

DIGITALISATION CHALLENGES: SANDBOX

Law 7/2020, for the digital transformation of the financial system, was approved at the end of 2020. It created, for the first time, a controlled testing space in Spain, known internationally as Sandbox. Sandbox is a safe environment in which to test projects involving technology-based financial innovation applicable to the financial system, and in which risks to the financial system and to participants have been mitigated or minimised. The two fundamental objectives of this law are, therefore, to provide financial authorities with adequate instruments to fulfil their functions in the new digital context and to facilitate innovation in Spain.

The law provides for two annual cohorts to apply to the General Secretariat of the Treasury and International Financing (SGTFI) for access to Sandbox and for any promoter, or group of promoters, whether individuals or legal entities, to apply for entry into Sandbox. The supervisory authorities (Banco de España, National Securities Market Commission and the Directorate General of Insurance and Pension Funds) are responsible for the prior assessment of the project by means of a favourable or unfavourable report according to the criteria set out in Article 5 of this law.¹ In the light of this assessment, the SGTFI publishes the list of projects provisionally admitted to Sandbox. For projects that have received a favourable prior assessment, a process is initiated between the competent authorities and the promoter, the purpose of which is to sign a protocol containing the testing rules and conditions. With regard to the exit regime, the law provides for the possibility of shortening procedures in the event that a licence or authorisation is required for the subsequent performance of the professional activity.

The first call for applications was on 15 December 2020 through an SGTFI resolution, which set the deadline for submitting applications for access between 13 January and 23 February 2021. A total of 66 projects were submitted, of which around two thirds were initially allocated to the Banco de España, alone or together with other supervisory

authorities.² The Banco de España issued a favourable prior assessment with respect to 10 projects, 6 of which finally went on to testing, following the signing of the corresponding protocol. The second call was on 15 June (opening on 1 September and closing on 13 October), and a total of 13 applications were received, i.e. 80% less than in the first cohort. Of these applications, 8 initially corresponded to the Banco de España and 1 obtained a favourable prior assessment and is in the negotiation phase of the corresponding protocol. These fluctuations in the number of applications are to be expected as this is a new tool to which both promoters and authorities must adapt.³

It is worth noting that, regardless of the volume of applications, Sandbox has greatly fostered collaboration among the authorities involved in its operation, which has positive consequences both for the promoters and for innovation in the Spanish financial system. Similarly, in the Banco de España, collaboration among the various supervisory areas has increased notably due to the cross-cutting nature of Sandbox, giving rise to very positive synergies for our institution.

The attached charts show the wide variety of projects that have been analysed by the Banco de España this year. With regard to the projects previously assessed by the Banco de España (alone or together with other supervisors), the promoters belong to various sectors (see panel 1 of the chart), albeit noteworthy the greater weight, in this order, of consultancy firms, FinTechs and banks. In terms of the technologies in projects obtaining a favourable prior assessment (see panel 2 of the chart), distributed ledger technology and artificial intelligence predominate, followed by biometrics/digital identity. This plurality, combined with the large number of projects presented, gives an idea not only of the high innovative capacity of Spanish institutions, but also of their diversity, in terms of both the type of promoter and the technologies used. In this respect, Sandbox emerges as a very timely tool for adapting the

1 The requirements for access are that the project provides a technology-based innovation applicable in the financial system and that it is sufficiently advanced to be tested. In addition, innovative projects must contribute added value in at least one of the following manners: a) facilitating regulatory compliance; b) benefitting financial service users or increase customer protection; c) boosting efficiency of institutions or markets; or d) providing mechanisms to enhance regulation or financial supervision. Also, the supervisory authorities will take into consideration the impact of the project on the Spanish financial system.

2 Some of these projects (around one third) were either rejected by the SGTFI or were finally assigned to other supervisory authorities and, therefore, they were not formally assessed by the Banco de España. As regards the assessed projects, the main reasons for unfavourable assessment were: firstly, the lack of technology-based innovation applicable in the financial system; secondly, that the project is not useful or does not contribute added value with respect to existing uses; and lastly, the project's lack of maturity for testing.

3 The call for the third cohort took place on 22 December 2021. The application submission period will begin on 1 March and will end on 12 April 2022.

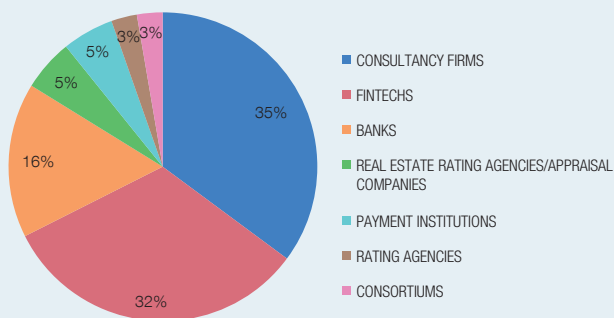
DIGITALISATION CHALLENGES: SANDBOX (contd)

financial authorities’ activity to the digital transformation of the financial system. In any case, it should be borne in mind that, since this tool is new, it will need to be adapted and improved. An example of the latter was the publication by the SGTFI of guidelines on access⁴ to the controlled test environment to be applied to projects submitted to Sandbox

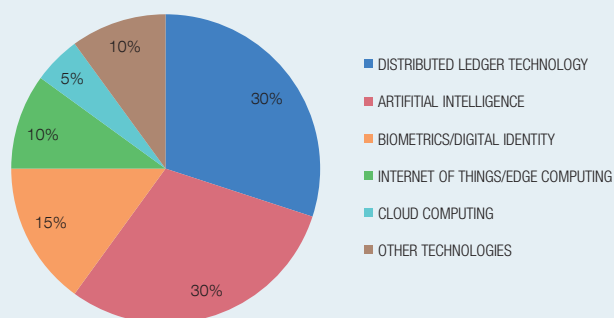
following their publication. These guidelines clarify issues such as the minimum information to be submitted, access requirements, types of communication between promoters and the SGTFI, and Sandbox deadlines. Lastly, the implications of Sandbox access for promoters are also clarified.⁵

Chart 1
PROMOTORS AND TECHNOLOGIES OF SANDBOX PROJECTS ANALYSED BY THE BANCO DE ESPAÑA

1 BY TYPE OF PROMOTOR (PROJECTS ASSESSED)



2 BY TYPE OF TECHNOLOGY (PROJECTS WITH FAVOURABLE PRIOR ASSESSMENT) (a)



SOURCE: Banco de España.

a Projects can use more than one technology. Technologies based on what the promotor reports in its request.

4 Available at <https://www.tesoro.es/solicitudes-para-el-espacio-controlado-de-pruebas>. The first version of these guidelines was published in June 2021. The second version was published in January 2022 for application to projects submitted from the third cohort onwards.

5 In accordance with Article 26 of Law 7/2020, supervisory authorities must include in this report an assessment of the implementation of the innovations tested in Sandbox and which are applicable to the enhanced performance of the supervisory function. However, as the testing of the first cohort has not yet been completed and the second cohort is in the protocol negotiation phase, the above-mentioned information will be included in future editions of this report.