Lara Kaplan Background

- Financial Services Regulatory Lawyer qualified in England & Wales
- FinTech and Payments Group, Paul Hastings in Washington DC*
- Finance & Innovation Global Group, World Bank Consultant
- Previously a Lawyer at the Financial Conduct Authority in London
- Experience in the UK Parliament and European Parliament

*not admitted to the bar in Washington DC
Uk regulatory landscape for fintech firms
FCA FOCUS ON FinTech

OBJECTIVES

INNOVATION HUB

• Began as Project Innovate in 2014
• Innovation at scale in the UK
• Direct support to firms

APPROACH
Fca sandbox

What is it?
- In-market testing environment
- Predefined restrictions and regulatory dialogue

Why have one?
- Reduce existing regulatory barriers
- Maintain consumer safeguards
- Benefits such as increased understanding

How do you set one up?
- Public consultation
- Internal political hurdle

Crypto examples in the sandbox
STAGES OF A SANDBOX JOURNEY

1. **Sandbox Firm proposal**
   - A firm submits an application and business plan to the FCA.

2. **FCA assessment**
   - FCA reviews the proposal and is accepted if eligibility criteria are met.

3. **Firm and FCA collaborate**
   - Once accepted, the FCA works with the firm to establish the best testing parameters, measures for outcomes, reporting requirements and safeguards.

4. **Sandbox testing begins**
   - The firm starts testing and engages with the FCA and coordinates with its dedicated FCA case officer.

5. **Testing and monitoring**
   - FCA reviews the final report the firm submits about the outcomes of testing.

6. **Firm submits final report**
   - After the FCA receives and reviews the final report the firm decides whether it will offer the new solution outside the sandbox.

7. **Firm decision on whether it offers solution**
Sandbox tools

- Individual Guidance
- Informal Steer
- No Action Letters
- Restricted Authorisation
- Waivers
Benefits of a Sandbox

**Regulator Benefits:**
- Learn technology
- Increase knowledge
- Help develop supervisory techniques

**Consumer Benefits:**
- More effective competition
- Innovative products
- Ensures safeguards

**Firm benefits:**
- Early dialogue with regulator
- Flexible regulatory environment
- Regulatory clarity
Designing your own Sandbox: Risks & Consumer Protection

Risks with a sandbox:

- Limited regulatory capacity
- Uneven playing field
- Liability issues

Four potential approaches to protecting consumers in a sandbox

1. Notify customers of potential risks and available compensation; or
2. Regulator agrees on a case-by-case basis any necessary disclosure, protection and compensation appropriate to the testing activity of the firm; or
3. Customers have the same rights as customers who engage with other authorised firms; or
4. Firms in the sandbox are required to compensate any losses including investment loss to customers and demonstrate they have the capital to do so to be eligible for the sandbox.
Global financial innovation network

How it was established:
- Co-ordination
- Consultation

Projects:
- Sandbox
- Regtech
- Anti-money laundering

Aims:
- Network
- Co-operation & sharing information

To join:
- Open
- Terms of Reference
- Application
Global sandbox? Cross border testing

Operation of the Global Sandbox:

- Meet application requirements in all jurisdictions
- Each regulator ensure own safeguards and firm eligible
- Dedicated team to collaborate between firms and regulators
- Pilot test run for 6 months
- Want firm feedback

- 44 applications, 17 participating regulators
- Majority were in RegTech and crypto-asset related business models
- Test for regulators as much as for firms
- Concurrent testing across multiple jurisdictions
- Joint policy discussions and events

Example:
Tradle: a blockchain based KYC and onboarding platform that uses artificial intelligence and cloud services to help institutions meet regulatory obligations. They are working on self-executing cross-border KYC policies. The relevant regulators are: Abu Dhabi Global Market (ADGM) and FCA.
Any questions?

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