

**Frequently Asked Questions**  
**Policy Document on Financial Technology Regulatory Sandbox Framework**  
Last updated: 29 February 2024

This document supplements the policy document on Financial Technology Regulatory Sandbox Framework issued on 29 February 2024 (Framework) by providing an explanation to interpretation issues likely to be faced by applicants while applying to participate in the Standard Sandbox<sup>1</sup> and the Green Lane<sup>2</sup>.

The questions are grouped according to the requirements and content of the policy document.

---

<sup>1</sup> Refers to the Standard Sandbox track that allows fintech companies and financial institutions to test innovative solutions that are not eligible for testing in the Green Lane.

<sup>2</sup> An alternative to the Standard Sandbox track that provides a simpler and quicker way for financial institutions with strong track record in risk management, governance and compliance capabilities, to test innovative solutions that face regulatory impediments.

## Applicability

### 1. Which entities are eligible to apply to participate in the Standard Sandbox and Green Lane? [Paragraph 5.2]

		Standard Sandbox	Green Lane
Financial institutions referring to:	Licensed banks including licensed digital banks	✓	✓
	Licensed Islamic banks including licensed Islamic digital banks	✓	✓
	Licensed investment banks	✓	✓
	Prescribed development financial institutions	✓	✓
	Licensed insurers including professional reinsurers	✓	✓
	Licensed takaful operators including professional <u>retakaful</u> operators	✓	✓
	Licensed money services business	✓	✓
	Approved issuers of designated Islamic payment instruments	✓	✓
	Approved issuers of designated payment instruments	✓	✓
	Financial institutions in partnership with a fintech company*	✓	✓
An approved and registered intermediary, an approved operator of a payment system or a registered merchant acquirer in partnership with a fintech company*	✓	✗	
Fintech company	✓	✗	
Approved and registered intermediaries	✓	✗	
Registered merchant acquirer	✓	✗	
Approved operator of a payment system	✓	✗	

\*Refer to section 11(b) of this document for more information.

## Regulatory impediments

### 2. How should an applicant determine if its proposed solution is applicable and regulated under the law, regulation, or standards etc. administered by the Bank? [Paragraph 6.2 (a)]

It is incumbent upon applicants to ensure that the laws, regulations and standards etc. applicable to their business and solutions, including the legislative and regulatory requirements administered by the Bank, are observed. As such, applicants should first seek appropriate legal consultation to determine whether the provision of the proposed solution/ concept/ business model falls within the Bank's or any other regulatory authorities' purview.

The Bank has published supplementary resources in the sandbox website<sup>3</sup> to help applicants determine whether the provision of the proposed solution falls within the Bank's purview.

For the avoidance of doubt, there is no exclusion for any specific technology to be tested in the sandbox given that the Bank is technology neutral and agnostic.

<sup>3</sup> [www.bnm.gov.my/sandbox/regulations](http://www.bnm.gov.my/sandbox/regulations)

This is provided that the proposed solutions meet the relevant eligibility criteria as outlined in the Framework.

**3. What are detailed examples of regulatory impediments? [Paragraph 6.2 (a)]**

Some examples of regulatory impediments based on past sandbox participants include:

Policy Document / Guidelines	Details of regulatory impediment
Appointed Actuary: Appointment and Duties Policy Document (Paragraph 7.4)	<ul style="list-style-type: none"> <li>• The regulatory requirements applicable to licensed insurers and takaful operators (collectively referred to as “ITOs”) require that an appointed actuary must be an employee of the ITO.</li> <li>• However, for purpose of sandbox testing, the Bank may consider the case for an appointed actuary not to be an employee of the applicant if supported by strong justification.</li> </ul>
Policy Document on Outsourcing (Paragraph 12.1)	<ul style="list-style-type: none"> <li>• The policy requires a financial institution to obtain the Bank’s written approval before entering into a new material outsourcing arrangement or making a significant change to an existing material outsourcing arrangement.</li> <li>• However, for purpose of sandbox testing, the Bank may consider exempting applicants from such requirements but to include submission of information on the outsourcing plan as part of the sandbox application process.</li> </ul>
Shariah Governance Policy Document (Paragraph 13.2)	<ul style="list-style-type: none"> <li>• The policy requires an Islamic Financial Institution to appoint a Shariah committee of a sufficient size that reflects the business needs and enables a conducive and sound deliberation, at minimum comprising of at least five (5) Shariah committee members.</li> <li>• However, for purpose of sandbox testing, the Bank may consider the case for applicants<sup>4</sup> intending to test an Islamic finance solution to appoint a single Shariah Advisor/ consultant with relevant qualifications and expertise.</li> </ul>

**4. Are applicants expected to demonstrate compliance with the Bank’s capital requirements in order to be approved for the Standard Sandbox?**

The Bank expects all applicants to be adequately capitalised for the business it undertakes, with adequacy typically guided by the Bank's existing risk-based

<sup>4</sup> Only applicable to fintech companies.

capital requirements, where relevant. Nevertheless, the specific regulatory treatment and flexibilities may be calibrated on a case-by-case basis, based on merits of the application.

## Development of prototype

### 5. What is the level of prototype expected for a Standard Sandbox applicant? [Paragraph 6.2 (d), Paragraph 6.5 (a)]

In Stage 1, the applicant is expected to have in place a realistic business plan to demonstrate a semi-functional prototype within 3 months from the point of application.

In Stage 2, applicants will be assessed for readiness of solutions based on a fully functional prototype.

Minimum expectations for prototypes at each level include, but are not limited to, the following:

Stage 1: Semi-functional prototype	Stage 2: Fully functional prototype
A <u>medium-fidelity level</u> prototype to provide a comprehensive and clear description and visualisation of the envisioned concept of the proposed solution.	A <u>high-fidelity level</u> prototype to demonstrate readiness of the actual solution to be deployed for the sandbox.
May or may not be demonstrated using the actual systems, protocols or technologies.	Uses the actual systems, protocols and technologies, including from the front-end to back-end process.
Ability to demonstrate <u>conceptually</u> and clearly envision the: <ul style="list-style-type: none"> <li>• user experience and/ or customer journey;</li> <li>• end-to-end system workflows and all interactive components including systems integration; and</li> <li>• flow of funds between transacting parties, where applicable.</li> </ul>	Ability to <u>simulate</u> the actual solution to demonstrate comprehensively and clearly the: <ul style="list-style-type: none"> <li>• user experience and/ or customer journey,</li> <li>• end-to-end system workflows and all interactive components including systems integration; and</li> <li>• flow of funds between transacting parties, where applicable.</li> </ul>
Example: Semi-functional prototype may be developed using wireframing and prototyping tools to create an interactive prototype with clickable elements simulating visual layout, user experience and interlinked process flows.	Example: Fully functional prototype may be developed in a testing environment to demonstrate actual end-to-end functionalities of the solution, user experience and process flows using dummy input or data.

## Technology risk management

### 6. Are sandbox applicants expected to fully comply with the requirements stipulated under the Policy Document (PD) on Risk Management in Technology (RMiT)?

Compliance with RMiT PD during live testing does not form part of the criteria for sandbox approval. Notwithstanding, there are non-negotiable safeguards for cyber and technology risk that form baseline requirements for all proposed solutions in the sandbox. These requirements will be set on a case-by-case basis depending on the proposed solutions. Generally, these include, but are not limited to, the following:

- a) customer data confidentiality and information security;
- b) comprehensive penetration testing by accredited third party on applicants' internal and external facing applications and network infrastructures; and
- c) high availability and scalability of cloud infrastructures, if any, including strong recovery, resumption capabilities and retained ownership, control and management of all data pertaining to customer and counterparty information, proprietary data and services hosted on the cloud.

Notwithstanding, upon sandbox graduation or scaling up prior to wider commercial launch, participants will be expected to conduct a comprehensive RMiT compliance gap assessment and indicate efforts as well as action plans to address identified gaps.

## Shariah governance for solutions for Islamic financial services

### 7. What are the expectations for sandbox applications to test the provision of solutions for Islamic financial services that is in line with the existing Shariah rulings? [Paragraph 6.5 (d), Paragraph 7.22 (b)]

An applicant with proposed solutions for Islamic financial services involving straight forward Shariah contracts that are within the existing Shariah ruling are expected to submit information to the Bank covering:

- a) product description, including name and features;
- b) product structure, including transaction flows;
- c) types of Shariah contract(s) used; and
- d) assessment of compliance against the relevant SAC ruling and/ or Shariah requirements relating to the product structure.

### 8. Does the Bank also consider an application for solutions for Islamic financial services with no existing Shariah rulings? [Paragraph 6.5 (d), Paragraph 7.22 (b)]

Yes. For a proposed solution for Islamic financial services where there is no existing Shariah ruling, the Bank may consider allowing it to be tested in the sandbox subject to the applicant demonstrating the following:

### Standard Sandbox

- a) in Stage 1, a clear business plan and timeline for Shariah committee/ consultants to be appointed in order to deliberate and issue a ruling on areas without existing Shariah ruling, supported by solid justification and rationales; and
- b) in Stage 2, an attestation by the appointed Shariah committee/ consultants that the proposed solution is in line with Shariah principles, supported by accurate and detailed documentation on minutes of meeting with Shariah committee/ Shariah consultants, which include, among others, records of decisions or advice, key deliberations, rationale for each decision or advice made, and any significant concerns and dissenting views. The attestation and supporting documentations may also be provided early to the Bank during Stage 1, if available.

### Green Lane

- c) an attestation by the participating financial institution's Shariah Committee that the new solution to be tested is in line with Shariah principles. Similar to the Standard Sandbox, this shall be supported by accurate and detailed documentation on minutes of Shariah committee meetings, which record the decisions or advice, the key deliberations, rationale for each decision or advice made, and any significant concerns and dissenting views.

Notwithstanding this, the Bank will not consider an application if the proposed solution for Islamic financial services is deemed in contravention to any existing Shariah ruling.

## **9. Who can fintech companies appoint as Shariah consultants?**

Fintech companies may consult an accredited Shariah advisory firm or qualified Muslim individuals (either Malaysian or non-Malaysian) who possess relevant qualifications, skills, knowledge and experience as Shariah consultants. For the appointment of an individual as a consultant, fintech companies shall assess whether the person fulfils the following:

- a) is a Muslim individual;
- b) has been assessed to have met the requirements specified in the policy document on *Fit and Proper Criteria* on a continuous basis;
- c) holds, at minimum, a bachelor's degree in Shariah, which includes study in Usul Fiqh (principles of Islamic jurisprudence) or Fiqh Muamalat (Islamic transaction/ commercial law);
- d) possesses solid knowledge in Shariah with reasonable Islamic finance knowledge and experience of the relevant industry; and
- e) demonstrates strong proficiency and knowledge in written and verbal Arabic, with good command in the preferred language of either Bahasa Malaysia or English language.

## **10. Are conventional financial institutions allowed to test the provision of solution for Islamic financial services and/ or to collaborate with fintech companies to test a proposed solution for Islamic financial services under the sandbox?**

Financial institutions are subjected to prior written approval of the Bank in accordance with sections 14, 15 and 16 of the Financial Services Act 2013 and the Islamic Financial Services Act 2013 in order to carry on an Islamic financial business. This includes any collaboration or partnership with fintech companies to offer solutions for Islamic financial services via the sandbox.

## **Application procedure and assessment process for the Green Lane**

### **11. Can a fintech company that has not received prior regulatory approvals from the Bank apply individually to participate in the Green Lane? [Paragraph 7.4]**

- a) No, at this juncture the Green Lane is only applicable to financial institutions as defined in paragraph 5.2 of the Framework. This is given that the Green Lane assessment is primarily based on an applicant's past record of compliance, which is not applicable to a fintech company.
- b) However, a fintech company may participate in the Green Lane by way of partnership with a financial institution where the financial institution must initiate the application, own the solution to be tested and be accountable for the safeguards.
- c) Alternatively, a fintech company can also opt to apply to the Standard Sandbox for standalone applications, which has been simplified to better cater to the innovation development cycle of solutions.

### **12. Why is an applicant required to submit the assessment of aggregate cap of financial losses supported with the attestation by the Chief Executive Officer (CEO) and Chief Risk Officer (CRO)? [Paragraph 7.8 (b)]**

In the risk context, performing the said assessment at solution-level will be beneficial to both the applicants and the Bank. As the sandbox is aimed to promote responsible innovation in a conducive environment, thus, customers' risk exposure is an important factor not only for the Bank, but also potential participants of the Green Lane to consider. Nevertheless, it is necessary for both the CEO and CRO of the applicant to provide attestation to ensure credibility of the assessment performed.

### **13. Will applicants be able to test multiple solutions at a time in the Green Lane? [Paragraph 7.26]**

- a) Yes, the Bank allows testing of multiple solutions for the purposes of the Green Lane. Therefore, a Green Lane participating institution can either choose to test the solutions concurrently or stagger them across the year.
- b) Notwithstanding, Green Lane participating institutions must provide an overview of the solutions proposed to be tested in the Green Lane, which must include a short description of the business model, target segment, list of potential regulatory impediments and planned date for testing as stipulated in paragraph 7.8 (a) of the Framework.