

**Order №110/04**

**Of the President of the National Bank of Georgia May 25 2020**

**Tbilisi**

**On Approval of the Regulations on Establishing Regulatory Sandbox Framework by the National Bank of Georgia and its Use**

Pursuant to Article 15, Paragraph 1, Subparagraph “g” of the Organic Law of Georgia on the National Bank of Georgia and Article 48, Paragraph 3 of the same Organic Law,

**I hereby Order:**

**Article 1**

Regulation on establishing Regulatory Sandbox framework by the National Bank of Georgia and its Use together with the attached Annex shall be approved.

**Article 2**

This Order shall enter into force upon publication.

**President of the National Bank of Georgia**

**Koba Gvenetadze**

**Regulations on Establishing Regulatory Sandbox Framework by the National Bank of Georgia and its Use**

**Article 1. General Provisions**

1. This Regulation defines the basic principles of the establishment and operation of the Regulatory Sandbox by the National Bank of Georgia (hereinafter - the National Bank), the conditions and procedure for its use.
2. The purpose of using the Regulatory Sandbox is to test on the market the innovative financial services or/and products created in the conditions of rapidly developing financial technologies, to facilitate their development and market access at a lower cost, as well as to identify the need for new regulatory requirements or/and amendments to existing requirements that may be necessary for the use of innovative financial services or/and products within the National Bank's supervisory authority.

3. The Regulatory Sandbox defined by this Regulation may be used by entities under the supervision of the National Bank who wish to offer innovative financial services or/and products in the financial sector, however this contradicts the requirements of the National Bank or/and requires consent.

## **Article 2. Definition of Terms**

- a) **Regulatory Sandbox** - Framework created by the National Bank to test innovative financial services or/and products in a test environment;
- b) **New Financial Technology** – Software or/and other technology used to improve or/and automate the development, delivery and use of innovative financial services or/and products;
- c) **Applicant** – Entity under the supervision of the National Bank, which wants to offer innovative financial services or/and products in the financial sector, however, this contradicts the requirements of the National Bank or/and requires consent, and it applies to the National Bank in accordance with the rules stipulated by this Regulation;
- d) **Special Focus Group** – A group of entities, members of which voluntarily wish to take part in testing innovative financial services or/and product.

## **Article 3. Criteria for participation in the Regulatory Sandbox**

To participate in the Regulatory Sandbox, the financial services or/and product provided by the Applicant must meet the following criteria:

- a) The Applicant must use financial technology and the financial services or/and products new for the local market as evaluated by the National Bank, provided that the financial services or/and products meet at least one of the following conditions:
  - a.a) Increases the availability, efficiency, security and quality of financial service and/or products;
  - a.b) Improves the effectiveness of risk management of entities subject to the supervision of the National Bank;
  - a.c) Provides substantial additional benefit for the customers;
  - a.d) Ensures increase of financial inclusion.
- b) The financial services or/and product offered by the Applicant must require the approval of the National Bank or/and the need for Amendment to the corresponding regulatory framework of the National Bank or identifying new regulatory requirements;
- c) The Applicant should have evaluated the profitability, functionality and related risks of presented service or/and product.

## **Article 4. Application to the National Bank to use the Regulatory Sandbox and information to be submitted**

1. The Applicant applies to the National Bank through the structural unit(s) supervising its activities.
2. The Applicant shall submit to the National Bank the completed application form specified in the Annex to this Regulation, which shall include, in particular, the substantiation of the submitted financial services or/and the product in compliance with the criteria outlined in this Regulation; Substantiation of compliance with the criteria outlined in Article 3(b) of this Regulation shall indicate the relevant rule, instruction, regulation, resolution, request or/and reference (date, number, article, etc.) established by the National Bank, which prevents implementation of financial services or/and product provided by the Applicant.
3. At the request of the National Bank, in the form and within the timeframe established by the National Bank, the Applicant shall submit:
  - a) The substantiation for how the Applicant intends to conduct innovative financial services or/and product activities, which should include:
    - a. Description of the expected results and qualitative and quantitative indicators of their evaluation;
    - b. Proof of access to financial services or/and resources needed to test the product in a test environment;
    - c. If necessary, assessment of money laundering and terrorist financing risks and description of mitigation measures;
  - b) Strategy for a transition from test to a real environment;
  - c) Innovative financial services or/and products termination plan, including in the event that the financial services or/and products are not evaluated as successful by the National Bank in the light of the qualitative and quantitative evaluation indicators provided by the Applicant and it will be necessary for the Applicant to terminate the relevant operations. The purpose of the plan is to ensure that the Applicant terminates operations in the interests of the clients and without disrupting the financial system. It should be reviewed for any changes to the business / operating model. This plan should include:
    - a. The circumstances under which innovative financial services or/and product termination plan should be enacted;
    - b. The reasons that may lead to the failure of the financial service or/and product;
    - c. Responsible internal organizational structural unit;
    - d. Procedures that should ensure the proactive identification and elimination of material risks that interfere with the plan;
    - e. Accountability plan for clients and a description of the guarantee mechanisms for the protection of their funds, if necessary.
  - d) Information on informing customers about the use of financial services or/and products in the test mode and additional mechanisms for their protection;
  - e) Other additional information necessary to assess the risk of financial services or/and product.

#### **Article 5. Stages of participation in the Regulatory Sandbox**

1. Participation in the Regulatory Sandbox implies undertaking the following stages defined by the National Bank:
  - a) Idea testing;
  - b) Concept model testing;
  - c) Testing in a real environment.
2. In order to move to the next stage, the previous one shall be considered successful by the National Bank. The National Bank shall determine the conditions and deadlines required for each stage individually, taking into account the specific financial services or/and product specifics.

#### **Article 6. Idea Testing**

1. Upon receipt of the Applicant's application for the use of the Regulatory Sandbox, the National Bank shall evaluate the completeness of the submitted application and information and test the financial services or/and product idea. Testing an idea includes evaluating its innovative nature and systemic risks:
  - a) The National Bank considers as innovative financial services or/and products that meet the criteria set out in this Regulation. The proposed financial services or/and product are not considered innovative if a similar financial service or/and product already exists in Georgia, unless the financial technology used by the Applicant or the method of using the existing technology can be considered innovative;
  - b) The proposed financial services or/and products should not have the potential to have a material negative impact on systemic risks and should not increase the risks of money laundering and terrorist financing.
2. The National Bank is obliged to inform the Applicant about the results of the idea testing stage within 21 business days from the submission of the written application. This period may be extended by additional 30 business days.
3. In case of positive evaluation of the idea testing, the National Bank shall notify the Applicant of the successful completion of the first stage and the moving to the next stage.
4. In case of incomplete submission of the information provided in paragraphs 2 and 3 of Article 4 of this Regulation by the Applicant or/and if the National Bank considers the financial services or/and products submitted by the Applicant to be inconsistent with the criteria set out for in this Regulation, the National Bank, within the period specified in paragraph 2, with the relevant justification, refuses in writing to the Applicant.

#### **Article 7. Concept Model Testing**

1. Concept model testing involves testing a proposed financial service or/and product in a test environment. At this stage, the National Bank discusses with the Applicant and determines the scale and duration of testing, reporting periodicity and evaluation indicators for successful completion of testing.

2. Concept model testing may be conducted within a Special Focus Group, which may consist of the Applicant's staff. Innovative financial services or/and products should not be available to real customers at this stage.
3. In case of successful testing of the concept model, the Applicant is allowed to proceed to the stage of testing the application of the operations in the real environment, otherwise the National Bank, with appropriate justification, refuses in writing the Applicant to continue the process in the Regulatory Sandbox.
4. In case of successful testing of the demonstration model, the National Bank publishes information on the launch of the testing process of the presented financial services or/and product in the real environment through its website.

#### **Article 8. Testing in a real environment**

1. Testing in a real environment means testing the financial services or/and product proposed by the Applicant in a real environment, taking into account the restrictions or/and easing regulatory conditions within the scope of its authority.
2. The National Bank shall determine the limits on operational and money laundering and terrorist financing risks for the use of the financial services or/and product presented in the environment, as well as the lightened regulatory conditions that may be required to test the financial services or/and product in a real environment, indicators by relevant time periods and reporting deadlines. These restrictions, lightened regulatory conditions, test-taking indicators and reporting deadlines are determined individually, taking into account the specific financial services or/and product specifics.
3. Periodically submitted reports by the Applicant shall include:
  - a) Results of key indicators, key achievements and statistical information, including information on fraud or operational incidents;
  - b) Substantial problems related to technology;
  - c) Customer claims related to incidents;
  - d) Other additional information to be determined by the National Bank on a case-by-case basis.

#### **Article 9. Exiting the Regulatory Sandbox**

1. After the end of the real environment testing period, the Applicant submits the final testing results. The National Bank will evaluate the submitted final results and within 21 business days from their submission, notify the Applicant in writing about the evaluation results. This period may be extended by an additional 30 working days.
2. The National Bank positively evaluates the financial services or/and products proposed by the Applicant if, among others, the following conditions are met:
  - a) The Applicant has achieved the predetermined goal;

- b) The presented financial service or/and product testing showed the desired results and low systemic risk potential.
3. If the submitted financial services or/and products have been assessed positively in accordance with paragraph 2 of this Article, the National Bank is authorized to:
    - a) remove the additional requirements / restrictions set for the Applicant during the testing, which had been imposed on the Applicant during his / her participation in the Regulatory Sandbox;
    - b) If necessary, consider reflecting or/and modifying regulatory requirements for the use of innovative financial services or/and products in the supervisory framework and supervisory approaches.
  4. If the test results show that the Applicant is not operating properly, which is reflected in the significant lag from the qualitative and quantitative indicators identified during the testing or/and the identification of significant and potential systemic risks, the National Bank:
    - a) Makes a decision on the negative evaluation of the service or/and product proposed by the Applicant and on termination of testing process;
    - b) Is authorized, as necessary, change the requirements, restrictions and time limits specified in Article 8 (2) of this Regulation.
  5. In the event of a negative evaluation of the final testing result or/and termination of testing, the Applicant shall immediately enact an innovative financial service or/and product use termination plan submitted to the National Bank.