

Regulatory sandboxes & other innovation facilitators

Lessons from Europe

Valentina Mejdahl, risk analyst at ESMA

ESMA50-43599798-9791



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Innovation facilitators (IFs)



INNOVATION HUB

a dedicated point of contact for firms to raise enquiries with regulators on FinTech-related issues and to seek non-binding guidance on the conformity of innovative financial products, financial services or business models with licensing or registration requirements and regulatory and supervisory expectations

REGULATORY SANDBOX

a scheme to enable firms to test, under a specific testing plan agreed and monitored by a regulator, innovative financial products. It may imply the use of legally provided discretions by the relevant supervisor (depending on the relevant applicable EU and national law), but they do not entail the disapplication of regulatory requirements that must be applied under EU law

Alternative forms of innovation facilitation or new activities by IFs:

- Digital sandboxes
- Hackathons / TechSprints
- •Thematic cohorts
- Industry roundtables & workshops
- Helpdesk, contact point, innovation office, forum
- Cross jurisdictional coordination
- •EU cross border testing framework

EU mechanism of coordination between hubs & sandboxes



EFIF – EU network of innovation hubs & sandboxes

January 2019 Joint ESAs Report "FinTech: Regulatory sandboxes & innovation hubs"

April 2019

The EC and the ESAs launched the EFIF to support cooperation between innovation facilitators & help scaling up EU FinTech in the EU

December 2023

Publication of the <u>updated joint ESAs Report</u> on innovation facilitators

About the EFIF

- Run jointly by ESMA, the EBA and EIOPA (the 3 called the ESAs); the Chair role rotates amongst the ESAs annually; in cooperation with the European Commission
- The September 2020 Digital Finance Strategy for the EU calls to strengthen the EFIF & cooperation between private and public stakeholders
- EFIF Members: All 27 EU Member States (securities, banking,insurance sectors) + 3 EEA
- Adoption of the Taxonomy of Financial Innovation
- Meetings 3-4 times/year
 - <u>sharing experiences</u> from engagement with firms through sandboxes and hubs
 - exchange of technological expertise and reaching common approaches to the regulatory treatment of innovative products & services
 - ✓ <u>case studies (e.g. RegTech, AI, BigTechs)</u>
 - ✓ cross-border testing



Overview of IFs across the EEA

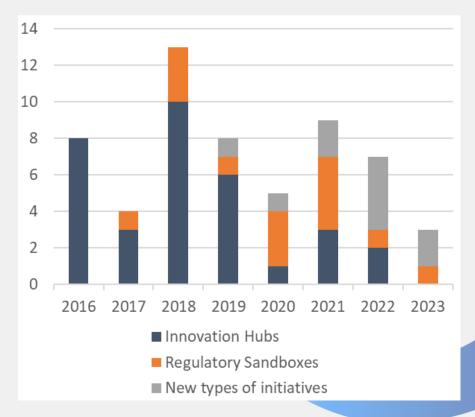
✓ <u>30 countries established 41</u>
<u>innovation hubs</u> by October
2023

√Vs. 24 EU hubs in 2019

 ✓ <u>12 countries established</u> <u>14</u>
<u>regulatory sandboxes</u> by October 2023

✓ Vs. 3 sandboxes in 2019

Year when IF became operational





Innovation hubs in the EEA

	Country	Name of the innovation facilitator	Hyperlinks
1	AT	Sandbox & Fintech Contact Point	<u>Link</u>
2	BE	Fintech portal	<u>Link</u>
3	BG	Innovation hub	<u>Link</u>
4	СҮ	CBC Innovation Hub	<u>Link</u>
5	СҮ	CYSEC Innovation Hub	<u>Link</u>
6	CZ	FinTech contact point	<u>Link</u>
7	DE	FinTech Innovation Hub	<u>Link</u>
8	DK	FinTech Team	<u>Link</u>
9	EE	Innovation Hub	<u>Link</u>
10	GR	BoG FinTech Innovation Hub	Link
11	GR	HCMC Innovation Hub	Link
12	ES	Queries on technological innovation	Link
13	ES	Portal Fintech	<u>Link</u>
14	FI	Innovation Help Desk	Link
15	FR	Pôle Fintech et Innovation	<u>Link</u>
16	FR	Innovation & Digital Finance Hub	Link
17	HR	CNB Innovation Hub	<u>Link</u>
18	HR	Hanfa Innovation Hub	Link
19	HU	MNB Innovation Hub or InnoHub	Link
20	IS	FME FinTech Helpdesk	Link

	Country	Name of the innovation facilitator	Hyperlinks
21	IE	Central Bank of Ireland Innovation Hub	Link
22	п	Milano Hub – Innovation Center of Bank of Italy	Link
23	IT	Canale Insurtech	Link
24	IT	Canale Fintech	<u>Link</u>
25	IT	LIFTECH	Link
26	LV	Innovation hub Inovāciju centrs	<u>Link</u>
27	u	Regulatory Laboratory / Financial Innovation	Link
28	LT	LB Newcomer Programme	<u>Link</u>
29	LU	Innovation Hub	Link
30	MT	Innovation Office	<u>Link</u>
31	NL	AFM, DNB, ACM InnovationHub	<u>Link</u>
32	NO	Finanstilsynet Guide to fintech businesses	Link
33	PL	The KNF Innovation Hub Program	<u>Link</u>
34	PT	CMVM Innovation Hub	<u>Link</u>
35	РТ	Portugal FinLab - Where regulation meets innovation	Link
36	РТ	FinTech+	Link
37	RO	ASF FinTech Innovation Hub	<u>Link</u>
38	RO	FinTech Innovation Hub	<u>Link</u>
39	SK	Inovačný hub (Innovation hub)	<u>Link</u>
40	SL	Banka Slovenije's Fintech Innovation Hub	<u>Link</u>
41	SE	Innovation Center	<u>Link</u>



Regulatory sandboxes in the EEA

	Country	Name of the innovation facilitator	Hyperlinks
1	AT	Sandbox & Fintech Contact Point	<u>Link</u>
2	СҮ	Sandbox	Link
3	DK	FT Labb	Link
4	EE	Sandbox	Link
5	ES	Espacio controlado de pruebas (Controlled testing space)	Link
6	GR	Bank of Greece Regulatory Sandbox	Link
7	HU	MNB Innovation Hub - Regulatory Sandbox	Link
8	IT	IVASS Sandbox Regolamentare	Link
9	т	Banca d'Italia Regulatory sandbox	Link
10	IT	Banca d'Italia, CONSOB and IVASS Regulatory Sandbox	Link
11	LV	Bank of Latvia Regulatory Sandbox	Link
12	LT	Regulatory Sandbox	Link
13	MT	MFSA FinTech Regulatory Sandbox	Link
14	RO	Plan to establish	
15	NO	Finanstilsynet's regulatory sandbox	Link
16	SK	Regulačný sandbox	Link

Objectives & benefits of IFs



✓ Both regulators and innovators recognise the benefits of Ifs (see <u>ESMA</u>) TRV report No.2 2022)

> **spurring innovation** while staying alert to emerging risks

- ➢ reduced asymmetric information
- reduced regulatory costs or uncertainty

Objectives of hubs

97% Er	hance firms' understanding of the regulation and supervisory expectations
81% P	rovide guidance on the conformity of applicant's proposed business models with regulatory requirements
77%	Get insights on potential need to adjust regulatory framework
74%	Establishing a network between authorities and market operators to foster innovation
61%	To emphasise jurisdiction's openness to innovation
45%	Provide guidance on the proport onate application of regulatory and supervisory requirements
	35% Provide guidance on the technology applied (e.g. Al/ML, blockchain, etc)
	26% To attract new market participants
	Reducing costs and time for market entry for beneficial innovative products/services/business models

100%	increase knowledge of the authorities about financial innovations, risks posed and opportunities provided
92%	foster innovation uptake in the financial market
92%	get insights on potential need to adjust regulatory framework
85%	enhance f <mark>irms understanding of the applicability</mark> of the existing regulatory framework
77%	enhance legal certainty within the market
54%	inform authori <mark>ties about the</mark> ir approach to the regulation and supervision of financial innovations via direct testing
38%	establishing a network between authorities and market operators to foster innovation
38%	Prepare firms for supervision/regulation
	Reducing costs and time for market entry for beneficial innovative products/services/business models

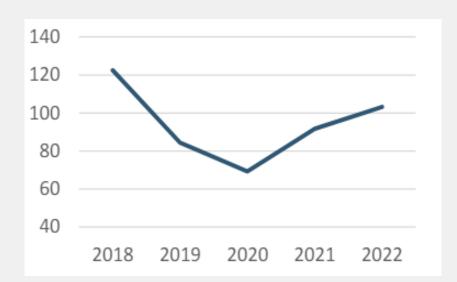
Objectives of sandboxes

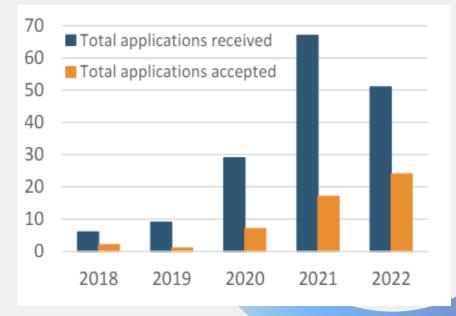


Inquiries & applications received

Average number of inquiries received by innovation hubs (average per hub, per year)

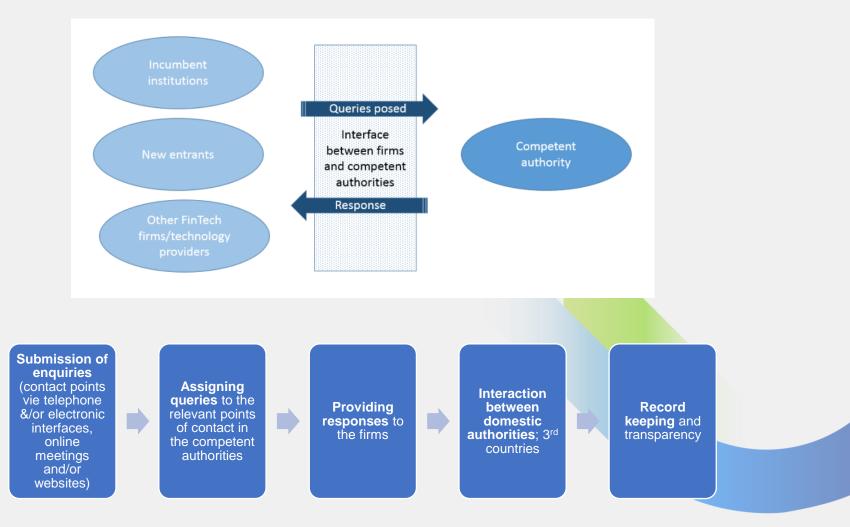
Applications to **regulatory sandboxes** received and accepted







How an innovation hub operates





Setting up & operating a hub

Potential challenges

- Expectations of inquirers do not correspond to the scope & mandate of the hub
- Inquirers expecting to get a "stamp of approval"
- No always meet the expectations of inquirers (prompt & precise responses)
- Domestic & crossborder coordination
- Assessing performance

Pre-establishment principles

conduct solid analysis of

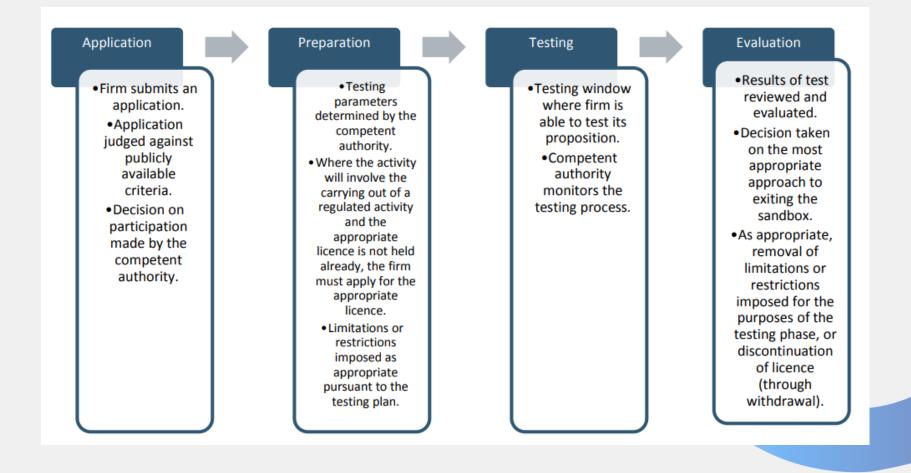
- local market conditions
- required appropriate expertise, powers & processes
- resources available to the competent authority

Operating principles

- to be made suitably visible to market participants
- clearly <u>defined points of contact</u> for firms
- defined & made public <u>objectives, functions & tools</u>
- the scope of <u>entities eligible for/served by the hub</u> should be clearly defined & made public
- key information required from inquirers should be defined clearly
- providing a response within a <u>reasonable timeframe</u>
- learnings from innovation facilitators disseminated internally & to the market
- operational functioning & resourcing <u>should be</u> reviewed



How a regulatory sandbox operates





Setting up & operating a sandbox

Potential challenges

- Keeping pace with industry
- Domestic coordination
- Cross-border cooperation
- Level playing field
- Perception as endorsement of tested innovations by CAs
- 2 tiers between the firms in a sandbox & outside it

Pre-establishment principles

conduct solid analysis of

- local market conditions
- required appropriate expertise, powers & processes
- resources available to the competent authority

Operating principles

- > sandbox to be <u>made suitably visible</u> to market participants
- clearly <u>defined points of contact</u> for firms
- defined & made public <u>objectives, functions & tools</u>
- defined & made public scope of entities eligible for testing
 - clear <u>entry conditions/criteria</u>
 - information to support applications for participation
 - participation in sandboxes should be acknowledged
 - testing parameters imposed to mitigate any risks
 - participating firms should <u>disclose to any consumers</u> the fact the services are being provided in the sandbox, and the implications for the consumer
 - <u>exit plans</u> (both continuation or not tested proposals)
- maintaining records relating to the operation of a sandbox
- learnings from innovation facilitators disseminated internally & to the market
- > operational functioning & resourcing should be reviewed

EU Framework for Cross-Border Testing



SINGLE ACCESS **CROSS-BORDER TESTING** SANDBOX TESTING POINT FRAMEWORK PROCESSES for information about which developed by the European launched with multiple national national authorities to turn to and Forum for Innovation Facilitators authorities in one step. national licensing requirements. where national supervisors share experiences and build expertise, steered by the European Framework adopted in Supervisory Authorities. 2021 (EFIF initiative linked to the EU Digital A firm fills in and uploads a standardised common form, picking one of three options: Finance Platform) Multi-sandbox **Sharing of test** Observing testing sandbox testing findings Testing in two or more regulatory Testing in a regulatory sandbox Testing in a regulatory sandbox sandboxes in different Member in one Member State, facilitating in one Member State, and making > Aims to facilitate facilitating visibility early visibility over the test for findings from this test available States, over the tests among national observing national authorities in to national authorities in another/ communication and authorities involved in testing, another/other Member State(s). other Member State(s). and possibly also for additional cooperation among the observing national authorities. participating national Relevant national authorities consider the request and notify the firm of the decision on admission. authorities regarding Additional national authorities can indicate interest in getting involved, either as an observer or by sandbox testing receiving test findings, subject to the firm's approval. Individual national authorities prepare and run the testing process National supervisors according to the respective national requirements. can share information and discuss relevant At the end of the testing period, national authorities evaluate the issues via the results (unless testing is ended prematurely and the firm exits the Platform. sandbox). High-level information about testing and lessons learned is shared with the European Forum for Innovation 0 63 0 Facilitators.



Any questions?

