



# PROGRESS REPORT 2020

THE DFSA'S INNOVATION PROGRAMME

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# FOREWORD

New technology is changing almost every aspect of our lives from financial services to healthcare and transportation to education, and the list goes on. This has been especially true of financial markets in recent years, with a wave of technological innovation. These changes have challenged financial services regulators to strike a balance between allowing innovation experimentation and safeguarding consumers who are the users of the products and services provided. The DFSA's Innovation Testing Licence (ITL) Programme was set up to encourage innovation in the Dubai International Financial Centre (DIFC) while protecting the market against risks.

The FinTech movement began as a disruptive force to traditional financial market participants. It has evolved over the past few years as a more transformative movement for the entire industry. All financial market participants, large or small, now have a technology strategy, and regulators need to keep pace with the new risks these strategies bring to the market and consumers.

Our ITL Programme was inaugurated in May 2017 as an experiment both for us and for the market. It has proven to be a success, and has enabled firms to conduct live tests of innovative ideas while deepening the DFSA's understanding of the risks and benefits that arise from new technologies. The ITL Programme complements another DIFC success story, the DIFC FinTech Hive. We have not stopped reflecting on how we can improve the ITL Programme, including critically assessing what we could do better, while also showcasing what has worked well.

As an early adopter, we had our initial views of what a sandbox should be. These have now evolved to include a more structured framework with a higher capacity. Importantly, we have maintained a clarity of vision and purpose,

which provides invaluable insights to all parties involved. As our ITL Programme matures, we will continue to make certain it is aligned to our own needs and those of our market.

This approach is important for any organisation, but particularly for regulators, as we have wider market safety and consumer protection mandates. We have an ongoing obligation to deploy our resources effectively and to produce results. I am pleased to say that there is a lot we do well. This includes how we deal with an increasing numbers of firms, how we have streamlined the process, and how we have identified our priorities.

This comes at an important time for the international regulatory community. We see increased cross-border cooperation through initiatives such as the Global Financial Innovation Network GFIN, where the DFSA is a founding member. Countries have also begun implementing the International Monetary Fund's Bali FinTech Agenda. The DFSA, which is a founding member of GFIN, has been fortunate to be able to learn from others as we have continued to develop our own thinking and approach.

Part of our thinking in publishing this Progress Report now, is to share our experiences with fellow regulators, the regulated community and other interested parties and stakeholders.

Our aim, when assessing sandbox candidates, is to identify business models that are applying new technologies in an innovative way. Although some of these may not succeed, the lessons learned from the testing can help inform better and more robust solutions, as well as more appropriate regulation, in the future.



Market innovation can be safely fostered and encouraged in several ways. The ITL is a key initiative for the DFSA, but it is only one component of our wider Innovation Programme. Overall, the Programme reflects the DFSA's strong and continuing commitment to support new and emerging technologies in the DIFC and to work with firms throughout the process.

**BRYAN STIREWALT**

Chief Executive

# 1. ABOUT THIS REPORT

## BACKGROUND

- 1.1 The purpose of this report is to provide insights into our experience of running a regulatory sandbox. We hope these insights prove useful both to the market and to other regulators that are considering their own activities in this area.
- 1.2 The term **sandbox** captures a wide range of different structures that, broadly, aim to support innovation. The challenges each sandbox faces will depend on the specific structure of that sandbox. This report focuses solely on the DFSA's Innovation Testing Licence Programme (ITL), which is a licence-based regulatory sandbox designed to facilitate innovation for financial services firms.
- 1.3 Since the inception of the ITL, the DFSA has met over 200 innovative financial services firms interested in testing innovative financial technologies. During that time, the DFSA has learned a great deal about the specific needs of firms whose business models are technology-driven and about their preparedness to be regulated. This heightened understanding has contributed to the evolution of our approach to dealing with such firms and the development of the structure and approach of the ITL.



## DIFC MARKET

The DFSA is the independent regulator of financial services conducted in or from the Dubai International Financial Centre (DIFC), which is a purpose-built financial free-zone in Dubai. The DFSA's regulatory mandate covers a wide range of financial services.\* Importantly, as a primarily wholesale financial centre, we do not accept start-up banks or retail banks, and we cannot deal in the UAE Dirham. This context is important in understanding some of the nuances of the DFSA sandbox and the wider regulatory regime.



\* Asset management, banking and credit services, securities, collective investment funds, custody and trust services, commodities futures trading, Islamic finance, insurance, an international equities exchange, and an international commodities derivatives exchange. For more information, please see the [DFSA Rulebook](#).

## 2. THE DFSA'S ITL PROGRAMME

### OVERVIEW

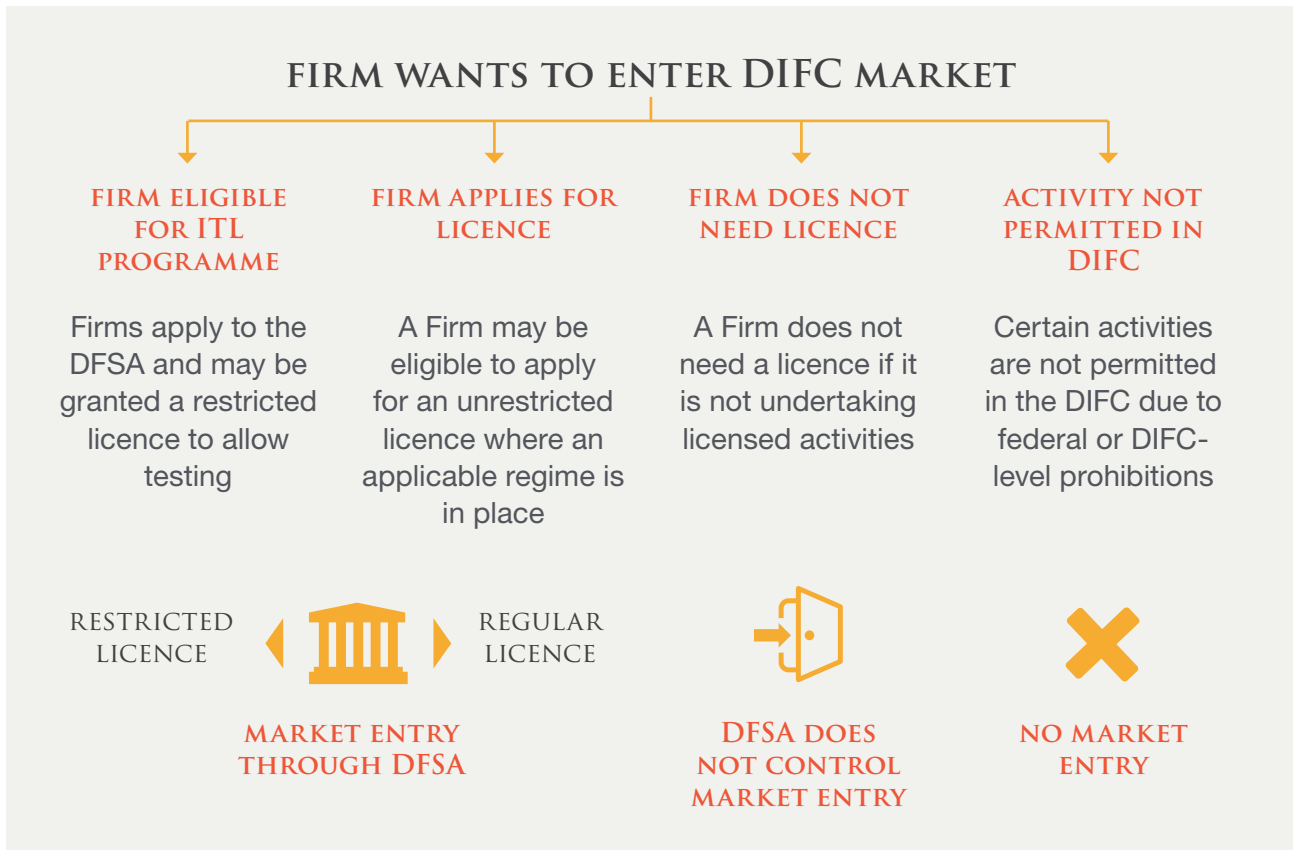
- 2.1 The ITL Programme was inaugurated in May 2017 and its first entrant received a licence in December 2017. It was created to contribute to, and support, the development of a Dubai and UAE ecosystem for technology-driven businesses. The ITL supports broader Dubai and UAE governmental initiatives in supporting innovation, including facilitating Small and Medium Enterprise (SME) development and promoting Islamic Finance.
- 2.2 The ITL is a controlled regulatory environment for firms to develop and test innovative ideas without being subject, during the testing period, to the full suite of regulatory requirements that would otherwise apply. This means that firms that receive an ITL have a financial services licence but with restrictions relating to, for example, the volume, value and scale of products and services they can provide.
- 2.3 This is an important point, as these limitations are an important way in which we limit (i) the potential market and customer impact if ITL firms have problems, and (ii) maintain, to the greatest extent possible, a level playing field between ITL participants and other regulated firms.
- 2.4 Importantly, as the ITL is a licensed regulatory sandbox, it is only available to firms that want to undertake financial services activities permitted within the DFSA regime and that meet ITL **eligibility criteria** (as a minimum). However, the ITL is just one of a number of ways an innovative firm may enter the DIFC market. Please see the diagram on page nine.

### SETTING UP THE ITL PROGRAMME

- 2.5 In 2016, the DFSA began considering how it would engage with technological innovation. At the time, the DFSA was clear that any support for innovation had to be offered in a way that did not prevent the DFSA achieving its regulatory objectives.



## HOW FIRMS CAN ENTER THE DIFC



## ITL OBJECTIVES

2.6 The ITL objectives were set as:

- Provide firms with an opportunity to develop and test innovative concepts;
- Develop the DFSA's understanding of the supervisory demands on a firm providing an innovative product or service;
- Develop the DFSA's understanding of the intended and unintended impacts of new technology on the DIFC and the broader financial services industry; and
- Require firms in the ITL Programme to develop incrementally an appropriate regulatory compliance framework, and relevant systems and controls, such that the firm is prepared, upon completion of testing, to make a seamless transition from the Programme to an unrestricted financial services licence.

### **DFSA REGULATORY OBJECTIVES**

FOR THE DFSA'S REGULATORY OBJECTIVES, SEE THE DIFC LAW NO. 1, 2004. AVAILABLE [HERE](#).

2.7 Importantly, the DFSA was able to structure the ITL within its existing licensing regime and did not have to undertake extensive regulatory or legal changes to put the Programme in place\*. This was due to the existing regime allowing for activities to be restricted and controlled, so limiting the risks posed by ITL participants to customers, markets and financial stability.

## ITL PROGRAMME

2.8 The DFSA has structured the ITL to allow eligible applicants accepted into the Programme to test in an efficient manner. The DFSA achieves this through taking a phased approach to the Programme and setting clear objectives and requirements for each phase.

2.9 The four phases of the ITL are:



### 1. COHORT APPLICATION

Applicants must meet the ITL **eligibility criteria** and submit a high-level cohort application setting out their business model, basic information about the company and an explanation of the innovative nature of their offering. The DFSA runs two cohorts a year, accepting applications through its online portal:

- **Summer cohort:** between 1 – 31 May
- **Winter cohort:** between 1 – 30 November

### 2. ITL APPLICATION

If an applicant is accepted into a cohort, they are then asked to complete the ITL Application Form, which includes completing a regulatory testing plan as well as further details of the business model and structure. This phase is particularly important as the DFSA heavily scrutinises the application and information provided to decide whether or not to grant an ITL. To begin with, the DFSA carries out an in-depth review of the business model, regulatory testing plan, and exit plan. This is followed by discussions on what waivers and modifications the DFSA may consider for the testing period and the commensurate restrictions on the scale and scope of the business activities the applicant can undertake\*\*. If an applicant is successful, it will be granted a restricted licence that enables it to undertake testing within the pre-agreed terms. Compliance with all the plans agreed during phase 2 is closely monitored by the DFSA in phase 3.

To understand more about the ITL Application, please visit [www.dfsa.ae/fintech](http://www.dfsa.ae/fintech) for examples of the application, or contact the DFSA at [fintech@dfsa.ae](mailto:fintech@dfsa.ae) for more information.

\* Although the DFSA did carry out considerable internal work to assess feasibility and benchmarking against other regimes, the DFSA was able to design the ITL structure within the pre-existing regime.

\*\* Federal Law requirements and certain DFSA Rules are never waived (e.g. those related to Anti-Money Laundering or Financial Crime Compliance requirements).

### 3. ITL TESTING PERIOD

Successful applicants will receive a restricted licence and will enter the testing period, during which their testing activities will be closely monitored by the DFSA as agreed in their regulatory testing plan.

### 4. ITL EXIT APPLICATION

At the end of the testing period, the firm may be eligible to apply to remove the restrictions and transition to an unrestricted financial services licence, subject to the firm having met the regulatory test plan objectives and being in a position to meet the DFSA's regulatory requirements.

2.10 The current structure already incorporates many of the enhancements and upgrades that are discussed in more detail throughout this report.

## 3. ITL PROGRAMME PROGRESS

### SUMMARY

3.1 In this section, we set out the areas we identified as potential risks to the Programme's success prior to the launch in 2017, or improvement areas we identified during the initial pilot stage of the Programme. To try and ensure these risks did not crystallise and negatively impact on the ITL, we identified structural and operational enhancements we could incorporate into the Programme to improve the ITL's efficiency and scalability. Most of these have already been implemented, and we continue to improve on the current structure and will do so in the future. We also discuss the overall impact the enhancements have had on the Programme.

3.2 A summary of some of the key risks we identified and the solutions we implemented are set out below.

AREA	RISKS	SOLUTIONS
A. COMMUNICATIONS AND MARKET AWARENESS	Applicants have an insufficient understanding of ITL objectives and structure	<p><b>CLEAR OBJECTIVES AND A STRUCTURED PROCESS</b></p> <p>The DFSA worked to define clear ITL Programme objectives and developed those into a structured process that fit into the DFSA's wider regulatory regime. This enabled scalability of the Programme and clarity of vision so that the ITL remains fit-for-purpose.</p>
	Applicants assuming that meeting eligibility criteria means automatic admission to the Programme	
B. FIRM EXPECTATIONS AND PREPAREDNESS	Applicants underestimating the preparation and resources necessary to enter the Programme	<p><b>COMMUNICATION, EDUCATION, AND RAISING AWARENESS</b></p> <p>The DFSA has put in place a comprehensive communications plan to facilitate effective market engagement throughout the ITL process.</p>
	Applicants having unrealistic testing expectations	
C. MARKET ENTRY	Applicants assuming ITL is the only way for innovative firms to enter the market	<p><b>CONTINUAL RE-EVALUATION OF THE SANDBOX</b></p> <p>The DFSA monitors the ITL and the effectiveness and efficiency of its processes and procedures on an ongoing basis and continually enhances its approach to the Programme. It regularly takes on board both internal and external feedback.</p>
	ITL not meeting its objectives if it is unable to minimise time to market	
	Applicants not having enough clarity on post-ITL requirements	
D. RESTRICTIONS	Restrictions being too onerous to support effective testing of the business model	<p><b>APPROPRIATE AND ADEQUATE RESOURCING</b></p> <p>The DFSA has enhanced its technical capabilities through a combination of external hires and internal upskilling, as well as through working across the organisation to broaden and deepen technical knowledge. The DFSA continually reviews its resourcing needs.</p>
E. RESOURCING	Insufficient regulatory resources or technical expertise	

## A. RISKS

3.3 In this sub-section, we set out risks to the ITL, including the potential impact of these risks on the success of the Programme. This is not a complete list, but key risk areas that we thought were particularly likely to have a negative impact on the Programme. The following section sets out the solutions the DFSA has built into the Programme to mitigate the risks set out here.

<b>A.</b>	<b>COMMUNICATIONS AND MARKET AWARENESS</b>
<b>RISK</b>	Applicants have an insufficient understanding of ITL objectives and structure

3.4 Even though clear regulatory objectives are set out at the inception, there is a risk that these might not be fully understood by applicants, or that there are misconceptions about the sandbox and its purpose (such as, in the case of the ITL, firms assuming the Programme would operate more as an Accelerator and not a testing environment; that it was the only way for innovative firms to enter the market; or that it meant such firms were subject to “light touch” regulatory oversight).

3.5 This risk is exacerbated by the fact that many innovative firms have a lack of experience in being regulated (meaning they may not understand the DFSA’s regulatory objectives and therefore regulatory testing environments).

3.6 The potential negative effects of this risk would be inefficiencies in the ITL process (e.g. dealing with enquiries from firms that were not sufficiently prepared to enter the Programme or did not meet the eligibility requirements, which would draw resource away from eligible firms), and reputational risk for the Programme itself (e.g. that strong candidates would not apply if they did not know what the purpose of the Programme was).

<b>B.</b>	<b>FIRM EXPECTATIONS AND PREPAREDNESS</b>
<b>RISK</b>	<p>Applicants assuming that meeting eligibility criteria means automatic admission to the Programme</p> <p>Applicants underestimating the preparation and resources necessary to enter the Programme</p> <p>Applicants having unrealistic testing expectations</p>

- 3.7 The DFSA was very conscious of the need to manage firms' expectations, so that they had realistic expectations of what they needed to put into the Programme and what they would get from the Programme. This included helping firms understand the requirements to be eligible for, and admitted to the ITL; making clear to firms the work required to get in, and then to graduate from, the ITL; and taking steps so that firms understood what testing meant.
- 3.8 This risk was particularly high because a sandbox can be a generic term. Firms need to understand what it means to test in the DFSA's live regulated environment. Many innovative firms have founders with a background in technology, but not regulated financial services. This can often lead to an insufficient understanding of the regulatory requirements, which then leads to a lack of preparedness to test in a regulated environment. This lack of preparedness often manifests in insufficient resourcing.
- 3.9 Misaligned expectations and insufficient preparedness could have led to delays in the ITL process and would then have drawn supervisory resources away from those firms who were ready to begin testing. This would have impacted negatively on both the DFSA and firms from a resourcing and planning perspective.

C.	<b>MARKET ENTRY</b>
RISK	<p>Applicants assuming ITL is the only way for innovative firms to enter the market</p> <p>ITL not meeting its objectives if it is unable to minimise time to market</p> <p>Applicants not having enough clarity on post-ITL requirements</p>

- 3.10 An issue that sandboxes, in general, are trying to solve is reducing the time to market for new and innovative firms. But because the ITL is and was conceived to be a licence-based sandbox (and not, for example, an exemption from a licence), the DFSA needed to maintain minimum regulatory thresholds that enabled the DFSA to meet its regulatory objectives. A key risk was that it would be difficult to strike an appropriate balance between reducing the time required for firms to enter the market, and maintaining high regulatory standards.
- 3.11 A further risk identified by the DFSA was around the exit from the ITL and what would happen to firms after the Programme. Without a clear exit path, the DFSA was concerned that strong candidates would not pursue it, or the positive effects of the ITL would effectively be cancelled out.

3.12 In considering potential delays to the ITL process, the DFSA considered the core stages of the process (Pre-application; ITL Application phase; and Exit Application phase) and focused on the lack of defined timeframes and delays in the time required for DFSA to process applications. The DFSA also considered the reasons why delays may occur on the part of firms, including firms not securing funding, late-stage changes to business models, strategic decisions, operational issues, or simply because many ITL firms are start-ups with limited operational experience.

3.13 Delays in time to market would have a negative impact on both the DFSA and ITL firms, from a cost, resourcing, and opportunity perspective. Similarly, it was important to ensure there are clear exit strategies and processes that would enable successful firms to leave the ITL. Delays on the ITL exit side would have a negative impact on how quickly firms would be able to grow their businesses post-Programme.

<b>D.</b>	<b>RESTRICTIONS</b>
<b>RISK</b>	Restrictions being too onerous to support effective testing of the business model

3.14 A key risk the DFSA identified was the need to set appropriate restrictions for firms. These would need to permit a level of business activity that enabled effective testing, while at the same time reducing the impact of adverse outcomes. The DFSA would need to ensure some level of consistency between ITL participants, accounting for differences in their specific business models.

3.15 In setting restrictions, the DFSA would need to consider the underlying characteristics of the business model and what testing that business model required in practice. For example, volume-based activities would need more flexible restrictions than other types of activities because if the restrictions are too limiting, the testing of the underlying technology may not be very effective. However, where restrictions were too flexible, the risks to the market (particularly consumers) may be unacceptably high. There is also the issue of maintaining an appropriate level playing field with existing, fully licensed firms. The DFSA needed to strike an appropriate balance, and where that could not be maintained between a restriction level that supported testing and a level that sufficiently reduced the risk to the market and customers, the DFSA would need to decide whether the ITL Programme was the appropriate framework for the firm in question.



E.	RESOURCING
RISK	Insufficient resource or technical expertise

- 3.16 A key challenge for most regulators is ensuring appropriate resourcing. This was particularly important for the ITL Programme when it was launched because the Programme required both enough resource and for that resource to have the necessary skillsets. The former included ensuring enough resource to be able to engage actively with the market, which is resource-intensive but important to the success of the Programme. The latter required a combination of regulatory, supervisory, financial services, and technology skills that are not always easy to find.
- 3.17 Appropriately staffing a sandbox was also expected to be difficult because the interest in the sandbox from one cohort to the next would not be known (as the DFSA did not wish to initially set caps on the number of firms, or limit the types of business models, it would accept into a given cohort). There was, therefore, a risk that the ITL would remain either under or over-staffed as demand cannot easily be gauged at the beginning. The specific type of skillsets and experience required can also be difficult to plan for and depends heavily on the types of firms that apply (e.g. blockchain or distributed ledger technology, APIs, machine-learning or artificial intelligence).
- 3.18 If a sandbox is not appropriately resourced, it risks failing to meet its objectives and the regulator risks having a sandbox only in name. The quality of resource can also have a major impact on whether the evolving risks posed by innovative firms are appropriately identified prior to a firm entering the ITL and then mitigated appropriately throughout the testing period.

## B. SOLUTIONS

3.19 The DFSA's view is that the ITL is not a static Programme – it needs to evolve and to mature, incorporating structural enhancements and operational efficiencies, to effectively facilitate innovation testing. Broadly, the key solutions fall into the categories set out in further detail in this section.

### CLEAR OBJECTIVES AND A STRUCTURED PROCESS

3.20 The DFSA did considerable work so that the objectives of the ITL Programme were clearly defined at a sufficiently granular level. This started with identifying the overarching objectives that defined what the ITL aimed to do and what it would offer both to the market and to the DFSA. The DFSA then worked through how it would achieve those ITL objectives, and how it would do so while maintaining the DFSA's regulatory objectives. These were then used as a foundation around which the operational framework of the ITL was developed.

3.21 Creating a detailed operational framework was important as it helped ensure clarity and consistency in how the ITL would be run and how firms would be treated within it. In developing the framework, the DFSA put a strong emphasis on creating an approach that could be scaled, and which would be transparent and fair in how it was applied. The applicable policies and procedures needed to be fit-for-purpose and proportional. As such, working drafts of the intended approach were first created when the ITL was initially being piloted, which allowed the DFSA to work out any early issues prior to putting in place more finalised approaches at the end of the ITL pilot period.

3.22 The operational framework included:

- An internal programme policy;
- Internal policies and procedures with clear objectives and approved messages;
- An independent internal governance process;
- A cohort-based approach with clear application phases and fixed timelines;
- A communications plan; and
- An applicant education/awareness plan.

3.23 Establishing sufficient granularity in the objectives and the operational framework has been important in ensuring that the DFSA continues to run the ITL in a way that is consistent with the DFSA's regulatory objectives.

## COMMUNICATION, EDUCATION, AND RAISING AWARENESS

3.24 The DFSA found it could greatly enhance the Programme's operational efficiency by putting in place an effective communications strategy, with clear and consistent external messaging, and sufficient externally-available information. Additionally, the DFSA understands that many firms don't possess a complete understanding of financial services regulation. In response, the DFSA has put in place a communication strategy that seeks to **communicate consistently** and **communicate early and often** with firms.

### COMMUNICATION STRATEGY

- The DFSA created a communications strategy that focused on efficient ways to communicate with the market and highlighted the types of communications it would undertake related to the ITL. This focused on identifying key messages and disseminating information to groups, not individuals (e.g. training sessions for the cohort, publicly-available website information, or key messages in speeches and at conferences).
- The communications strategy includes a communications calendar, with communications planned on an annual basis, including key strategic events both internationally and locally that the DFSA will prioritise. This calendar also keeps track of key messages.

### DEFINING KEY MESSAGES

- Internally, the DFSA defines the key messages related to the sandbox and makes these available to all relevant staff to enable them to speak knowledgeably and consistently on the Programme and related topics. This also enables clarity and consistency of messaging, particularly in setting out what the ITL can and cannot accommodate.

## ADOPTING A FLEXIBLE COMMUNICATIONS APPROACH

- The DFSA has adopted a flexible approach to communications, which aims to foster an open dialogue with, and more collaborative engagement from, innovative firms. The DFSA aims to establish rapport through frequent meetings and the use of multiple communication channels. This has also helped messaging to be both tailored to the audience and more readily understood, minimising the likelihood of misunderstandings.

## ASSUMING REGULATION IS NEW TO INNOVATIVE FIRMS

- The assumption that regulation is new to innovative firms has helped the DFSA tailor its messages and style more effectively and to provide firms with enough information to make sure they understand expectations and requirements clearly – this has increased the likelihood of effective compliance.
- The DFSA has rolled out a training session on regulation and the ITL that is open to all firms accepted into the ITL Cohort. The session assumes no prior knowledge of regulation and aims to give a foundational background to firms as to what it means to be regulated, how the ITL will operate, what the DFSA’s regulatory expectations are, and a reminder of the DFSA’s regulatory objectives.

## IDENTIFYING ITL PROGRAMME CHAMPIONS

- The DFSA encourages external stakeholders (e.g. consultants, local accelerators) to understand the DFSA’s ITL Programme and related processes so that they can help disseminate the information across the market. These stakeholders effectively operate as ITL “champions”.

3.25 The ultimate goal is that the DFSA has clear, consistent, and widely communicated messages on the ITL Programme. Through building an understanding of the Programme, the DFSA has seen an increase in applications from eligible candidates and an increase in applicants’ understanding of the purpose and structure of the Programme.

3.26 The DFSA sets out its top tips for communicating effectively below.

TOP TIPS FOR EFFECTIVE COMMUNICATION	
FOR REGULATORS	FOR APPLICANTS
Make information available online	Be brief and concise
Do market outreach	Do not market to regulators – they are not potential investors or clients
Communicate consistently	Know the risks your business faces (regulatory vs. commercial)
Be transparent	Use the resources regulators make available as a first port of call – come informed
Do not be afraid of change – try new approaches	Be transparent with regulators about testing, especially where something has not worked

## APPROPRIATE AND ADEQUATE RESOURCING

- 3.27 The DFSA has found that senior management support is central to resourcing, but in order to achieve that support it is important to be realistic about staffing requirements, particularly at the beginning. The DFSA has been very fortunate in having a supportive senior management. This has been integral to staffing and continually resourcing not just the ITL but the wider Innovation Programme.
- 3.28 Through the life cycle of the ITL, the resourcing needs have continued to evolve and change. Therefore, having a flexible approach, including frequent reassessments and identification of flexible solutions, has enabled the DFSA to meet its resourcing needs on an ongoing basis. As part of this flexible approach, the DFSA has sought to build its resource capabilities as required and through a realistic assessment of the types of specialisms needed at a given time.
- 3.29 Given the DFSA is a small regulator, it has experience in working flexibly, which includes working cross-organisationally and on multiple projects at one time. Therefore, the ITL was started using existing supervisory resources. As the Programme has grown, a dedicated team was formed and additional resources have been brought in to complement existing internal skillsets.
- 3.30 The DFSA continues to invest in upskilling all staff across emerging innovation and technology core skills across the organisation. The innovation and technology the DFSA sees in the ITL is understandably also permeating through traditional financial services business models. As a result, it is increasingly important for all regulators to build a solid understanding of these technologies and their associated risks as part of day-to-day supervision.

## CONTINUAL RE-EVALUATION OF THE ITL PROGRAMME

- 3.31 The structure of the ITL Programme has been iteratively developed since the ITL was first launched and has undergone numerous enhancements. Enhancements to the original approach (e.g. where the DFSA accepted applications on an ad hoc basis) include the implementation of a biannual cohort process with strict application deadlines and defined milestone timelines. If applicants do not meet these, their application is deferred to subsequent cohorts or rejected altogether.
- 3.32 At present, and in consideration of its core objectives, the structure of the ITL Programme is fit-for-purpose. However, each time a cohort of firms is taken through the Programme, the DFSA learns something new and identifies improvements to how the Programme can be run. For example, the DFSA began offering a bespoke training session on regulation, regulatory expectations and the ITL for cohort firms after it became clear many did not have a strong understanding of what it meant to be regulated. Similarly, the DFSA is currently piloting a test plan template across incoming firms. This was developed as many firms had varying views on what constituted a testing plan and the level of detail required. The template should help provide information on the DFSA's expectations as well as helping standardise the process for developing such plans and to help ensure some consistency across innovative firms.
- 3.33 It would be incongruous for a Programme that - by its very nature - is meant to facilitate innovation to remain static. In line with that, the DFSA approach of continual re-evaluation of the Programme helps to address any inefficiencies in a timely and transparent manner as well as helping the DFSA future-proof the Programme (e.g. incorporating changes that enable scalability). However, for a Programme to operate it does require a certain operational structure. As such, a proportionate approach is key and the DFSA strives to strike a balance between encouraging innovation and mitigating risks.

## 4. CONCLUSION

### WHAT WE HAVE LEARNED

- 4.1 Overall, the ITL has been a valuable and successful Programme for the DFSA. The Programme has been integral in developing a deep level of understanding in regards to the expectations and preparedness of innovative firms wishing to operate in a regulated environment. It has also developed the DFSA's understanding and preparedness for supervising such firms.
- 4.2 Running the ITL is not a small endeavour. It requires resource, time, and clarity of vision, as well as adaptability and flexibility in the process. There has also been a steep learning curve for all participants that continues with each firm that applies and is selected to go through the ITL. As such, the DFSA is pleased that it focused significant effort in establishing appropriate objectives and developing a strong operational structure that have served as a solid foundation for the Programme from the beginning. These have been critical to the success of the ITL and to enabling it to provide tangible benefits both to the market and the DFSA.
- 4.3 In recent years, there has been a broad regulatory acknowledgment of the importance of thinking outside the box and considering new ways of deploying effective supervision. This attitude has helped develop the concept of regulatory sandbox programmes. However, there are a wide range of programmes and initiatives that regulators can utilise to support innovation. A regulatory sandbox is not the only approach. Regardless of the approach an authority chooses, the authority must focus on facilitating innovation without jeopardising its regulatory objectives. As set out in this Progress Report, sandboxes such as the ITL Programme are not necessarily the easiest routes to market, nor are they appropriate for all innovative firms. Rather, the ITL should be seen as one of many routes through which innovative firms can enter the DIFC market, and one that requires commitment from applicant firms.
- 4.4 It is the view of the DFSA that the success of the ITL Programme is not just based on the number of firms that go through it. Instead, the DFSA takes a much broader view and looks to the Programme to be a means of engaging with and educating the innovative community, developing understanding of the regulatory environment, and building appropriate and proportionate regulatory responses and frameworks. From that perspective, the ITL has provided, and continues to provide, material benefits to all stakeholders. As such, it will operate for as long as it continues to serve its purpose. The Programme will continue to evolve and the way in which it supports the market in the future may be different from today. But it is clear to the DFSA that the Programme has been worth the sizeable effort and has proven itself to be valuable both to the DFSA and to the development of the broader innovation ecosystem in the DIFC, in Dubai and the UAE.



# THE DFSA ITL PROGRAMME



OVERARCHING LESSON			
INCEPTION PHASE	GROWTH PHASE		MATURITY PHASE
Clear objectives and a structured process	Communication, education, and raising awareness	Appropriate and adequate resourcing	Continual re-evaluation of the ITL Programme
KEY DETAILED LESSONS			
Be clear and transparent in expectations with firms.	Be prepared to educate firms on the role of regulation.	Do not underestimate resourcing needs.	Continue to adapt and enhance the Programme.
Focus on quality over quantity.	Do not assume and provide adequate information.	Build internal buy-in and understanding of the Programme.	Be adaptable in finding better and different ways of doing things.
Develop a proportional structured process – its ok to start small.	Make information available for firms through numerous channels (e.g. website or training sessions).	Use resource from across the organisation to develop technical knowledge and invest in training.	Continually focus on striking a balance between encouraging innovation and mitigating risks.

## 5. TIPS FOR THE MARKET

### INTERESTED IN APPLYING TO A REGULATORY SANDBOX?

- 5.1 If you are interested in applying for the DFSA ITL Programme, please first look through the information provided in this document and specifically on this page to help you prepare for your application. Consider how ready you are, that you are interested in testing in the DIFC jurisdiction, why you think you need to test through a sandbox, and why other methods of market entry are not appropriate for you.
- 5.2 Next, do your research. Understand the sandbox and regulatory framework details and ensure you are informed before you initiate regulatory discussions. This includes ensuring your business model is developed and that you are prepared to have a detailed and thought-through discussion.
- 5.3 If something is still unclear, do not be afraid to ask.

#### KEY FEATURES OF THE DFSA ITL PROGRAMME

- Firms operate under a DFSA Financial Services Licence
- The DFSA places client and business level restrictions and conditions on the licence
- Firms may receive some waivers and modifications to DFSA Rules for the duration of the testing period
- The testing period is up to 12 months
- The Programme accepts applications twice a year:

##### **Summer Cohort (May)**

##### **Winter Cohort (November)**

- Firms must meet Programme eligibility criteria
- The DFSA undertakes close and continuous supervision during the testing period (with frequent meetings and feedback)
- DFSA fees have been capped at USD 5,000 for the entirety of the ITL Programme period

## PREPARING APPLICATIONS

Top tips on preparing sandbox applications and key considerations for firms.



### **KNOW YOUR AUDIENCE:**

The cohort application allows you to summarise the business model clearly. Use enough information for the regulator to get a full picture of the proposed service during and after the testing period. Do not treat it as a marketing pitch.



### **BE SPECIFIC:**

The business model should be very clearly stated and defined. As much detail about the business as possible should be provided (e.g. specific asset classes and market segments). General overviews without details will only delay the application.



### **TWO-WAY COMMUNICATION IS KEY:**

The DFSA endeavours to provide a decision to applicants within six weeks; however, that depends heavily on timely and accurate responses from firms.



### **ENSURE COMMITMENT:**

The application process is resource-intensive for firms and the DFSA. It is important to commit to the process from start to finish. Lack of commitment from the firm may result in the application being postponed to the following cohort or rejected.



### **BE READY TO TEST:**

Come with an idea that is developed and ready to test. The DFSA may engage with firms in earlier stages, but expects any firms applying for the Programme to be ready to start testing.



### **CLARITY IN TESTING PLANS:**

The sandbox is not intended to give a competitive advantage and firms need to be clear about what they are testing and why.



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