



July 8, 2016

By Electronic Submission

FinTech and Innovation Group
(Attention: FinTech Regulatory Sandbox Working Group)
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117

Re: *Monetary Authority of Singapore (MAS) FinTech Regulatory Sandbox Guidelines*

Ladies and Gentleman:

BAFT (Bankers Association for Finance and Trade), a global association of organizations engaged in international transaction banking, appreciates the opportunity to comment on the June 2016 consultation paper issued by the Monetary Authority of Singapore (“MAS”) entitled *FinTech Regulatory Sandbox Guidelines* (the “Guidelines”).¹ We include our responses to the questions set forth in the Guidelines as an attachment to this letter, in the format prescribed by MAS. In this letter, we offer a brief introduction to BAFT and broadly outline our views related to the current global evolution of financial technology.

BAFT is an international financial services trade association whose membership includes banks headquartered in roughly 50 countries around the world, financial services providers, as well as a growing number of non-bank and financial technology companies. BAFT provides advocacy, thought leadership, education and training, and a global forum for its members in the areas of trade finance, cash management, and compliance. For nearly a century, BAFT has played a unique role in expanding markets, shaping legislative and regulatory policy, developing business solutions, and preserving the safety and soundness of the global financial system.

Early this year, BAFT established an Innovation Council which brought together financial institutions and financial technology companies to provide awareness, education, and guidance with regard to emerging technology impacting the transaction banking industry. The Council channels its expertise to: (1) promote innovation, (2) drive regulatory change commensurate with the evolution of the transaction banking business through the delivery of new technology, and (3) develop industry best practices and standards. The Council is currently focused on innovation involving distributed ledger technology (“DLT”), and has formed work groups on education, regulation, and use cases in the areas of trade finance and payments. BAFT members (both banks and non-banks) are actively working collaboratively and individually, to harness the power of distributed ledger technology to improve correspondent banking, international trade finance, and cross-border payments.

BAFT would like to thank MAS for issuing its Guidelines, which represents a clear and positive articulation of how a regulatory sandbox for financial services can function in the “real world”. We agree with MAS’ statement that a “key driver to transforming Singapore into a smart financial centre is the provision of a regulatory environment that is conducive for the innovative and safe use of technology.”²

¹ MAS. *FinTech Regulatory Sandbox Guidelines*. June 2016. <http://www.mas.gov.sg/News-and-Publications/Consultation-Paper/2016/Consultation-Paper-on-FinTech-Regulatory-Sandbox-Guidelines.aspx>

² MAS, page 5.

As we noted in our letter to the United States *Office of the Comptroller of the Currency* earlier this year, a well-crafted regulatory sandbox is one critical way that governments across the world can foster a more nurturing environment for financial services innovation and economic growth.³ We are grateful for MAS' leadership in supporting innovation and for its recognition of the important role technology will play in providing greater financial inclusion, more robust, efficient, and cost effective financial tools, and more secure transaction capability, while maintaining the safety, soundness, and integrity of the global financial system. We are happy to see Singapore leading the way and providing clear, practical guidance for how regulators can be a force multiplier, rather than a barrier, to innovation.

In closing, BAFT appreciates the opportunity to provide our thoughts on MAS' Guidelines. If you have any questions or need further information please contact John Collins, Vice President, International Policy, at jcollins@baft.org or Samantha Pelosi, Senior Vice President, Payments and Innovation, at spelosi@baft.org.

Very truly yours,



Tod R. Burwell
President and Chief Executive Officer

³ BAFT Letter to U.S. Office of the Comptroller of the Currency re *Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective*. May 31, 2016. <https://baft.org/events/general/2016/05/31/baft-responds-to-occ-letter-on-innovation>.

RESPONSE TO CONSULTATION PAPER

Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like (i) their whole submission or part of it, or (ii) their identity, or (iii) both, to be kept confidential, please expressly state so in the submission to MAS. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

Consultation topic:	FinTech Regulatory Sandbox Guidelines
Name¹/Organisation: <small>¹if responding in a personal capacity</small>	Bankers Association for Finance and Trade (BAFT)
Contact number for any clarification:	John Collins, Vice President, International Policy, 202-663-5514 Samantha Pelosi, Senior Vice President, Payments and Innovation, 202-663-5537
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Confidentiality	
I wish to keep the following confidential:	None. <i>(Please indicate any parts of your submission you would like to be kept confidential, or if you would like your identity to be kept confidential. Your contact information will not be published.)</i>

Question 1. MAS seeks comments on Para 2.3 and ANNEX A. Apart from relaxing specific legal and regulatory requirements which the Applicant would otherwise be subject to, MAS seeks suggestions on other possible forms of support which can be provided for the duration of the Sandbox to encourage more FinTech experimentations.

BAFT would like to applaud the foresight and leadership of the Monetary Authority of Singapore (“MAS”) in crafting a proposed regulatory sandbox that appropriately balances both the risks and the promises of rapidly evolving financial technology. We believe Singapore is well positioned to provide one of the most nurturing environments for financial innovation in the world. We thank MAS for being both clear and specific in their specific proposed guidelines for its regulatory sandbox (“Guidelines”). We believe the Guidelines proposed will be of tremendous benefit to both major financial institutions, as well as smaller financial technology start-up companies. Further, we commend MAS for maintaining important financial system safeguards in the sandbox, such as compliance with anti-money laundering and counter terrorism financing requirements.

We believe the proposed structure of the sandbox, with a few small modifications, will serve as a model for other jurisdictions across the world that are considering similar regulatory regimes. BAFT firmly believes that the evaluation criteria proposed for the MAS sandbox should be adopted across jurisdictions to maximize the value of such constructs for both businesses and regulatory authorities alike. We believe a harmonization of standards and requirements across the world and the de facto creation of a “global sandbox” is the best approach to foster the development of global solutions and markets and to maintain the security and stability of increasingly interconnected financial systems.

With that in mind, we would urge MAS to consider the global nature of many emerging financial technologies as it pursues both its regulatory sandbox and its conversations with other regulatory authorities around the world. We note - and appreciate - Singapore’s recent creation of a “regulatory bridge” with the United Kingdom and Australia as mechanism for collaboration that should be replicated.

BAFT urges the simplification and harmonization of regulatory expectations both across and within jurisdictions. To the extent other regulatory authorities in Singapore may have jurisdictional authority over particular financial services or products, BAFT would encourage MAS to lead the coordination of those efforts.

Coordination could be accomplished through a central office dedicated to innovation within MAS or the establishment of a national innovation task force with a central website offering resources such as reference materials, regulatory guidance, and points of contact for inquiries. BAFT believes that it is important that regulatory authorities establish clear lines of communication for companies who wish to interface on innovation efforts generally and the regulatory sandbox specifically.

Question 2. MAS seeks comments on the proposed circumstances where the Sandbox may not be suitable (Para 5.5).

We commend MAS for transparently identifying circumstances for which the regulatory sandbox may not be suitable in Paragraph 5.5. BAFT requests that MAS provide greater clarity around the term “similar” as used in Subparagraph 5.5.a. Certain innovative solutions that could substantially reduce costs or increase efficiencies might at first glance, seem “similar” to solutions currently being offered in the marketplace. Without additional guidance regarding this term, some innovators with new and promising solutions may be discouraged from applying for the sandbox and providing MAS with information showing that the solution is indeed suitable.

Question 3. MAS seeks comments on the proposed evaluation criteria to assess the proposal’s suitability for a Sandbox (Para 6.2 and ANNEX B).

Although BAFT believes that Paragraph 6.2 and ANNEX B are reasonable overall, we offer a few comments and suggestions below:

We believe some terms could be better defined. Specifically, it is unclear what the term “technologically innovative” means in Subparagraph 6.2.a. Without further clarification, different entities and firms could have very varied interpretations.

We note that Subparagraphs 6.2.f and 6.2.g could also be clarified. It is unclear how much detail MAS expects the applicant to provide with regard to the assessment and mitigation of risks and the crafting of an “exit and transition” strategy. Small start-up companies often lack the knowledge and experience required to address these issues in depth. For companies building blockchain

solutions, scalability is dependent on how regulators view the overall architecture, data security policies, and other issues. MAS prudently requests companies to consider future scaling or exit strategies at the beginning of the testing process. However, it should recognize that, for some companies, the full development of such strategies may be contingent on input from MAS and require iteration.

Question 4. MAS seeks comments on Para 7.3. In the event that the test outcomes have been achieved, but the Applicant is still unable to fully comply with the relevant legal and regulatory requirements, should the Applicant be allowed to proceed to deploy the FinTech solution on a broader scale? If so, how could potential concerns of an unlevel playing field be addressed?

BAFT believes that if a solution is found to be valuable to the marketplace, and does not present risks to citizens, or to the overall financial system, it should be allowed to go into full production. If the innovator cannot fully comply with laws or regulations because the rules do not neatly apply to the solution, BAFT would urge policymakers to change such rules. We believe it is incumbent on lawmakers to recognize and respond to the quickly evolving financial technology landscape in a way that provides protection for consumers and clarity for businesses.

If a financial technology company achieves the test outcomes but is unable to fully comply with legal and regulatory requirements, MAS should issue the company a “waiver” or “no action letter” and allow the company to deploy the solution on a broader scale while policymakers work to amend the law or regulation at issue. We believe a “no action letter” would be a preferred “exit ramp” for such a product, and that their issuance is a practice used by regulators in both the United States and the United Kingdom. In the alternative, MAS should extend the duration of the sandbox for the period of time required by the policymakers to change the law or regulation.

Question 5. MAS seeks comments on the proposed circumstances where the FinTech solution will be discontinued (Para 7.4).

Subparagraph 7.4.a. states that participation in the sandbox will be discontinued if “either MAS or the Applicant is not satisfied that the Sandbox has achieved its intended test outcomes.” However, the Guidelines do not articulate whether or not there will be a review or consultation process between MAS and the applicant before arriving at that conclusion. We urge MAS to consider such a process and detail the decision points that would inform such an adverse result.

Further, we ask that MAS to provide greater clarity regarding the term “critical flaw” in Subparagraph 7.4.b. Perhaps MAS could provide examples of what it would consider a critical flaw.

Overall, we believe MAS should keep flexibility as a key principle in reviewing applications and in monitoring ongoing testing of products. It is of little benefit to either businesses or regulators to have companies lingering in sandboxes. Companies will need additional time to make changes to products either based on regulatory or customer feedback, or perhaps both. MAS should reward companies who are committed to working with it and avoid adverse action that could stifle not only product development and improvement, but potential future benefits to consumers.

Question 6. MAS seeks comments on the Sandbox application and approval process, as well as the timeline described in Section 8.

BAFT believes that MAS’ proposed sandbox will likely result in a large number of applications being submitted, which could help spark enormous innovation in financial services. That said, the application and evaluation process for a sandbox is most effective when there are open lines of communication between applicants and regulators. The process is intensive, necessitates ongoing conversations, and the time frames for deliverables are short. Accordingly, we urge believe that MAS should secure and deploy the needed resources to coach and guide applicants through the process.

We applaud the recognition by MAS in Paragraph 8.2.b that “Due to the exploratory nature of the Sandbox approach, the Applicant is allowed to make adjustments to the proposal for resubmission (for example, refining the boundary conditions) after discussing with MAS.” Especially with respect to those solutions that might seem similar to those already being offered in Singapore, but promise greater efficiencies or lower costs, we implore MAS to seek additional information from the applicant if needed without dismissing the application outright.

MAS should provide the reasons why the criteria was not met to those applicants who are denied entry into the sandbox to provide transparency into the decision-making process.

Finally, BAFT urges MAS to add a clause to the Guidelines stating that information regarding a proposed solution contained in an application will be held confidentially by MAS. We strongly believe that any proprietary information – especially if such information involves a truly innovative product – should not be publicly accessible. We fear that if confidentiality cannot be maintained then there would be a significant chilling effect on the sandbox’s potential to foster a truly nurturing environment for innovation.

Feedback pertaining to specific paragraphs in the Guidelines:

Para	Feedback
7.2	BAFT urges MAS to be flexible in terms of the timelines presented for entities to maintain their status in the sandbox. We believe MAS timelines may be too rigid, and would urge consideration of allowing multiple extensions, on a case by case basis. BAFT notes that the testing and refining of innovative services and products demands an enormous amount of effort and time and will likely be an iterative process. In some cases, companies with promising solutions have found themselves exited from a regulatory sandbox of a jurisdiction in mid-iteration. Such an outcome should be avoided at all costs.

	<p>BAFT believes that companies showing sincere commitment to the Guidelines and the iterative process of improvement should be allowed to continue testing. As we noted earlier, it is not in the interest of a company, the government, or the public at large for a solution to linger in the sandbox. A sensible and flexible off-ramp should be used for non-viable products or mature products that require licensing. However, as long as the product holds promise and continues to develop, we would urge MAS to allow the product to stay within the boundaries and protections of the sandbox.</p>
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Any other comments:

<p>None.</p>
