



# **CENTRAL BANK OF THE BAHAMAS**

## **REGULATORY SANDBOX**

---

### **CONSULTATION PAPER**

1 August 2024

## EXECUTIVE SUMMARY

The Central Bank of The Bahamas ('the Central Bank') remains committed to promoting a stable and sound financial system while fostering an environment conducive to economic advancement and development. Against this backdrop, the Central Bank acknowledges in this age of digitalization, financial institutions and fintechs will continue to explore innovative products and services to increase their value proposition to customers. Advancements in technology have allowed greater opportunities for financial institutions to provide new business models, services and products, which have helped to revolutionize how financial services are executed and supported. The digitalization of finance raises several implications for the Central Bank in terms of defining its regulatory parameters, assessing the adequacy of existing rules and regulations and adapting effective supervisory framework and approaches. As a result, the Central Bank intends to enhance its supervisory capacity by continuously evaluating its regulatory and supervisory framework in order to support financial innovation balanced with the appropriate supervisory infrastructure to assess and monitor the risks of fintech products and services and ensure that financial institutions apply the necessary risk management safeguards.

Accordingly, the Central Bank is considering the feasibility of developing a Regulatory Sandbox ("the Sandbox") to accommodate entities seeking to introduce nascent fintech products and services, delivery channels and technology platforms to potential customers and investors.

The Sandbox will allow applicants to test the viability and objectives of their business model and for the Central Bank to evaluate the applicant's business model in a controlled environment while ensuring the appropriate safeguards are in place. In order to be confirmed as a participant in the Sandbox, applicants would be required to satisfy both general and specific eligibility criteria. Upon confirmation as an approved applicant, participants within the Sandbox will be given specific terms and conditions in which they may continue to participate and test various components of their business plan within a given timeframe. During this process, the Central Bank will commit to providing applicants with the appropriate guidance that considers, but is not limited to, enterprise risk management and risk assessment, regulatory reporting requirements, third party risk and exposure, consumer safety and protection, cyber security and data protection, network accessibility, and communication strategy. In addition to this, the Central Bank will also address standards arising from its current legislative and policy framework that considers capital and solvency requirements, liquidity and reserves management, corporate governance, and outsourcing arrangements.

By exploring the tenets of the Regulatory Sandbox as a supervisory tool, the Central Bank would be seeking to amend, establish, or develop the legislative and policy framework, authorization requirements, and bespoke supervisory provisions under which participating entities could be introduced to the regulatory environment. The Sandbox would also provide the Central Bank with the flexibility to test its ability to grant conditional regulatory exceptions as part of the application process in order to assess and evaluate the viability of an applicant's business plan and its proposed impact to the financial services sector.

While the Regulatory Sandbox outlines a general framework and the criteria in which applicants may participate, the development of the Sandbox also introduces key considerations that the Central Bank must anticipate as part of its capacity to provide appropriate regulatory oversight. Although these considerations have been expressed in some form throughout the proposed framework, the Central Bank invites stakeholder commentary on the below matters in developing an amenable supervisory position that adequately facilitates the intention of the Sandbox while fostering the advancement of the financial services sector.

### **Legislative Capacity**

The capacity to be licensed and registered to conduct regulated business activity under the remit of the Central Bank of The Bahamas are captured under the following acts and their affiliated regulations:

Central Bank of The Bahamas Act, 2020 (“the CBA”), Banks and Trust Companies Regulation Act, 2020 (“the BTCRA”), Bahamas Co-operative Credit Unions Act, 2015 (“the BCCUA”), Payment Instruments (Oversight) Regulations, 2017, and the Bahamian Dollar Digital Currency Regulations, 2021.

The Sandbox Framework proposes to be facilitated through the Central Bank’s capacity to develop regulations and policy guidelines. Presently, there is no reference in the aforementioned acts to permit new (unlicensed) entities to conduct regulated business activity prior to receiving a licence or certificate of registration issued by the Central Bank. As part of the testing phase entities seeking to participate in the Sandbox may wish to engage proposed clients under special conditions to demonstrate the faculties of their fintech technology in a “live environment”. This live environment may follow simulation testing that would be conducted before engaging these proposed clients.

The Central Bank envisages that the parameters to engage specific members of the public as clients may be conducted under voluntary conditions that outline specific terms in which funds may be accepted, held, invested, transferred, lent, or transacted in any form. Nonetheless, all of the aforementioned activities fall within the definition of regulated activities and therefore conflict with the present capacity within legislation for new and unlicensed entities to engage the public in any manner. Presently, incumbent licensed financial institutions of the Central Bank may conduct “live testing” with a controlled test group of clients when introducing or expanding the capacity of any product, service, delivery channel, or technology platform to its operational activities. Invariably, the capability to do so may be adequately addressed within legislation for incumbent entities to conduct such activity within a sandbox arrangement. In contrast, sandbox participants who are not presently licensed as a regulated entity, but who may wish to include this level of controlled public engagement, may be limited to simulation testing with approved stakeholders. The limitations with simulation testing identified within our benchmarking is the inability for non-licensed entities to test their ability to integrate their innovations within the existing financial services infrastructure.

To mitigate this conflict, the Central Bank might propose amendments to its principal act to accommodate the Sandbox Framework, via the development of regulations. The production of legislation presents a separate timeline for development and consultation. However, this could delay implementation of the Sandbox Framework in its proposed present form.

In this regard, the Central Bank invites your commentary to the following considerations:

**Question 1:** Should approved applicants participating within the Regulatory Sandbox, who are not currently licensed as a regulated entity, be excluded from engaging the public?

**Question 2:** Should the Regulatory Sandbox Framework be entrenched in legislation?

### **Third-Party Risk Management and Registration of Non-Regulated entities**

The Regulatory Sandbox would be intended to be open to new and incumbent entities seeking to conduct financial activities via innovative products, business models, delivery channels, or technology platforms. The intellectual property and development of such capacity is often owned, operated and facilitated by third party service providers, who may not be registered or licensed as regulated entities. These developers use various forms of innovative fintech tools that expand the existing digital footprint of new and incumbent financial service providers.

Approved participants within the Regulatory Sandbox may source third party service providers as a collective effort to introduce nascent technology to the financial services sector. Such relationships may take on the form of an owner-operated outsourced arrangements, with the third party providers responsible for development, implementation, and maintenance of the product, or platform. However, invariably, the terms of such outsourcing may indirectly reflect the nature of partnership arrangements, where the approved applicants may materially rely on the capacity of the third party service provider as part of their operational infrastructures. Such material reliance may extend to considerable exposure to client data, access to technological infrastructure, and operational network. While the expertise for the provision of financial services may reside with the approved applicants, the technical capacity to engage digitally with customers may rest with the third party service providers. As such, the third party providers, through their responsibilities outlined within the terms and conditions may be considered the material providers of the regulated activities.

While the Central Bank appreciates that entities can take measures to appropriately address such arrangements, the material reliance on any third party service provider raises the question of whether both the applicants and service providers should be registered with the Bank as approved participants within the Regulatory Sandbox.

The consideration to register outsourced arrangements and the third party-service providers is to ensure that only licensed and registered entities are permitted to conduct regulated activities. Further, given the possibility that the technological expertise may reside primarily with third party providers, any impairment to the outsourced arrangements may hinder the Central Bank's capacity to effectively monitor and supervise the approved applicants and protect the public.

In this regard, the Central Bank invites commentary to the following considerations:

**Question 3:** Where an approved applicant proposes to have an outsourced arrangement with a third party service provider, should both entities be required to be approved participants by the Central Bank within the Regulatory Sandbox?

### Regulatory Oversight of Other Regulated Activities

Fintech advances have presented both new opportunities and challenges for financial service providers to engage customers. Delivery channels and technological platforms increase the efficiency in which clients interact with financial service providers. The demand for bundled financial services, may subject those products to oversight of multiple regulatory authorities.

The ultimate purpose of the Sandbox would be to provide regulatory guidance to applicants who, upon successful exit from the Sandbox, may seek to become licensed regulated entities. In this regard, the Central Bank would be limited to directing activities that falls within its regulatory purview. Applicants participating within the Sandbox may introduce products whose core components may involve the eventual dual registration between regulators. Where appropriate, the Central Bank will collaborate with other domestic regulators in instances when new products and services may have implications for multiple sectors.

As currently contemplated, the Sandbox provides for the Central Bank to invite other competent individuals and entities to assist in the review of the application of a Sandbox participant. The involvement of any other regulator as a competent entity would help to ensuring that any proposed product or technology does not contravene any existing legislation or policy framework outside of the purview of the Central Bank. Invariably, while it may be the intent of the applicant to be regulated by the Central Bank, the Central Bank may still deem it appropriate to include another financial services regulator as part of the objective of the Sandbox to provide appropriate regulatory guidance.

In this regard, the Central Bank invites commentary on the following considerations:

**Question 4:** Where the Central Bank identifies aspects of the business model of the Sandbox applicant that appears to fall within the regulatory purview of another financial services regulator, should the other financial services regulator be included as part of the oversight and review of the application?

## FEEDBACK ON THE DISCUSSION PAPER

The Sandbox Framework could potentially to deliver competition that is more effective, in the interests of customers by:

- i. Reducing the time and potentially the cost of getting innovative ideas to market;
- ii. Enabling greater access to finance for innovators;
- iii. Enabling more products to be tested and thus potentially introduced to the market; and
- iv. Allowing the Central Bank to work with innovators to ensure that the appropriate consumer protection safeguards are built in to their new products and services.

The Central Bank's proposal on the Regulatory Sandbox Framework is provided below. We invite comments from industry stakeholders and the public on the proposed considerations discussed above and the proposed Guidelines for Sandbox Framework.

The Central Bank requests that all feedback on this Discussion paper be provided by 31 August 2024 and should be directed via email to the following:

Policy Unit  
Bank Supervision Department  
Central Bank of The Bahamas  
Email: [policy@centralbankbahamas.com](mailto:policy@centralbankbahamas.com)

## Table of Contents

<b>INTRODUCTION</b> .....	8
<b>OBJECTIVES</b> .....	8
<b>APPLICABILITY</b> .....	8
<b>SCOPE</b> .....	8
<b>THE OVERSIGHT AND REGULATORY SANDBOX AUTHORISATION COMMITTEE</b> .....	9
<b>FUNCTIONS OF ORSAC</b> .....	9
<b>REGULATORY SANDBOX- ELIGIBILITY CRITERIA</b> .....	10
<b>REGULATORY SANDBOX LIFECYCLE</b> .....	10
<b>REGULATORY SANDBOX – PRE-APPLICATION STAGE</b> .....	11
<b>REGULATORY SANDBOX – APPLICATION PROCESS</b> .....	12
<b>REGULATORY SANDBOX – SANDBOX COHORTS</b> .....	14
<b>REGULATORY SANDBOX- TERMS AND CONDITIONS</b> .....	14
<b>REPORTING REQUIREMENTS WHILE IN THE SANDBOX</b> .....	15
<b>RISK ASSESSMENTS AND SAFEGUARDS</b> .....	16
<b>SUSPENSION OR RESCISSION OF REGULATORY SANDBOX PARTICIPATION</b> .....	16
<b>EXTENDING OR EXITING THE REGULATORY SANDBOX</b> .....	17
<b>RESPONSIBILITIES OF THE CENTRAL BANK OF THE BAHAMAS</b> .....	18
<b>APPENDIX A</b> .....	20

## INTRODUCTION

1. The Central Bank of The Bahamas (“the Central Bank”) is responsible for the licensing, registration, regulation and supervision of Supervised Financial Institutions (“SFIs”) operating in and from within The Bahamas pursuant to the Central Bank of The Bahamas Act, 2020 (“the CBA”), the Banks and Trust Companies Regulation Act, 2020 (“the BTCRA”), The Bahamas Co-operative Credit Unions Act, 2015 (“the BCCUA”), the Payment Instruments (Oversight) Regulations, 2017, and the Bahamian Dollar Digital Currency Regulations, 2021.
2. All applicants and SFIs are expected to adhere to the Central Bank’s application, licensing, registration and prudential requirements and ongoing supervisory programs, including periodic on-site examinations, and required regulatory reporting. All applicants and SFIs are also expected to conduct their affairs in conformity with all other Bahamian legal requirements.

## OBJECTIVES

3. The Regulatory Sandbox (“the Sandbox”) would allow firms to test innovative products, services, business models, delivery channels and digital technology platforms in a controlled environment, while ensuring the appropriate safeguards are in place. The Sandbox would provide the Central Bank with the flexibility to grant conditional regulatory exceptions as part of the application process in order to assess and evaluate the viability of an applicant’s business plan and its impact on the financial services sector. Accordingly, establishment of the sandbox environment may afford sandbox applicants with favorable outcomes by:
  - i. Reducing the timeframe of application approvals that generally arise because of ambiguity in applying the appropriate existing legislative and policy framework;
  - ii. Enabling products to be tested and introduced to the market;
  - iii. Building the appropriate consumer protection safeguards and services for innovative products;
  - iv. Clearly defining the roles and responsibilities of stakeholders and the operations of the Sandbox for the Bahamian Financial System; and
  - v. Amending existing legislation or introducing new laws, guidance and oversight bodies to facilitate company, product and service development.

## APPLICABILITY

4. The Sandbox would be open to all entities, both new entrants and incumbents, seeking to conduct financial activity in or from within The Bahamas via innovative products, services, business models, delivery channels, and digital technology platforms that fall within the regulatory remit of the Central Bank.

## SCOPE

5. The Regulatory Sandbox would not replace the existing authorization process for applicants seeking to be licensed by the Central Bank to conduct regulated financial activity in or from within The Bahamas.
6. The proposed framework would provide standards for the operation of a Regulatory Sandbox, and prescribe the processes and procedures for analyzing, collecting, updating, integrating



and storing of consumer data information. The Sandbox would also support the innovative improvements in the design and delivery of financial products, services, or solutions that are either not contemplated under the prevailing laws and regulations, or do not precisely align with existing regulations.

## **THE OVERSIGHT AND REGULATORY SANDBOX AUTHORISATION COMMITTEE**

7. The Central Bank's Oversight and Regulatory Sandbox Authorization Committee ("ORSAC") will serve as the highest decision making body and have general oversight of the Sandbox.
8. The Committee would consist of key Central Bank personnel appointed by the Governor. Accordingly, the Chair of ORSAC would be the Inspector of Banks and Trust Companies. The Committee would include at least five (5) individuals with knowledge of the Central Bank's authorization, risk based supervisory framework, legislative and policy framework, information technology, and risk management requirements. ORSAC may invite other competent individuals or entities, in accordance with the Committee's terms of reference, to provide their expertise in order to assess an applicant's business proposal.
9. The Committee will meet, at minimum, once a month. Where necessary, and as prescribed by the Committee Chair, ORSAC may meet more frequently based on the application status and stage of review.

## **FUNCTIONS OF ORSAC**

10. The general functions of ORSAC include, but will not be limited to:
  - i. Determining whether the applicant should be approved for entry into the Sandbox;
  - ii. Providing Confirmation Letters of Participation/Refusal to applicants;
  - iii. Assessing the regulatory and supervisory issues and risks that arise with the introduction of the proposed product, service, business model, delivery channel and technology platform;
  - iv. Defining key performance metrics of the business based on nature, size and complexity of proposed operations ;
  - v. Ensuring that the applicant has the appropriate standards and policies regarding AML/CFT/CPF in accordance with The Bahamas' AML/CFT/CPF legislation and policies;
  - vi. Confirming that the business platform demonstrates high standards of transparency;
  - vii. Determining and explaining how the regulatory and supervisory issues and risk are to be mitigated in accordance with legislative and policy requirements concerning capital, liquidity, and corporate governance;
  - viii. Determining the duration of the testing period giving reasonable notice and rationale where the duration should be extended;

- ix. Determining whether an applicant has breached the terms and conditions that were established between the Central Bank and the applicant during the pre-application process and whether the breach can be remedied within an approved timeframe; and
- x. Establishing any other terms and conditions that will govern the operation of the Sandbox and issue any guidelines, where necessary, to refine the processes, objectives and principles of the Sandbox.

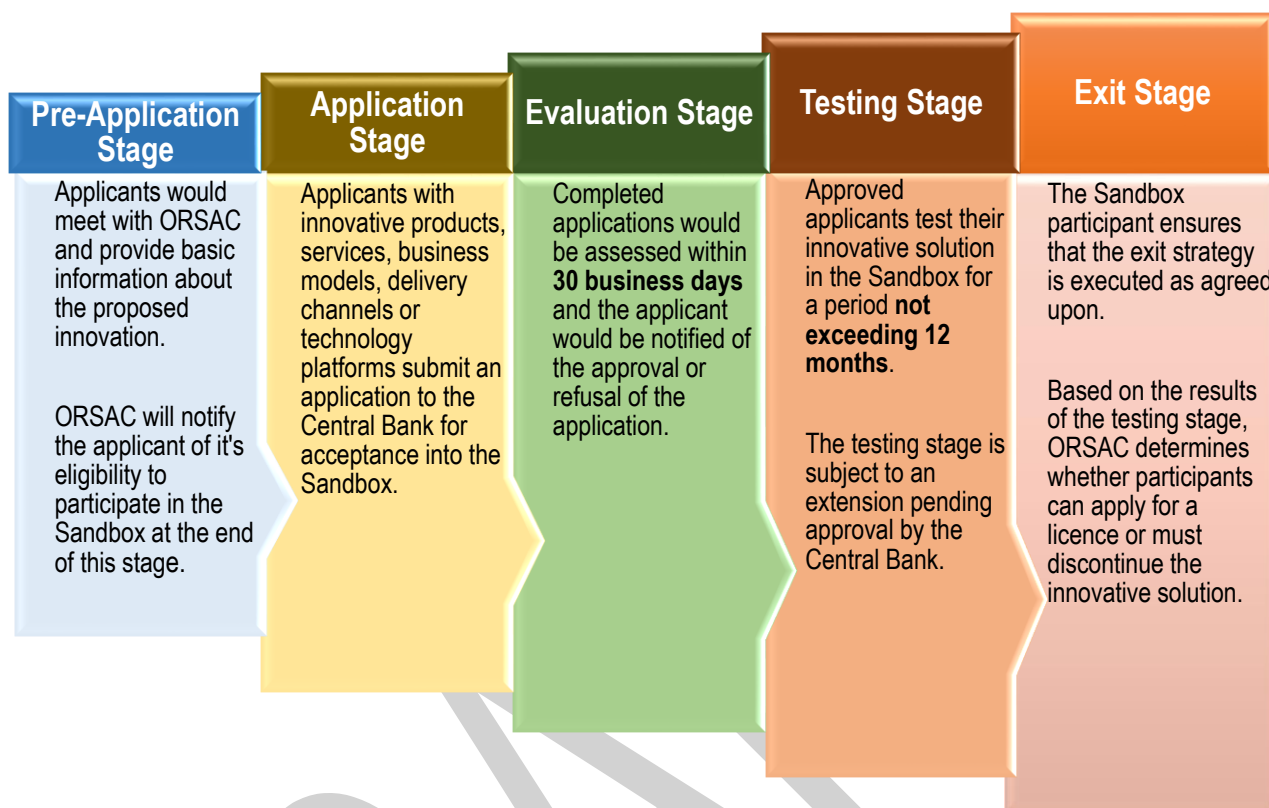
## **REGULATORY SANDBOX- ELIGIBILITY CRITERIA**

11. Where Applicants seek to participate in the Sandbox, the Central Bank would in assessing their proposed product, service, business model, delivery channel or technology platform consider the following matters:

- i. Whether the fintech based application used to provide the customers with the proposed product, service or delivery channel is or has not been previously approved to conduct financial services business in The Bahamas;
- ii. Whether the introduction of the proposed product, service, business model, delivery channel or technology platform would enhance accessibility, efficiency, security and quality in the provision of financial services and broaden capacity for financial inclusion, occurring in or from within The Bahamas;
- iii. Whether applicants have conducted the appropriate benchmarking and impact assessments to demonstrate the usefulness, functionality and viability of the proposed business model to exist within the financial services sector;
- iv. Whether the resources (financial, human and technical support) necessary for participation in the Sandbox exist and to mitigate potential consumer risks and losses from activity occurring within the Sandbox;
- v. Whether Use of technology, if not introduced as a regulated activity within the existing financial services framework, has the capacity to adversely impact customers and threaten financial stability in The Bahamas or any other jurisdiction; and
- vi. Whether the product, service, business model, delivery channel and technology platform is either wholly or partly incompatible with existing laws or regulations and policies issued by the Central Bank.

## **REGULATORY SANDBOX LIFECYCLE**

12. Each approved Sandbox participant would undergo a five-stage process: Pre-Application Stage, Application Stage, Evaluation Stage, Testing Stage and the Exit Stage.



## REGULATORY SANDBOX – PRE-APPLICATION STAGE

13. In the pre-application stage, ORSAC will schedule a meeting with applicants to discuss their proposed product, service, business model, delivery channel, or technology platform. Additionally, applicants would be required to provide the prescribed due diligence documents<sup>1</sup> to ORSAC for their consideration. Following the pre-application meeting, within **20 business days** ORSAC would determine whether to:

- i. Inform the applicant about the eligibility of the proposed product, service, business model, delivery channel or technology platform or the applicant, for testing in the Sandbox;
- ii. Provide feedback to the applicant on why the innovative solution cannot be provided under existing regulation;
- iii. Advise the applicant to submit any further documents that provide clarity to aid the Committee's decision as to whether the applicant will be granted access for its proposed product, service, business model, delivery channel, or technology platform to be tested in the Sandbox; or
- iv. Advise the applicant to submit a completed application form for formal admission into the Sandbox.

<sup>1</sup> See Appendix A – Minimum Due Diligence Requirements for Applicants seeking to be regulated by the Central Bank of The Bahamas

## REGULATORY SANDBOX – APPLICATION PROCESS

14. Entities may apply to participate in the Sandbox by submitting a completed application form and supporting documentation to the Bank's online portal at [RegSandbox@centralbankbahamas.com](mailto:RegSandbox@centralbankbahamas.com). Additionally, prior to entry into the Sandbox, an applicant would be required to provide the following to the Central Bank:

- i. A brief description of the applicant's organization, including the financial standing, technical and business expertise;
- ii. A description of the corporate governance structure that mandates business and operations are led and managed by persons with credibility and integrity;
- iii. A brief description of product, service, delivery channel, or technology platform to be tested within the Sandbox;
- iv. A description of how the Participant has met the Eligibility Criteria mentioned in Section 11 with supporting evidence;
- v. Disclosure of the parameters of the Sandbox (i.e., Start and End Dates, Target Audience, Customer Limits, Transaction Thresholds and Cash Holding Limits);
- vi. An assessment of the applicant's readiness for testing, which will include customer safeguards and testing plans;
- vii. Test scenarios including the potential direct and indirect losses of the experiment;
- viii. A description of the customer communications plan, which would include any risk disclosures and material information about the company;
- ix. Target and Key Performance Indicators, which will be used to determine the success of the product, service, delivery channel or technology platform;
- x. A description of cyber security and other relevant measures taken by the applicant to ensure customer safety;
- xi. A description of any third-party outsourcing arrangements including the due diligence conducted by the applicant on the third party; and
- xii. An assessment inclusive of an exit plan, deployment strategy, timeframes and any gaps in meeting legal and regulatory requirements after exiting the Sandbox.

## REGULATORY SANDBOX – EVALUATION CRITERIA

15. At the evaluation stage, ORSAC would review and assess applications to identify the parameters of the potential testing for the development of a testing plan. ORSAC would consider the following matters when conducting its assessment:

- i. Whether the product, service, business model, delivery channel or technology platform is introduced in an innovative manner that is beneficial to The Bahamas;
- ii. The overall readiness of the systems, processes and procedures involved in the Sandbox testing stage;
- iii. Whether the risks associated with the products, service, delivery channel or technology platform are properly assessed and mitigated; and
- iv. Whether the exit strategy demonstrates the participant's ability to discontinue the proposed financial product, service, delivery channel, or technology platform upon request by the Central Bank or proceed to deployment on a wider scale following the exit from the Sandbox.

16. Furthermore, ORSAC and the applicant would agree on the set of consumer safeguards in order to mitigate the risk to customers participating in the testing stage. This would include, but would not be limited to:

- i. The limitations on the number and type of customer(s)/client(s) that will participate in the test;
- ii. The limitations on the type and size of transactions;
- iii. Additional requirements related to the participant's handling and protection of consumer data, in line with existing laws and regulations;
- iv. Ensuring that applicants are seeking informed consent from participating customers, ensuring that the adequate disclosure of the potential risks to customers participating in the Sandbox and to confirm that customers fully understand and accept the risks. Applicants are required to obtain customers' prior verifiable consent to the customers' participation in the test;
- v. Providing customer redress mechanisms, including the possibility for financial compensation for Sandbox participants whose data may be harmed in a test under clearly specified circumstances;
- vi. In the event the client is not satisfied with a resolution of the participant, how such issues may be escalated;
- vii. Requirements to carry out stress testing (where applicable);
- viii. Restrictions or prohibition to hold or control client money or financial assets; and

- ix. Ensuring that customers can elect out of the test provided they abide with disclosure/non-disclosure agreements.
17. Following the assessment of the application, ORSAC would recommend whether the application should continue in the process for further testing in the Sandbox. In the event ORSAC determines that the application for the proposed product, service, business model, delivery channel, or technology platform would not continue within the Sandbox stages, the Committee Chair would formally recommend (in writing) to the Governor the status of the applicant's ongoing participation in the Sandbox.
18. The Committee Chair will notify the applicant of the Committee's decision within **10 business days** following the formal recommendation.

### **REGULATORY SANDBOX – SANDBOX COHORTS**

19. The Sandbox structure allows for a cohort system, for a group of entities that share the same characteristics of being allowed to enter the Sandbox at the same time and for the same duration.
20. The Sandbox would allow one cohort per year, which would be named after the year the cohort was accepted (e.g., Cohort 2024). Additionally, the Central Bank will publish the list of firms accepted into the cohort, along with the application timeframe on the Bank's website.
21. The number of entities that may be accepted into a cohort will be determined based upon the functional resource capacity of the Central Bank.

### **REGULATORY SANDBOX- TERMS AND CONDITIONS**

22. The terms and conditions for participation in the Sandbox would be set by ORSAC and in consultation with the applicant. ORSAC would then issue a Confirmation Letter of Participation that permits the applicant to participate in the Sandbox. The Confirmation Letter of Participation would not equate to the granting of a licence by the Central Bank. Instead the Letter would confirm the terms and conditions under which a Sandbox participant may test its products and technology. Additionally, the Letter of Participation would, where appropriate, stipulate the conditions governing how the applicant may engage any approved class or category of customers for testing purposes.
23. The general terms and conditions would include but not be limited to:
  - i. Duration of the testing period;
  - ii. Number of proposed clients to be engaged;
  - iii. Requirement for Client Confirmation Statements signed by proposed clients, acknowledging their willingness and ability to conduct business with a Sandbox applicant; and acknowledging that they have been notified of the key risks association with the service by the applicant.

- iv. Requirement for the Central Bank to be able to access the operating platform and conduct oversight assessment;
  - v. Confirmation statement of proposed operating policies addressing client security and data protection, transaction limits, outsourcing arrangements and third party service providers;
  - vi. Outline of the capital and liquidity requirements along with approved corporate governance structure; and
  - vii. Termination Policy for the provision of products, services, business models, delivery channels and technology support to approved clients.
24. The timeframe would be agreed upon by ORSAC and the applicant for the testing period. It is important to note that the proposed testing stage for approved applicants **would not exceed 12 months** from the beginning of the testing stage.

### **REPORTING REQUIREMENTS WHILE IN THE SANDBOX**

25. Participants within the Sandbox testing stage would be required to submit information, along with periodic and final reports related to the testing period within the time agreed upon by ORSAC and the applicant. In addition, both the periodic and final reports would need to be confirmed by the Chief Executive Officer (“CEO”) of the company before submission to the Central Bank. Participants within the Sandbox would be required to ensure that all records are properly maintained during the testing period to assist with supporting the testing done within the Sandbox.
26. The frequency and specific details to be included in the periodic reports would be agreed upon between ORSAC and the applicant. The details of this report would include, but are not limited to:
- i. Key performance indicators, key milestones and statistical information;
  - ii. Key issues arising as observed from fraud or operational incident reports;
  - iii. Updated risk register including possibility and treatment of emerging risk(s);
  - iv. Details of any audits conducted;
  - v. Customer satisfaction reports, including complaints, if any;
  - vi. Detailed log of operational or technical incidents and steps taken to address the same; and
  - vii. Actions or steps taken to address the key issues above.
27. Furthermore, Sandbox participants would be required to submit a final report within **30 calendar days** following the expiration of the testing stage. This would contain the following information:

- i. Key outcomes, key performance indicators against agreed measures for the success or failure of the test and findings of the test;
- ii. A full account of all incident reports and resolution of customer complaints; and
- iii. In the case of a failed or unsuccessful test, lessons learnt, and how the entity tends to wind down the test.

## **RISK ASSESSMENTS AND SAFEGUARDS**

28. Applicants seeking to participate in the Sandbox would be required to identify the potential risks to SFIs and their clients that may arise from the testing of the approved products, services, business models, delivery channels or technology platform. In addition, the appropriate safeguards would need to be implemented to address the identified risks.
29. In assessing the risks and evaluating the proposed safeguards the Central Bank will give due regard to the following:
- i. Preserving sound financial and business practices consistent with monetary and financial stability;
  - ii. Promoting the safety, reliability and efficiency of payment systems and payment instruments;
  - iii. Compliance with AML/CFT regulations;
  - iv. Promoting the fair treatment of customers;
  - v. Protecting the confidentiality of customer information; and

Encouraging healthy competition for financial products, services, delivery channels and technology platforms.

## **SUSPENSION OR RESCISSION OF REGULATORY SANDBOX PARTICIPATION**

30. The Central Bank may refuse an applicant or suspend participation in the regulatory Sandbox at any of the five stages of the sandbox.
31. To this end, review of a Sandbox application or participation in the regulatory Sandbox could be suspended or rescinded for any of the following reasons:
- i. Material misrepresentation reported during testing that differ from details submitted in the Sandbox application;
  - ii. Adverse systemic impact posed to customers, financial stability or the financial services sector;
  - iii. Financial product, services, delivery channels or technology platform was deemed inappropriate with regards to consumer protection and data privacy;



- iv. Failure of the applicant's organization and corporate governance to remain in good standing;
  - v. Failure of the applicant to implement the agreed safeguards;
  - vi. Failure of the applicant to maintain transparency of operations throughout the duration of testing;
  - vii. Inadequate testing and ineffective risk management and controls;
  - viii. Failure to commence the testing within the agreed timeframe set by the Central Bank; and
32. ORSAC would provide details to approved applicants for suspending their participation or rescinding the Confirmation Letter of Participation with a recommendation on a subsequent course of action.
33. For an applicant whose confirmed participation in the Sandbox was suspended, rescinded, or whose application was withdrawn from the Sandbox, a cooling-off period of **six (6) months** would be required before the applicant may resubmit their application. To resubmit the application the applicant should be able to produce new information or outline any material changes to address the reason(s) for the suspension or rescission of its status as a previously confirmed participant of the Sandbox.

## EXTENDING OR EXITING THE REGULATORY SANDBOX

34. If an extension was required, the Sandbox participant would need to submit a notice to the Central Bank for the request of an extension **30 business days** before the end of the testing stage. Furthermore, the notice for the extension would state the additional time required and an explanation of the reason for the extension.
35. ORSAC might extend the testing period in the event the information received was insufficient for the approved applicant to progress to the exit stage of the Sandbox lifecycle or consideration of exiting the Sandbox.
36. The Central Bank might prohibit deployment of the product, service, business model, delivery channel or technology platform in the market upon the completion of testing due to the following reasons:
- i. An unsuccessful testing based on approved test measures;
  - ii. The product, service, delivery channel or technology platform was proven to have weak controls regarding technology risk management; or
  - iii. The product, service, delivery channel or technology platform had unintended negative consequences for financial stability in the Bahamian economy.
37. Approved applicants not recommended for licensing, would be required to discontinue testing and exit the Sandbox in accordance with the Regulatory Sandbox terms and conditions or as advised by ORSAC.

38. To exit the Sandbox applicants would have to:
- i. Provide notice to all customers engaged during the testing stage of the intent to terminate operations and the process necessary to recover any unsatisfied financial interest held by the approved applicant on their behalf; and
  - ii. Execute approved termination policy, including terminating the provision of products, services or delivery channels for all prospective and existing clients of the Sandbox.
39. Participants in the Sandbox may choose to discontinue their intent to participate in the testing stage. In this case, the participant would be allowed to voluntarily withdraw by notifying the Central Bank in writing of its intention to withdraw.
40. The Central Bank would be prepared to provide support to successful candidates for the purpose of obtaining the requisite licence through:
- i. Providing guidance in the filing of their application for the appropriate licence; or
  - ii. Advising the participant of the options for addressing identified risk issues.

## **CONFIDENTIALITY**

41. The Central Bank would treat all non-public information received from an applicant and/or participant and tests conducted within the Sandbox as confidential, unless required to disclose such information by law or authorised in writing by the applicant and/or participant to disclose such information.

## **RESPONSIBILITIES OF THE CENTRAL BANK OF THE BAHAMAS**

42. The Central Bank would provide the appropriate regulatory guidance to confirmed participants of the sandbox.
43. The Central Bank would aim to adopt a more permissive stance for Sandbox testing than under its standard supervisory and regulatory requirements associated with regulated business activity being conducted in or from within The Bahamas.
44. The Central Bank might grant conditional regulatory exceptions, where necessary, for the duration of the Sandbox. These conditional regulatory exceptions would be limited to the period during which an applicant is allowed to continue as a confirmed participant within the Sandbox. As such, all conditional regulatory exceptions included within an approved applicant's terms and conditions for participating within the Sandbox would immediately terminate upon exit from the Sandbox.
45. The Central Bank would bear no responsibility for any operational, legal, or financial loss that may arise as a result of an applicant's participation within the Sandbox, or share in any liability incurred by the applicant or its customers in the course of satisfying the conditional requirements for participating in the Sandbox. The Central Bank, in consideration of granting any conditional regulatory exceptions to approved applicants participating in the Sandbox,

would be guided by the evaluation criteria for testing or any other criteria recommended by ORSAC.

46. Conditional regulatory exceptions could be granted in respect of the following regulatory requirements:

- i. Capital requirements and capital adequacy;
- ii. Corporate Governance (Board composition, Management experience, and track record of individuals and entities);
- iii. Licence Fees;
- iv. Minimum liquid assets; and
- v. Central Bank Guidelines, such as [Minimum Standards for the Outsourcing of Material Functions](#) and [Technology Risk Management Guidelines](#).

47. Examples of regulatory requirements where flexibility would not be allowed are:

- i. Confidentiality of customer information;
- ii. Handling of customers' money and assets by intermediaries;
- iii. Fit and proper criteria of key principals of the entity; and
- iv. Provisions related to anti-money laundering and combating the financing of terrorism.

48. The Central Bank of The Bahamas reserves the right to publish any relevant information about the Sandbox activity and the applicants on its website.

**APPENDIX A****SUPPORTING DOCUMENTS FOR REGULATORY SANDBOX APPLICATION**

The following documents should be submitted to the Bank Supervision Department in support of each application:

- A completed Regulatory Sandbox Application Form;
- Due Diligence Documents for individuals identified as a shareholder, controller, and directors of the applicant, which include, but are not limited to:
  - Detailed Curriculum Vitae
  - Certified Copy of Passport (or Certified – National Identification Card)
  - Original Financial Reference
  - Original Character Reference (2)
  - Original Police Certificate
  - Notarized Confidential Statement
- Business proposal for the product, service, business model, delivery channel or technology platform; and
- Any other document that the Central Bank deems necessary.