SEC MEMORANDUM CIRCULAR NO. 9
Series of 2024

SUBJECT : SEC STRATBOX (STRATEGIC SANDBOX)

WHEREAS, the Securities and Exchange Commission (SEC) recognizes the importance of innovation and its role in promoting the advancements in technology and business models that may maximize value, increase efficiency, manage risks better, and improve the lives of Filipinos;

WHEREAS, Section 10, Article XIV of the constitution recognizes that science and technology are essential for national development and progress and mandates the State to give priority to research and development, invention, innovation, and their utilization, and to science and technology education, training, and services;

WHEREAS, Section 37 of the Republic Act 8799, otherwise known as the Securities Regulation Code (SRC), mandates the SEC to encourage competitiveness in the market by promulgating rules for the registration and licensing of innovative and other trading markets or Exchanges including the issuance and trading of innovative securities and technology-based ventures;

WHEREAS, Section 10.2 of the SRC, empowers the SEC to declare transactions involving securities to be exempt from the registration requirements if it is not necessary by the reason of the amount involved or the limited character of the offering;

WHEREAS, the Republic of the Philippines–Philippine Development Plan 2023-2028 encourages, as part of the national transformation agenda, the development of a dynamic innovation ecosystem involving knowledge and R&D institutions, product and process design, marketing, and entrepreneurs and encourages the government to support the creation of innovation ecosystems and their evolution to becoming a dynamic ecosystem that eventually generates not only more, but quality jobs;

WHEREAS, a regulatory sandbox is a regulatory tool used by multiple jurisdictions that facilitates the growth of innovative financial products and services in a controlled environment, with appropriate regulatory oversight in place and ensuring investor protection;

WHEREAS, the introduction of a regulatory sandbox may enable firms to explore innovation, test their product or services in a live setting, and eventually adopt the technology to develop a richer financial market; and

WHEREAS, the regulatory sandbox will enable regulators, innovators, and other stakeholders to collaborate in the crafting and refining regulations and policies related to emerging technologies that are backed by actual data;

WHEREAS, the establishment of a regulatory sandbox framework will stimulate the development of a vibrant and inclusive digital economy in the Philippines;

NOW, THEREFORE, the following rules on the SEC Stratbox are hereby promulgated:

Section 1. Definition –

1. **Regulatory Sandbox (sandbox)** is a regulatory tool that will enable a sandbox participant to test its innovative product or service or a new

business model in a live and controlled environment, within a defined period.

Participation in the sandbox does not automatically exempt participants from existing laws and the applicable rules and regulations, but the Securities and Exchange Commission may grant waivers or modifications, in its capacity as provided by law, to the sandbox participant depending on the level of risk of their activity, the security measures in place, the support it may provide to SEC's mandate and projects, and the benefits it may provide to the public and the nation as a whole. Based upon the financial product or service to be experimented with, the nature and extent of testing, and the applicant involved, the SEC will determine the specific legal and regulatory requirements that it is inclined to waive or modify for each participant.

2. **Sandbox Participant** is an entity that is duly registered with the Securities and Exchange Commission and has been assessed as eligible to take part in the SEC Regulatory Sandbox.

3. **Sandbox Committee** is a team of SEC personnel that will administer the conduct of the regulatory sandbox according to this framework, led by the PhiliFintech Innovation Office and supported by other relevant SEC departments. The SEC may allow the inclusion of disinterested industry experts to be part of the Sandbox Committee, subject to the following conditions:
   a. submission of expert credentials;
   b. undertaking of absence of any conflict of interest and that the participation of the disinterested industry expert shall be voluntary and without cost to the SEC.
   c. approval of the Commission *En Banc*;

The SEC may ask for the assistance of other government agencies that have jurisdiction and/or expertise on the proposed activity.

Section 2. Objectives – The Securities and Exchange Commission (SEC) aims to develop the financial markets as it seeks to help firms to test their products and services that demonstrate genuine innovation, which may:

1. Increase efficiency;
2. Manage risks better;
3. Create new opportunities;
4. Prevent Fraud;
5. Promote Financial Inclusion; or
6. Enhance the lives of Filipinos.

A sandbox shall include appropriate safeguards commensurate to the level of risk and following a risk-based approach, to maintain the Commission's regulatory objectives, with emphasis on investor protection.

It should be clear to the applicant that the sandbox is not intended and cannot be used as a means to circumvent legal and regulatory requirements.

The SEC may issue guidelines governing specific innovative activities which will enumerate additional conditions and requirements.

Section 3. Activities Allowed in the Sandbox. To provide clarity to potential Sandbox Participants and the public, the SEC may periodically post and maintain on its website sandbox activity guidelines, which will include eligible activities and innovations that may be allowed to enter and operate within the regulatory sandbox.

Interested Sandbox Participants, whose proposed activity/innovation does not completely fall under any of the eligible activities and innovations, are not precluded from submitting an application to the SEC, subject to further evaluation.

To promote stakeholder engagement and ensure the relevance of the sandbox program, the SEC welcomes feedback and suggestions from industry participants, consumer groups, and other interested parties regarding potential additions or modifications to the list of eligible activities. All feedback received will be considered during the periodic review and update process.

Section 4. Regulatory Relief. Upon acceptance into the Regulatory Sandbox program, eligible participants may be granted regulatory relief, subject to the conditions specified in the implementing guidelines. The SEC may modify or relax specific licensing, registration, compliance, or other regulatory requirements that would otherwise apply to the Sandbox Participant's innovative activities during the sandbox period.

The regulatory relief granted to Sandbox Participants shall have a defined duration, as fixed in the participant's approved test plan. The SEC may extend the duration of relief, subject to Section 11.

Section 5. Evaluation Criteria – An entity that intends to be a sandbox participant must show, with the necessary supporting information, the following before it can be enrolled in the sandbox:

1. The proposed financial product or service includes new or emerging technology or uses existing technology in a novel way, addresses a problem, or brings benefits to consumers or the overall financial markets, or any other description of innovation;
2. The applicant must clearly identify that the financial product or service is not prohibited by law in the Philippines, and why the enrollment to a regulatory sandbox is appropriate and necessary;
3. The entity has the intention and ability to deploy the proposed financial product or service in the Philippines on a broader scale after successfully exiting the sandbox, if business objectives have been met and if approved by the management of the Sandbox Participant;
4. The entity has the capacity and is ready to test the financial product and service with actual consumers in a controlled environment;
5. Description of the source of funds;
6. A testing plan with test scenarios and expected outcomes of the sandbox experimentation should be clearly defined;
7. The entity must provide Key Performance Indicators (KPIs) or other metrics in monitoring the progress of the sandbox implementation;
8. Appropriate limitations and conditions are clearly defined, for the sandbox to be effectively executed while sufficiently protecting the interest of consumers and maintaining the safety and soundness of the industry, including, but not limited to:
    a. Profile of target customers for the sandbox and the requirement to assess their suitability prior to availing of the financial product or service; and
    b. Any limitations in individual and total investment amounts that may be accepted;
9. Significant risks arising from the proposed financial product or service are assessed and mitigated, as well as the entity's safeguards to assess and mitigate these risks; and
10. An acceptable exit and transition strategy should be clearly defined in the event that the proposed financial product or service has to be discontinued or can proceed to be deployed on a broader scale after exiting the sandbox.

For the avoidance of doubt, the Sandbox Participant may be allowed, in a Present Me Anything Session, to demonstrate its product, service or business.

Section 6. Sandbox Process – A regulatory sandbox will include the following stages:

1. Application

An applicant must ensure that the objectives, principles, and criteria specified under Section 2 and Section 5 are satisfied before submitting the application form to the Commission. An entity intending to enter a regulatory sandbox shall submit documents showing that the applicant meets the criteria as set out in Section 7.

The applicant may demonstrate the proposed innovation to the SEC through a "Present Me Anything" session with the PhiliFintech Innovation Office which may aid the evaluation of the proposal.

The SEC shall review the application and inform the applicant of its potential suitability after receiving the necessary information for the assessment.

2. Evaluation

After receipt of the documentary requirements, the SEC will evaluate the application based on the eligibility criteria, the completeness and complexity of the submission, and the specific legal and regulatory implications.

The applicant shall be informed in writing whether it can proceed with the sandbox.

An application shall be rejected if it fails to meet the objective and principles of the sandbox or any of the evaluation criteria. Provided, that the SEC may give the applicant a reasonable time to modify the objectionable portions of the application before rejecting the application. If the application has been rejected, the applicant may re-apply for the sandbox when it is ready to meet the objective, principles, and evaluation criteria of the sandbox.

No regulatory sandbox testing involving a business, product, service or activity falling under the SEC's jurisdiction may commence without the approval of the Commission En Banc.

3. Testing

Upon issuance of the notice of approval, the sandbox is launched into the experimentation testing stage and the financial product or service may be offered. The Sandbox Participant must strictly comply with and operate within the approved testing plan.

The Sandbox Participant shall notify its customers that it is operating in a sandbox and disclose the risks associated with the innovative product or service. An acknowledgment from each of the customers is also required to ascertain that they have read the terms and conditions of the product or service and that they understood the risks involved in the innovation.

The Sandbox Participant shall have thirty (30) days from notice of approval to launch its enrolled product or service. Otherwise, the application will be deemed canceled.

4. Exiting the Sandbox

The Sandbox will end based on the period provided by the approved testing plan, without prejudice to Sections 11 and 12 of this Circular.

At the expiration of the period, the regulatory requirements waived or modified by the SEC will expire; provided, that, subject to Section 12, the Sandbox Participant shall be allowed to provisionally operate in order to ensure that any existing obligation to its customers of the financial product or service under experimentation must be fully fulfilled or addressed before exiting the sandbox.

Section 7. Documentary requirements for application – A corporation that intends to be a Sandbox Participant must submit the following to the SEC:

1. Duly accomplished Sandbox Application Form (Annex 1);
2. Letter of intent to enter a Regulatory Sandbox signed by the president of the corporation;
3. Board Resolution and Corporate secretary's certificate on the approval of the board of directors of the intention to apply for a sandbox;

4. Company profile;
5. Profiles of key officers of the corporation; and
6. Proposed testing plan.

The SEC may request additional documents for the applicant to demonstrate its adherence to the objectives, principles, and criteria specified under Section 2 and Section 5.

Section 8. Minimum Requirements – The applicant for a sandbox must incorporate the following safeguards in their proposed testing plan:

1. Confidentiality of customer information;
2. Consumer protection in line with R.A. No. 11765 or the Financial Products and Services Consumer Protection Act;
3. Appropriate risk disclosure and customer acknowledgment that they understood the risks involved in the financial product or service to be tested;
4. Proof of fitness criteria particularly on honesty and integrity of the officers;
5. Separation of sandbox participant funds and customer funds deposited in a bank registered with the Bangko Sentral ng Pilipinas, or stored for safekeeping in facilities offered by other registered companies in the Philippines with appropriate licenses;
6. Strict monitoring of transactions to ensure Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) measures.
7. Cybersecurity and Data Protection measures.
8. Disputes management and resolution mechanisms.
9. Disclosure of related parties.

Section 9. Testing Plan – Aside from the requirements of Sections 2, 5, and 8, the proposed testing plan must contain the following:

- Test scenarios;
- Period of testing;
- Outcomes;
- Test parameters;
- Risk assessment and mitigation measures;
- Controls and Safeguards;
- Monitoring plans;
- Evaluation plans; and
- Transition plans.

Section 10. Change of Testing Plan – The Sandbox Participant may propose to make material changes to the financial product or service under experimentation by applying for an amendment of the approved testing plan and providing details of the changes with reasons. During the review of the application, the existing approved testing plan will govern the ongoing experimentation until the Sandbox Participant is informed of the approval or rejection of the proposed change.

Section 11. Extension of the period to test – In the event that the Sandbox requires an extension of the period to test, the Sandbox Participant should apply for an extension of the period to test at least thirty (30) days before the expiration of the testing period as approved in the testing plan, and provide reasons to support the application of the extension.

The filing of an application for extension shall provisionally extend the period provided in the approved testing plan until such time that the SEC issues the decision accepting or rejecting the said application for extension.

Further, the period to test may be extended by the Commission En Banc. A notification of the extension shall be sent to the sandbox participant.

Section 12. Termination of the Sandbox – At the end of the period to test based on the approved testing plan, the sandbox is deemed terminated.

Additionally, the SEC, at any stage of the process, may order the termination of the Sandbox for reasons determined by the Commission En Banc, including, but not limited to, the following:

1. The continued offering of the product or service is inimical to the interest of the investors or the investing public, due to lack or failure of investor protection measures;
2. SEC is not satisfied that the sandbox will achieve its intended purpose based on the latest test scenarios, expected outcomes, and period mutually agreed with the sandbox entity;
3. The Sandbox Participant is unable to fully comply with the relevant legal and regulatory requirements at the end of the sandbox period;
4. A flaw has been discovered in the financial product or service under experimentation where the risks posed to customers or the financial system outweigh the benefits of the financial product or service under experimentation, and the Sandbox Participant acknowledges that the flaw cannot be resolved within the duration of the sandbox;
5. The Sandbox Participant breached any condition imposed in the approved testing plan for the duration of the sandbox; and/or
6. The Sandbox Participant expressed its decision to exit the Sandbox at its own discretion.

Section 13. Sandbox Graduation – At the end of the sandbox period, the Sandbox Participant shall submit a report summarizing the activities, analysis of outcomes, evaluation viability of the product or service, and recommendations for the design of new regulations or amendments to policy.

Upon receipt of the summary report, the SEC will conduct an assessment to determine whether the Sandbox Participant is eligible to graduate from the Sandbox. The assessment will be based on the following criteria:

1. Achievement of Intended Test Outcomes: The SEC will assess whether the sandbox has achieved its intended test outcomes. This includes evaluating whether the Sandbox Participant has successfully demonstrated the viability and potential of their proposed innovation within the controlled environment of the sandbox.
2. Full Compliance with Legal and Regulatory Requirements: The Sandbox Participant must demonstrate its ability to fully comply with the relevant legal and regulatory requirements. This includes exhibiting their capability to meet necessary standards and fulfill obligations to customers and stakeholders.

The SEC shall issue a certificate as evidence that the Sandbox Participant has successfully completed the sandbox.

Section 14. Transition to Public Offering - Sandbox Participants that graduated from the regulatory sandbox may formally submit to the SEC an application for the required license to offer the financial product or service to the public at large, with the endorsement of the Sandbox Committee through the completion certificate, subject to the issuance of special rules allowing the registration of the said activity.

To support scalability and sustainability, the SEC will incorporate mechanisms to facilitate a smooth transition for sandbox participants, enabling them to seamlessly move from the sandbox environment to full deployment. During this phase, the SEC will provide guidance and support to assist participants in navigating the possibly new regulatory requirements that will be required to support their solution and ensure the long-term sustainability and growth of their innovative ventures.

Section 15. Conduct Within the Sandbox. The operation of the Regulatory Sandbox, as described in this Framework, shall be conducted in strict compliance with existing laws, rules and regulations, including but not limited to the provisions of the Securities Regulation Code, Revised Corporation Code, and Financial Products and Services Consumer Protection Act, and shall be without prejudice to criminal and administrative liabilities therein.

Further, nothing in this Circular shall be construed to diminish the authority to enforce regulatory requirements under existing laws and regulations, protect consumer interests, and ensure the stability of the financial system.

Section 16. Effectivity. This Circular shall take effect fifteen (15) days after its publication in two (2) newspapers of general circulation.

Makati City, Philippines, 25 April 2024.

For the Commission:

EMILIO B. AQUINO
Chairperson

ANNEX 1

SEC STRATBOX APPLICATION FORM

1. Applicant's Information

Corporation Name	
SEC Registration Number	
Address	
Contact Number	

Name of Authorized Representative	
Designation	
Email	
Contact Number	

2. Overview

		Response
1	Provide a brief description of the organization and its core business/es.	
2	Provide a brief description of the proposed business model, financial product, or service to be experimented with in the sandbox.	
3	Do you have the relevant license to deploy the proposed financial product or service to the public? Please provide the details and specify from which regulator.	
4	Does the business model, product, or service require the SEC to relax or modify any specific regulatory requirements prescribed by SEC, for the duration of the sandbox? If yes, please provide the details.	
5	Does the business model, product, or service exist in other jurisdictions? Please provide details on how it is regulated.	

3. Details of the proposal to support the sandbox evaluation criteria. Refer to Section 5 of MC _ -2024.

Criteria	Requirements	Supporting Information or Attachments
Section 5.1	i. The technology and innovative ways in which the technology will be applied, including a comparison of the key features against similar or competing technologies, or manner in which competing financial services are operating.	
	ii. Benefits of the proposed financial service, such as improvements in security, customer experience, cost efficiency, operational efficiency, expansion into new market segments, or others. Provide quantifiable estimations where applicable.	
Section 5.2	i. Brief position explaining that the business model, financial product, or service is not prohibited by any laws in the Philippines.	
Sections 5.3, 5.4, & 5.5	i. Assessment of the suitability and readiness of the proposed financial service for the Philippine market, including a brief comparison against similar markets globally.	

Criteria	Requirements	Supporting Information or Attachments
	ii. Brief overview of the business strategy and plan, including the roadmap to continue development in the Philippines. The business plan should also address the gaps (if any) in meeting the relevant legal and regulatory requirements after exiting the sandbox.	
	iii. Financial standing of the applicant, including any funding raised from investors.	
	iv. Relevant technical and business domain knowledge and experience of the applicant.	
Section 5.6, 5.7, & 5.8	i. Test scenarios aimed at removing the uncertainty which could be arising from regulatory, technology or business model, and could not be reasonably or effectively simulated in a test environment.	
	ii. Appropriate targets which allow SEC and the applicant to assess whether the test outcomes have been achieved.	
	iii. Boundary conditions for the sandbox (with justifications), such as: • Start and end date of the sandbox • Target customer type; • Limit on the number of customers involved; • Other quantifiable limits such as transaction thresholds or cash holding limits.	

Criteria	Requirements	Supporting Information or Attachments
	iv. Processes and controls to ensure that the boundary conditions are not breached.	
Section 5.9 & 5.10	i. Quantification of the maximum loss and impact that the proposal could potentially create, including any potential indirect effects.	
	ii. Channels for handling customer queries, feedback or complaints.	
	iii. Monitoring plan to ensure the prompt notification of any breach, for example, breach of the sandbox test scenarios, boundary conditions or safeguards, to SEC.	
	iv. Risk mitigation plan to minimize the impact of failure on customers and the broader financial ecosystem.	
	v. Exit and transition plan for customers, in the event that the proposed financial service has to be discontinued or can proceed to be deployed on a broader scale after exiting the sandbox.	
	vi. Communications plan to inform customers, including: • the duration, boundary conditions and associated risk disclosure for participating in the sandbox; • advance notification of the termination or extension of the sandbox, or when the proposed financial service can proceed to be deployed on a broader scale.	