



THE FINANCIAL STABILITY COUNCIL APPROVED THE REGULATORY SANDBOX REGULATION

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The rise of FinTech in recent years has added complexities and competition in the financial sector. FinTech offers more efficient products and services, improved choice for consumers and enhanced financial inclusion based on technological innovations. However, the rapid growth of FinTech market also poses new challenges for financial stability and consumer protection. In response, policymakers around the world, including Mongolia, are creating "regulatory sandboxes" to keep up with the fast pace of technological innovation while keeping alert to emerging risks.

On 1 March 2021, the Financial Stability Council, consisting of Governor of the Bank of Mongolia, Minister of Finance, Chairman of the Financial Regulatory Commission and the head Deposit Insurance Corporation approved the "Regulation for Regulatory Sandbox". The regulation allows FinTech startups and innovators to experiment their new technology-based products, services and business models in a controlled environment under regulations and guidelines provided by the Financial Regulatory Commission and the Bank of Mongolia (together "**Financial Regulators**"), and identifies criteria for participants and relationship between regulators and participants.

We highlight below the main regulations of the "Regulation for Regulatory Sandbox".

1. Main benefits of the sandbox

Participants of the sandbox are allowed to test their products, services and business models with full or some exemption from the licensing requirements set out by the Financial Regulators throughout the regulatory sandbox period, if the participant's activity requires a licence under the Law of Mongolia on the Securities Market¹. In other words, sandbox is aimed to facilitate FinTech startups who face challenges in meeting all regulatory requirements to test their products and services in the real market under a more relaxed regulatory framework.

Sandbox aims to identify and address any risks or concerns associated with participants' activities before their products and services can be provided to the wider public through close supervision provided by the board of the sandbox, which consists of representatives of the Financial Regulators, the Ministry of Finance and other state authorities, legal specialists, representatives of the information technology sector, university teachers, researchers and scientists, and representatives of consumer protection organizations.

For the Financial Regulators, it allows them to facilitate financial innovations while still ensuring consumer protection and financial system

¹ Article 24.2 of the Law of Mongolia on the Securities Market.

stability and to develop more appropriate regulatory policies through greater visibility into new innovations.

1. Evaluation criteria

Participants of the sandbox should ensure the following:

- a legal entity registered in Mongolia;
- no overdue debts to banks and financial institutions;
- shareholders and executives of the company have no previous convictions for money laundering or economic crimes; and
- shareholders' contributions meet the requirements of the Law on Combating Money Laundering and Terrorism Financing.

The following principles apply to the products, services and business models of participants:

- Well-defined boundary and conditions – Participants should have a clearly defined scope and purpose of the products and services, including detailed action plan. The products and services of participants should be novel to the financial market and if there is similar financial products and services, it should increase access to financial services, benefit the costumers more, have fewer steps and costs less. Also, the products and services should not threaten financial stability and should not be intended to be used for money laundering or terrorist financing.
- Readiness of the products and services – The products and services should be ready to test in the sandbox with adequate technological development and should be ready to offer to costumers.
- Risk management controls – There should be a risk management plan to prevent and mitigate potential risks to costumers and financial markets.
- Costumer protection – There should be an action plan to protect the interests of consumers during the sandbox.
- Exit strategy – Participants should present an exit plan from the sandbox, as well as transition plan to enter the market after successful implementation.

2. Duration of the sandbox

Participants that wish to enter in the sandbox should send their applications during the first 10 working days of March and September to the so called sandbox unit, which will be established by the Financial Regulators. The duration of the regulatory sandbox is one (1) year and can be extended once for up to one (1) year at the request of the participant.

3. After the regulatory sandbox period

The regulatory sandbox period will be terminated in the following cases:

- the sandbox period has expired; or
- termination of the sandbox period by the decision of the Financial Regulators or at the request of the participant before the expiration date.

The conditions, requirements and restrictions set by the Financial Regulators that were in effect during the sandbox period will no longer apply to participants after their withdrawal.

The Financial Regulators will work with relevant government agencies to create the necessary legal framework for the introduction of products and services that have been successfully implemented during the sandbox period to the market.

Conclusion

The “Regulation for Regulatory Sandbox” could become a crucial policy tool in fostering the financial innovation by helping FinTech startups to test their products and services in a safe environment for a defined period of time in Mongolia. In addition, the adaptation of sandbox regulation and related legal environment by the Financial Regulators allows Mongolia to keep pace with global Fintech market trends.

Since the regulation have just been approved, the procedural implementation aspects are to be further observed.