



REGULATION ON SANDBOX ENVIRONMENT

INTERNATIONAL COOPERATION DEPARTMENT

APRIL 2021



REGULATION ON SANDBOX ENVIRONMENT

ONE. GENERAL PROVISIONS

1.1. The purpose of this regulation is to create a sandbox environment (from here on ‘*sandbox*’) that allows innovative products, services and business models (based on new technologies in financial services) to be tested in a limited environment and time, under the supervision and regulation of the Financial Regulatory Commission and the Bank of Mongolia (from here on ‘*Financial supervisory authority*’), to define the requirements for participants, and to regulate the relevant relations.

1.2. This regulation shall be regulated by Mongolian law, and the regulations governing its enforcement.

1.3. Financial supervisory authorities shall approve sandbox council regulation, sandbox program plan, methodology and other documents.

1.4. Sandbox participants can provide financial services and shall comply with this regulation.

1.5. If sandbox participants’ products and services require a license, the financial supervisory authority may reduce or exempt these requirements (within its legal authority) for the participants during the sandbox program.

1.6. Paragraph 1.5 of this regulation does not apply to requirements set by laws and other government agencies, and shall be subject to the legal authority of the relevant financial regulator.

TWO. REQUIREMENTS

2.1. Requirements for the sandbox participants are as follows:

- 2.1.1. to be a legal entity registered in Mongolia;
- 2.1.2. not to have overdue debts in banks and/or financial institutions;
- 2.1.3. not to have a history of sanctions imposed for money laundering and/or economic crimes of shareholders and senior management;

2.1.4. share capital paid in by the shareholder/s must comply with requirements set in the *Law on Anti-Money Laundering and Combatting the Financing of Terrorism*.

2.2. Requirements for the products and services offered by the sandbox participants are as follows:

- 2.2.1. not pose a threat to financial stability;
- 2.2.2. not intended to be used for money laundering and/or the financing of terrorism;

- 2.2.3. aimed at increasing access to financial services and benefits to consumers;
 - 2.2.4. products and services shall have the following form:
 - (a) entering the market for the first time; or
 - (b) more competitive, efficient for customers, cheaper and simpler compared to similar products and services;
 - 2.2.5. feasibility, technical and economic bases, and financial efficiency calculations have been made;
 - 2.2.6. have financial and solvency capacity to operate during the sandbox's duration, and to cover potential risks;
 - 2.2.7. meet the technical requirements stated in *Annex I* of this regulation;
 - 2.2.8. ready for offer to customers within the sandbox, and the technological development is complete to the required extent.
- 2.3. The following products and services will not be included in the sandbox:
- 2.3.1. technological solutions that are non-competitive and inefficient for consumers, have complicated procedures and high costs, or have already entered into the financial market;
 - 2.3.2. the required developments have not been completed;
 - 2.3.3. aims to avoid legal regulations and requirements;
 - 2.3.4. products, services and technologies are for testing purposes only, and are not intended for further marketing or development

THREE. SANDBOX COUNCIL, UNIT

- 3.1. There shall be a sandbox council (from here on '*council*') and sanbox unit, responsible for enforcing this regulation.
- 3.2. The council shall consist of the following members:
- 3.2.1. representative of the financial supervisory authority;
 - 3.2.2. representative of the Ministry of Finance and other government bodies;
 - 3.2.3. legal specialist;
 - 3.2.4. representative of the information technology sector;
 - 3.2.5. university teacher, researcher and/or professor;
 - 3.2.6. representative of a consumer protection organizations.
- 3.3. The council shall have the following main functions:
- 3.3.1. based on the proposal submitted by the sandbox unit, a decision shall be made on whether it will enter the sandbox, which shall be submitted to the relevant financial regulator;
 - 3.3.2. formulate and finalize the business plan in collaboration with the participant, and determine the terms and conditions of the sandbox;
 - 3.3.3. issue the findings, relevant comments and conclusions at the end of sandbox programs;
 - 3.3.4. recommendations on necessary regulations and guidelines, related to market entry, shall be provided on products and services, to successfully implement within the sandbox;

3.3.5. upon expiration of the sandbox period, an operational report shall be presented to the management of the relevant financial supervisory authority.

3.4. The relevant financial supervisory authority shall approve the sandbox unit's composition.

3.5. The sandbox unit shall have the following main functions:

3.5.1. receive requests to enter and exit the sandbox, conduct relevant research and analysis, and develop proposals and submission to the council;

3.5.2. notify the applicant on whether the request to enter the sandbox has been approved;

3.5.3. register and monitor operational activities, and provide continuous feedback during the sandbox program.

FOUR. APPLYING FOR THE SANDBOX PROGRAM

4.1. Applications for the sandbox program are accepted twice a year, during the first 10 working days of March and September.

4.2. The applicant shall submit the following documents to the sandbox unit:

4.2.1. official letter of request to join the sandbox program;

4.2.2. statement made according to the form attached in Annex 2 of this regulation;

4.2.3. business plan formulated according to Paragraph 4.4 of this regulation;

4.2.4. internal monitoring program as described in Paragraph 4.1 of the *Law on Anti-money Laundering and Combatting the Financing of Terrorism*;

4.2.5. entities that do not fall into the list stated in Paragraph 4.1 of *Law on Anti-money Laundering and Combatting the Financing of Terrorism*, shall provide a description of: distribution channels of the products and services provided, customer due diligence, beneficial ownership and risk mitigation;

4.2.6. receipt of sandbox program registration fee payment;

4.2.7. other documents as determined necessary.

4.3. Applications, relevant documents and other materials must be provided in the Mongolian language. Documents and materials in foreign languages must be provided with an official, certified transaction.

4.4. The business plan must include the following requirements:

4.4.1. detailed description of the applicant and the products and services offered;

4.4.2. feasible action plan with detailed goals and objectives;

4.4.3. results of research calculations and simulations proving that the proposed products and services meet the requirements set in 2.2 of this regulation;

4.4.4. risk management plan with the purpose to prevent, and/or mitigate possible risks posed to customers and financial market during the sandbox period;

4.4.5. proof of financial and solvency in case of risk;

4.4.6. market research;

4.4.7. action plan to protect the interests of consumers;

4.4.8. sandbox exit plan;

- 4.4.9. transfer plan to enter the market in case the sandbox program is successfully conducted.
- 4.5. The applicant shall present their business plan, product/services and technological solutions to the sandbox council in-person, within the specified period after submitting the application.
- 4.6. The unit may request additional information from the entity during review of the request.
- 4.7. The sandbox unit shall notify the applicant by letter, within 30 days of receiving the request, on whether the requirements of the sandbox were met.
- 4.8. If the request to enter sandbox is denied, the fee specified in 4.2.6 of this regulation shall be refunded, based on the decision of the sandbox council.

FIVE. CONSUMER PROTECTION

- 5.1. When offering its products and services to consumers, participants shall state the following conditions:
- 5.1.1. products and services are being offered within the sandbox program, and have not obtained a license to conduct the activity from the financial supervisory authority;
 - 5.1.2. Information to consumers about the possible risks;
 - 5.1.3. the amount of compensation, to be reimbursed in the event of financial loss to the consumer, shall be mutually agreed;
 - 5.1.4. the financial supervisory authority is not responsible for the sandbox participants' responsibilities to others.
- 5.2. The offer of the products or services stated in Paragraph 5.1 of this regulation must not be misleading or ambiguous, and must contain simple language. The consumer shall make his/her decision to purchase a product or service independently, based on their comprehension upon reading.
- 5.3. The participant must obtain consumer's consent exclusively in a written form.
- 5.4. The financial supervisory authority shall require the following limitations that are appropriate (or all limitations if necessary) from participants of the sandbox, in order to protect consumer rights.
- 5.4.1. setting of the mandatory amount of reserve assets;
 - 5.4.2. setting limitations on the number and location of consumers, and the amount of transactions that might be conducted at one time and the total amount of the transaction/s;
 - 5.4.3. setting of the minimum amount of assets required to compensate damages;
 - 5.4.4. others, depending on the features of products and services.
- 5.5. The financial supervisory authority shall publish participants' names, types of operations, introductions to products and services, and starting and closing date of the sandbox, in its website and social media, in order to ensure transparency and inform consumers.
- 5.6. The financial supervisory authority has the right to publish any information related to participants of the sandbox, without violating physical or intellectual property rights.

SIX. OPERATING IN THE SANDBOX

6.1. Participants shall finalize the documents specified in Sections 4.4.2, 4.4.4, 4.4.7, 4.4.8 and 4.4.9 of this regulation, reflecting the feedback and comments of the sandbox council.

6.2. The council shall discuss with the participants the limitations and indicators for measuring outcomes of the sandbox as specified in Paragraph 5.4 of this regulation, and the content and frequency of reports, and submit relevant feedback and comments to the financial supervisory authority.

6.3. The financial supervisory authority shall decide whether to involve prospective participants in the sandbox, based on the sandbox council's evaluation. In the case of participating, the financial supervisory authority shall set the conditions, requirements and restrictions to be implemented, considering the features of the products and services involved.

6.4. The duration of the sandbox program is one year, and it can be extended once by another year based on the request of participants.

6.5. The participant/s shall submit a request to extend the duration of the sandbox to the sandbox unit at least 30 days prior to the expiry date.

6.6. Participants shall comply with the following requirements:

6.6.1. to register consumers (and their received products and services) regularly, creating a database;

6.6.2. to ensure the confidentiality and security of consumers' data during and after the expiration of sandbox, and not to disclose any information to third parties;

6.6.3. to submit operational and other reports specified in 7.9 of this regulation, in accordance with the conditions and requirements set by the financial supervisory authority.

6.7. The sandbox unit of the relevant financial supervisory authority shall conduct off-site and on-site supervision of the sandbox participants.

6.8. The financial supervisory authority shall ensure the confidentiality and security of any data related to the sandbox participants and applicants, and shall not use it for other purposes.

SEVEN. EXITING THE SANDBOX

7.1. The participant shall exit the sandbox program due to the following reasons:

7.1.1. duration of the sandbox has expired;

7.1.2. duration of the sandbox is terminated ahead of time by the decision of the financial supervisory authority, or upon the request of participants;

7.2. Participants will be removed from the sandbox ahead of time in the following cases:

7.2.1. violations of the articles of laws, regulations, and procedures (other than restrictions);

7.2.2. participants violated the terms and conditions of the financial supervisory authority;

7.2.3. it became clear that participants misled and/or misinformed others, or concealed information;

7.2.4. products and services offered by the participants no longer meet the requirements specified in the Paragraph 2.2 of this regulation;

7.2.5. others as determined necessary.

7.3. In case the financial supervisory authority decides to remove a participant from the sandbox, the participant must be notified minimum 30 days prior to the removal and detailed information on the reason and decision for removal from the sandbox must be provided to the participant.

7.4. The financial supervisory authority has the right to remove a participant from the sandbox without prior notice if there is a need to ensure financial stability and need to protect customers and shareholders.

7.5. Participants must provide a request (to exit the sandbox) to the sandbox unit, and depending on the request provided the sandbox council will provide a brief summary to the financial supervisory authority within 10 days. The financial supervisory authority will make a decision within 10 days.

7.6. After a participant quits the sandbox, the sandbox conditions and requirements that were set by the financial supervisory authority will no longer apply.

7.7. When a participant exits the sandbox, the following measures shall be taken immediately in accordance with the plan specified in 4.4.7 of this regulation.

7.7.1. notify the customers about the cessation of the activity;

7.7.2. compensate any financial damage, to the agreed amount, to the customer.

7.8. Participants must complete the exit plan stated in the Section 4.4.8.

7.9. The participants shall submit the following reports to the financial supervisory authority within 30 days of exiting the sandbox:

7.9.1. activity report specified in the sandbox exit plan;

7.9.2. report on the results, how consumers reacted to the new product or service, how customer complaints and disputes were resolved during the sandbox, and (if the sandbox experiment failed) the means by how it could be resolved.

7.10. In cases where products and services that successfully exiting the sandbox are to be introduced on the market, participants shall update the transfer plan specified in Section 4.4.9 of this regulation and shall submit it to the financial supervisory authority;

7.11. The decision of the transfer plan shall be submitted to the financial supervisory authority within 30 days.

7.12. The financial supervisory authority will work with the relevant government agencies to develop the necessary legal framework for the successful introduction of sandbox products and services.

EIGHT. OTHERS

8.1. The participant must take full responsibility in cases where any damage has been done related to the sandbox product and service.

8.2. The financial supervisory authority must provide outreach and advice to the participant, and the general public, on a continuous basis.

Annex 1 of the ‘*Regulation on Regulatory Sandbox*’ jointly approved by the Governor of the Bank of Mongolia, Minister of Finance, Chairman of the Financial Regulatory Commission, and the first deputy head of the Deposit Insurance Corporation; 1 March, 2021 decree № A-63/54/32/A27

TECHNICAL REQUIREMENTS FOR SANDBOX PARTICIPANTS

Legal entities applying to participate in the sandbox shall meet the following technical requirements:

- The system shall be placed within a Tier 2 standard data center, or a data center that meets this standard;
- Consumers’ information shall be encrypted, when transmitted on public and private networks, to ensure confidentiality;
- Official anti-virus software must be utilized;
- Security and safety system or programs should be developed and used;
- All access to consumer information shall be monitored and recorded;
- The penetration test shall be performed in accordance with the standard;
- The ITIL or Cobit 4.1 standard has to be introduced to operational activities;
- Must have a data security policy.

To participate in the sandbox program, participants shall submit the following documents to the sandbox unit and council; in accordance with the proposed product, service features and technological solutions. These include:

- Introduction and list of technology and equipments used;
- Topology schema covering network and software structure between user and server;
- Introduction to, and responsibility of, employees unit in charge of technology;
- System development costs;
- Technological information used in the database;
- List of servers used between systems;
- System, user and operational manuals;
- Capacity report on load-bearing of the system;
- List of tasks implemented to ensure confidentiality and safety;
- Audit report performed in accordance with the ISO27001 standard or CISO certification

Annex 2 of the ‘Regulation on regulatory sandbox’ jointly approved by the Governor of the Bank of Mongolia, the Minister of Finance, the Chairman of the Financial Regulatory Commission, the First Deputy Director of the Deposit Insurance Corporation of Mongolia; 1 March, 2021, decree № A-63/54/32/A27

SANDBOX APPLICATION FORM

I. SANDBOX PARTICIPANTS			
Participants' information			
Organization name, and registration number:			
License number, if there is any:			
Organization address:			
Contact number:			
E-mail address:			
Website :			
Date of establishment:			
Number of employees:			
Types of investment:		<input type="checkbox"/> Domestic investment <input type="checkbox"/> Foreign investment	
Areas of operation, types of products and services to be supplied to the market:			
Shareholder information			
Surname/Name	Number of shares	Amount of share capital (MNT)	Share capital percentage
Information about authorized official of the organization			

Name:	
Position:	
Education and profession:	
Contact number :	
E-mail address:	
Information about the official completing the application	
Name:	
Position:	
Phone number :	
E-mail address:	
Information about the organization (where participant will work with other organizations during the sandbox program)	
Organization name and registration number:	
License number, if there is any:	
Organization address:	
Contact number:	
Email address:	
Website:	
Date of establishment :	
Number of employees:	
Types of investment:	<input type="checkbox"/> Domestic investment <input type="checkbox"/> Foreign investment
Areas of operation:	
2. SANDBOX PRODUCTS, SERVICES AND TECHNOLOGICAL SOLUTIONS	
A. Description of products and/or services to be tested in the sandbox, and their unique features.	

B. Description of the results expected from the products and services to be tested in the sandbox, and the stage at which the technology being used is at.
C. Description of how the products and services to be tested in the sandbox will improve innovation, and/or efficiency in relation to the participants.
D. Description of the unique features of the products and services to be tested in the sandbox and about what differentiates them from their competitors.
E. Description of the mitigation plan for technological risks and potential losses.

F. Description of measures to be undertaken by the financial supervisory authority in order to successfully complete the sandbox program for the products and services?
3. ACTION PLAN TO COMPLETE DURING SANDBOX
A. Description of the need for entering the sandbox.
B. Description of measure/s (if any) to evaluate the successful implementation of the sandbox.
C. Description of benefits expected from the sandbox.
D. Description of the target customers and markets for the products and services that are entering the sandbox.

E. Description of the exit plan from the sandbox.
F. Description of the next step/s, if the product or service successfully exits the sandbox?