
8. *Third-party* shall refer to any external legal entity who is not a regulatory sandbox participant. Third-parties may also refer to supervised financial institutions in cases involving access of customer-permissioned data residing in the participant.

***Eligibility Standards.*** Applicants shall meet the following criteria revolving around the proposed solution to be able to participate in the regulatory sandbox:

1. The financial solution:
  - a. uses new or emerging technology or utilizes an existing technology in an innovative manner. The applicant shall provide justification (e.g., market research) that shall support the mentioned characteristic in the proposed solution; or
  - b. bridges a market gap in the delivery of financial products/services. This shall be supported by research that shall be part of the documents that will be submitted to the Bangko Sentral;

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<sup>1</sup> Appaya, Sharmista, et al. The World Bank Group, 2020, *Global Experiences from Regulatory Sandboxes*.

2. The applicant must demonstrate its capability to deploy the proposed solution through a pilot roll-out plan or strategy;
3. The applicant shall provide an initial test plan, which includes test case scenarios and expected outcomes of the experiment;
4. The applicant must be able to identify significant risks relevant to the innovation and the corresponding proposed safeguards and risk mitigation strategies;
5. The applicant must be able to identify Key Performance Indicators (KPIs) or other metrics in monitoring the progress of the pilot implementation; and
6. The applicant shall provide an acceptable exit and transition strategy once the experimentation is completed regardless of the outcome.

The applicant shall submit to the Bangko Sentral the documents supporting compliance with the foregoing criteria.

***Oversight Framework.*** The regulatory sandbox operates within a supervisory and monitoring oversight framework and structure that ensures the sound implementation of the guidelines set in this circular. The oversight framework enables the formation and/or designation of relevant units within the BSP, which shall be in charge of overseeing and operating the regulatory sandbox. This unit shall be called the Sandbox Oversight Team, which shall oversee the various stages of the sandbox activities. The framework establishes the specific roles and responsibilities of the units to be created and/or assigned for the appropriate management and oversight of all regulatory sandbox endeavors and their related activities. The oversight and management activities shall include, but are not limited to, the implementation of the regulatory sandbox and its guidelines, evaluation of applications, and provision of technical supervision and assistance to the participants.

***Operational Guidelines.*** Each regulatory sandbox shall undergo a four-stage process: Application, Evaluation, Testing, and Exit Stages. This approach ensures that all applicants and their proposed solutions are assessed according to established criteria:

1. **Application Stage.** Applicants shall submit the following documents to the Bangko Sentral:

- a. Letter of Intent (Annex A)
  - b. Accomplished Application Form (Annex B)
  - c. Eligibility Self-assessment Checklist (Annex C)
  - d. Test Plan (Annex D)
2. **Evaluation Stage.** The Bangko Sentral shall evaluate the documents submitted by the applicant as to completeness and eligibility based on the eligibility standards set out in this Section. The Bangko Sentral reserves the right to reject an application based on the merits of the submitted documents and representations.

All applicants shall be informed of the result of their application. Successful applicants shall be informed of the subsequent steps for the experimentation. Unsuccessful applicants shall be notified on the reason/s for the rejection of their application to join the sandbox. All unsuccessful applicants may reapply for the regulatory sandbox after a cooling off period of six (6) months from the release of the result of the application.

3. **Testing Stage.** Successful applicants, which shall be called participants, shall proceed to the testing stage. This stage shall ultimately determine the viability of the proposed solution. The testing stage is divided into two phases:(i) testing design phase and (ii) testing implementation:
- a. *Testing Design Phase.* The participant shall present the proposed innovation to the Bangko Sentral. The presentation shall cover the overview of the solution, the proposed products or services created by the use of the solution, financial projections on the expected revenues and expenses and the assumptions used, operational/systems flow, and the roll-out and test plan. The Bangko Sentral shall approve the test plan to be utilized during the experimentation period and issue a Notice to Proceed with the Test Implementation. The design of the test plan shall be suited to the features of the proposed solutions, which shall, at a minimum, contain the following:
    - i. Overall timeline and budget
    - ii. Testing performance metrics
    - iii. Testing methodologies and/or scripts
    - iv. Customer acquisition plan
    - v. Customer communications
    - vi. Safeguards (such as information security, consumer dispute resolution/redress mechanism, AML/CFT safeguards)

- vii. Specific regulatory requirements, if any, to be relaxed during the testing period
  - viii. Exit plan upon completion of the sandbox activity or in case there is any serious concern on the continued implementation of the sandbox activity, as may be determined by the Bangko Sentral.
  - ix. Testing deliverables
- b. *Testing Implementation Phase.* Once the test plan is finalized, the sandbox participants shall proceed with the test execution. The test execution marks the start of the pilot launch of the initiative, implementation of which shall be monitored by the Bangko Sentral.

Testing duration can range from three (3) to 12 months from the pilot go-live date, depending on the complexity of the proposed solution. The participant shall submit to the Bangko Sentral any proposed adjustments in the duration or changes to the roster of participants and/or services offered.

4. **Exit Stage.** After the testing stage, a comprehensive evaluation of the whole experimentation shall take place as part of the exit procedures. A final report shall be prepared by the participant, which details the end-to-end result of the experimentation as well as the exit scenario. The participant shall request the Bangko Sentral's approval of the final report and exit scenario identified. The exit procedures shall be triggered in the following instances:
- a. Upon completion of the sandbox activity as evidenced by either of the following:
    - i. Expiration of the approved test implementation timeline.
    - ii. Attainment of the objectives of the experimentation as indicated in the test plan regardless of the timeline.
  - b. At the discretion of the participant. Testing may be stopped at any time if the participant becomes incapable of continuing with the testing activities (i.e., if there are issues with its service provider or if the participant does not have the internal skills or expertise to continue with the testing) or if it wishes to do so (i.e., if strategic direction has altered the course of the product roadmap). In this respect, the participant shall notify the Bangko Sentral at least 30 calendar days prior to exit. The participant shall ensure that it fulfills any existing obligations to its customers as a consequence of offering the financial service before exiting or discontinuing the experiment.

**Extension of and Adjustment on the Terms of the Experimentation.** The participant shall submit to the Sandbox Oversight Team, for evaluation, any proposed adjustments in the duration or changes to the roster of partner-participants and services offered. Application for extension/adjustment should be filed at least 30 calendar days before the expiration of the sandbox testing period. The participant shall propose the duration of the extension, which should not exceed 12 months. The testing extension request shall undergo necessary evaluation by the Sandbox Oversight Team (?). No further extension shall be granted after the initial request for an extension has been approved. This is to prevent the perpetuity of sandbox experiments.

***Revocation of the Regulatory Sandbox Approval.*** The Bangko Sentral may revoke the authority of entities to participate in the sandbox or continue with the experimentation. Certain conditions may trigger the revocation of the sandbox approval, which may fall under two categories: (1) sandbox implementation-related condition; and (2) entity-related condition.

1. **Sandbox implementation-related conditions.** The following scenarios related to the implementation of the sandbox shall trigger the revocation of the regulatory sandbox approval:
  - a. The participant is unable to develop and implement the appropriate and required safeguards;
  - b. The participant provided falsified, misleading, or inaccurate information, or has concealed or failed to disclose material facts in the application;
  - c. The participant has committed significant breaches on data protection, information security, and AML/CFT protocols in undertaking sandbox experimentation;
  - d. The participant fails to effectively address any technical defects or vulnerabilities in the proposed solution, which gives rise to recurring service delivery concerns or fraudulent activities; or
  - e. Any other significant concern as may be determined by the Bangko Sentral.
  
2. **Entity-related conditions.** The following scenarios related to the operational and/or business conditions of the participant may trigger the revocation of the sandbox approval:
  - a. The participant is undergoing or has gone into liquidation or similar financial standing;
  - b. The participant has been subjected to supervisory enforcement action/s that may have direct adverse impact on the continuity of the sandbox experiment;

- c. The participant operates the sandbox activity in a detrimental manner that negatively affects customers or the industry or poses safety and soundness concerns to individual financial institutions or the financial system; or
- d. Any other significant concern as may be determined by the Bangko Sentral.

Due process shall be observed prior to the revocation of the approval to participate in the regulatory sandbox. The Bangko Sentral also reserves the right to revoke the approval without prior notice if there is an urgent need to protect the financial system, the participant, its consumers, or the general public.

Upon revocation of an approval, the participant shall:

1. Immediately execute its exit plan to cease the operation or the provision of the product, activity, or service;
2. Notify the customers of the cessation of the product, activity, or service and their rights to redress where relevant;
3. Comply with requirements of the Bangko Sentral to securely store or dispose all confidential information, including customer personal information collected during testing pursuant to Section 1002/1002Q/702S/602P/702N of the MORB and MORNBF on Consumer Protection Standards and Section 148/147-Q/145-S/142-P/126-N of the MORB and MORNBF on Information Technology Risk Management, and other relevant Bangko Sentral rules and regulations;
4. Compensate customers who had suffered financial losses during the testing period in accordance with the safeguards submitted by the participant pursuant to Section 1002/1002Q/702S/602P/702N of the MORB and MORNBF on Consumer Protection Standards and other relevant Bangko Sentral rules and regulations; and
5. Submit a report to the Bangko Sentral on the actions taken after revocation.

**Reportorial Requirements.** Participants shall submit (i) interim and (ii) final reports to the Bangko Sentral to facilitate monitoring of the progress of the regulatory sandbox and the attendant risks, and assessment of the success of the experimentation. In the test design phase, the Bangko Sentral and the participant shall agree on the details of the reports to be submitted such as the content, frequency, and schedule of reporting, among others.

The interim report serves as the status update of the experimentation, which the participant has to provide based on the agreed upon schedule. The interim report should contain the following:

1. Status of Sandbox in relation to key milestones and timelines, budget, key performance indicators, and key product/service risks and mitigation plans;
2. Key issues such as misconduct, fraud, or operational incident (e.g., network/connectivity issues, database issues, internal and external interface issues), if any, and measures taken by the participant to address such incidents;
3. Actions or steps taken to address customer complaints, emerging risks, or other emerging regulatory policy issues that should be brought to the Bangko Sentral's attention;
4. Changes/Planned changes in the participant's key personnel, management, leadership, and business plan, or any concerns on financial solvency; and
5. Any other matter deemed relevant by the participant or other information prescribed by the Bangko Sentral

The final report contains the final results of the experimentation. It should present the complete set of necessary information on the testing. At the minimum, the final report shall contain the following information:

1. Key outcome and performance indicators (timeline, budget, scope, and financial metrics);
2. Full account of all incident reports and resolution of customer complaints;
3. In the case of a failed test, lessons learned from the test;
4. In the case of a successful test, the participant's plan for the transition of the product, solution, or service to commercial scale; and
5. Key insights from the sandbox activity for possible consideration of the BSP in its policy formulation.

**Consumer Protection.** Participants shall adopt measures to protect the rights and interests of consumers in implementing sandbox experimentation to ensure that customers are well-informed and protected in availing of the product being tested. Customers should be informed that the product or service being offered is under the regulatory sandbox platform and that their availment is part of the pilot implementation. Moreover, customers should be informed of all the possible risks associated with the product. The participant shall ensure that the customers fully understand the risks and possible implications.



Customers should also be informed of the related complaints handling and dispute resolution procedures. In this regard, participants shall ensure that adequate, prompt, and effective mechanism or procedures for handling and resolving disputes covering regulatory sandbox issues are in place.

***Data Privacy and Data Protection.*** All regulatory sandbox experimentation shall follow the rules and guidelines on data sharing, data privacy, and data protection in all phases of implementation of the experimentation. All customers participating in the experimentation should be informed that they own the data being collected and processed through the transaction, and that they have all the rights enumerated under Philippine data privacy laws, otherwise known as Republic Act 10173 or the Data Privacy Act of 2012. The rights of the financial service providers and other third parties to control the use of customer data is limited to the boundaries of the consent the customer provided in availing the product or service.

***Restrictions of Sandbox Approval.*** The Bangko Sentral's approval of the live deployment of the proposed solution shall be limited to the agreed terms and conditions of the regulatory sandbox plan and shall not be construed as a means to circumvent any legal or regulatory requirements in offering of products/services.

**Section 2.** Section \_\_\_ of the MORB and Section \_\_\_ of the MORNBF are hereby created to read as follows:

**SECTION \_\_\_ THEMATIC COHORT APPROACH OF THE REGULATORY SANDBOX**

***Thematic Cohort.*** The Bangko Sentral may launch a sandbox implementation in a form of a cohort in pursuit of a regulatory agenda on innovative technologies or financial solutions. The Bangko Sentral shall set the innovations in the thematic sandbox cohorts to determine the impact of a solution or innovation to the financial sector in relation to its regulatory agenda or digitalization initiatives. The Bangko Sentral shall establish the sandbox parameters based on its objectives in undertaking the sandbox experimentation. The cohort's duration shall vary depending on the objectives, scope, and/or complexity of the initiatives.

**Section 3.** Section \_\_\_ of the MORB and Section \_\_\_ of the MORNBF are hereby created to read as follows:

**SECTION \_\_\_ ALTERNATIVE APPROACHES TO THE REGULATORY SANDBOX**

***Alternative Regulatory Approaches.*** Applicants for regulatory sandbox experimentation may be advised to undergo alternative approaches such as to either proceed with innovation testing following established licensing regime or to proceed to “regulatory sandbox lite”.

1. ***Traditional processing.*** Proposed innovations that are identified to be within the scope of existing regulations are going to be evaluated according to the established registration/licensing regime. Applicants should be able to address and comply with the Bangko Sentral requirements to be able to proceed with the approval process.
2. ***Regulatory Sandbox Lite.*** A simplified approach available to BSFIs to encourage digitalization and/or participation in the electronic offering/delivery of financial products/services that are already within the scope of existing regulations. This approach intends to accelerate the end-to-end process of the testing period and is generally shorter compared to the entire regulatory sandbox process. Regulatory requirements and expectations that will be temporarily lifted shall be identified by the Bangko Sentral on a case-by-case basis, taking into account the merits of the proposed activity as well as the associated risks.

**Section 4.** *Appendix \_\_* of the MORB (Annex E of this Circular) on the regulatory sandbox end-to-end process map is hereby created to provide an overview of the entire process flow in the implementation of the regulatory sandbox.

**Section 5. Effectivity.** The Circular shall take effect fifteen (15) calendar days following its publication in the Official Gazette or any newspaper of general circulation.

FOR THE MONETARY BOARD:

**BENJAMIN E. DIOKNO**  
Governor

\_\_\_\_\_ 2022

**SAMPLE FORMAT OF THE LETTER OF INTENT**

[DATE]

**[NAME]**  
[POSITION]  
[Department-in-Charge]  
Bangko Sentral ng Pilipinas  
A. Mabini Street corner P. Ocampo Street  
Malate, Manila 1004

Dear [Addressee],

[Statement of intention to participate in BSP's regulatory sandbox]

[Provision of overview of the company and the proposed innovation]

[Provision of other pertinent details such as attached requirements/documents and contact details]

Sincerely yours,

[Signature]  
**[NAME]**  
[POSITION]  
[COMPANY]

## REGULATORY SANDBOX APPLICATION FORM

<b>Date of Application</b>	
<b>Name of Applicant</b>	
<b>Address</b>	
<b>Contact Person</b>	
<b>Mobile and Landline Number</b>	
<b>Email Address</b>	
<b>Sandbox Name</b>	

Please provide the information requested below. This requirement shall be submitted as an attachment to the Letter of Intent, duly signed by the CEO or President of the entity, to participate in the regulatory sandbox.

### Part I. Company Profile

1. Company Overview
2. Form of Business Organization and Organizational Structure
3. Board of Directors, Key Officers and Personnel
4. Financial standing of the company (i.e., latest audited or interim financial statement)
5. Regulatory Licenses or registrations with the Bangko Sentral (if applicable)

### Part II. Proposed Innovation Details

1. Proposed Innovation and its Value Proposition
  - a. Innovative characteristics (includes market research or proof of genuine innovation)
  - b. Problem statement and/or the existing gap being solved in the financial ecosystem
  - c. Why and how the proposed innovation will solve the problem or will provide benefits to the consumers and/or the industry
2. Product features and/or functionalities
3. Total Budget and Source of funding or capitalization
4. Target Market and Market Projections, including operational expenses
5. Operational Workflow/End-to-end Customer Journey
6. Consumer complaints handling/redress mechanism process
7. IT Infrastructure (i.e., system architecture, network diagram, etc.)
8. Business Continuity Plan and Disaster Recovery Setup
9. Identified Risks and Safeguards/Security Controls/Risk Management Tools
10. Third-party service/outsourcing partners (if any)

### **Part III. Sandbox Proposed Test Details**

1. Test Duration and Parameters
2. List of Test Metrics and Reportorial Requirements
3. Initial Test Plan
4. High Level Milestones and Expected Outcomes/Results
5. Key Personnel/Officers Involved in the Experimentation
6. General Exit and Transition Strategy

=== NOTHING FOLLOWS ===

DRAFT

**REGULATORY SANDBOX ELIGIBILITY SELF-ASSESSMENT CHECKLIST**

Eligibility Criteria	Complied		Remarks
	Yes	No	
1. The financial solution:			
a. uses new or emerging technology or utilizes an existing technology in an innovative manner. The applicant shall provide justification (e.g., market research) that shall support the mentioned characteristic in the proposed solution; or			
b. bridges a market gap in the delivery of financial products/services. This shall be supported by research that shall be part of the documents that will be submitted to the Bangko Sentral;			
2. The applicant must demonstrate its capability to deploy the proposed solution through a pilot roll-out plan or strategy;			
3. The applicant shall provide an initial test plan, which includes test case scenarios and expected outcomes of the experiment;			
4. The applicant must be able to identify significant risks relevant to the innovation and the corresponding proposed safeguards and risk mitigation strategies;			
5. The applicant must be able to identify Key Performance Indicators (KPIs) or other metrics in monitoring the progress of the pilot implementation; and			
6. The applicant shall provide an acceptable exit and transition strategy once the experimentation is completed regardless of the outcome.			

## REGULATORY SANDBOX TEST PLAN FORMAT

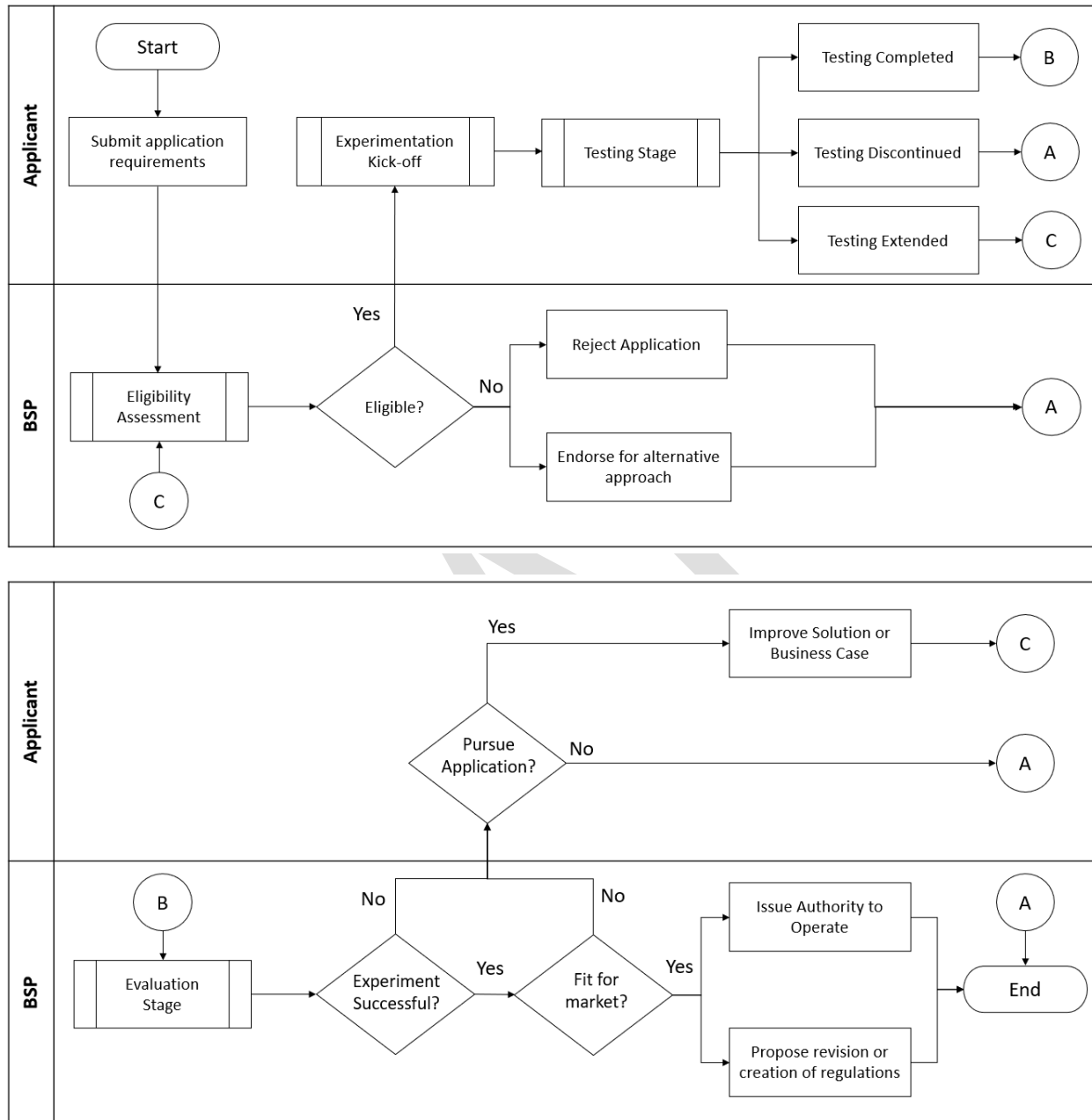
The details that are required to be indicated in the test plan are, but not limited to, the following:

1. Overall timeline/test duration and budget
2. Milestones or key activities
3. Test activities/methodologies and its details
4. Planned start and completion date
5. Actual start and completion date
6. Test performance metrics
7. Customer acquisition and communications plan
8. Test deliverables

Shown below is a sample format for the test plan schedule. Note that this may change based on the agreed test plan between the Bangko Sentral and the participant, which takes place upon the approval of the applicant to join the regulatory sandbox.

	In-charge	Planned Start	Planned Completion	Actual Start	Actual Completion	Remarks
Milestone/Key Activity 1						
Test Activity 1						
Test Detail 1						
Test Detail 2						
Test Detail 3						
Test Activity 2						
Test Detail 1						
Test Detail 2						
Test Detail 3						
Test Activity 3						
Test Detail 1						
Test Detail 2						
Test Detail 3						
Milestone/Key Activity 2						
Test Activity 1						
Test Detail 1						
Test Detail 2						
Test Detail 3						
Test Activity 2						
Test Detail 1						
Test Detail 2						
Test Detail 3						
Test Activity 3						
Test Detail 1						
Test Detail 2						
Test Detail 3						

## REGULATORY SANDBOX END-TO-END PROCESS MAP



Notes:

1. On the process of the endorsement for an alternative approach, the BSP shall advise the applicant that the innovation shall be tested using an alternative regulatory approach
2. In the Experimentation Kick-off, the Applicant's Sandbox Team and the BSP's Sandbox Oversight Team shall discuss and agree on the testing plan and the parameters of the testing experiment and environment.
3. Following the agreed notification requirements, the testing can be discontinued at any time by the participant (voluntary) or by the BSP (involuntary).
4. Participants can request for extension of testing to complete the test plan and its objectives, subject to prior BSP approval.
5. If the product/service is assessed as not fit for public consumption, the applicant could either improve its business proposition or decide not to pursue the offering of the product/service.