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HOW THE REGULATORY SANDBOX WORKS: UZBEKISTAN AND INTERNATIONAL PRACTICE

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Annotation
Regulatory sandboxes have become a crucial tool for fostering financial innovation while maintaining oversight. They provide controlled environments where fintech products, digital investment platforms, and crypto-assets can be tested in real market conditions under temporary regulatory relief. This article examines the sandbox concept through international models, particularly the United Kingdom and Singapore, and explores Uzbekistan's emerging regulatory framework for digital finance and stablecoins. Key components of the sandbox process include strict participant eligibility criteria, defined trial periods, transaction and customer limits, temporary exemptions from certain rules, and continuous monitoring and guidance. Properly designed and implemented, sandboxes can foster innovation, attract investment, and strengthen the digital economy while ensuring financial stability and investor protection.
Keywords: Regulatory sandbox, sandbox process, fintech, digital finance, crypto-assets, stablecoins, experimentation, investor protection, Uzbekistan.

The technological revolution in the field of modern financial services is proceeding at a rapid pace. These changes not only create economic opportunities, but also pose new challenges for state control and regulatory bodies. On the one hand, it is necessary to stimulate innovation and develop a competitive environment, and on the other hand, it is important to protect consumer rights and ensure financial stability.

It was these processes that led to the emergence of the concept of a "regulatory sandbox." Introduced in 2016 by the UK Financial Services Authority, this method is currently being implemented in many countries.[1] A regulatory sandbox is a special legal regime that allows for the testing of innovative products and services under control, in real market conditions, but within limited parameters.

Regulatory "sandbox" is the application of temporarily lighter procedures for testing a new financial service or product within the framework of current legislation. Uzbekistan will introduce a regulatory sandbox for digital startups in 2022-2027. In accordance with such a special regime, for example, in 2025-2027, a sandbox test procedure will be introduced in the field of digital startups. From October 1, 2025, to October 1, 2026, a sandbox for investment platforms is planned[2].

Influential scholars such as Ross Buckley, Douglas Arner, and Dirk Zetzsche emphasize the importance of the sandbox, highlighting its crucial role in building a financial innovation ecosystem. According to their research, sandboxes are most effective when used in

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conjunction with innovation hubs. While the Innovation hub provides consultation and guidance services, the sandbox allows for experimentation in real market conditions.[3]

The main elements of the sandbox are:

Strict access criteria: Not all companies have access to the sandbox. In the experience of the UK FCA, only 16% of applicants are admitted[4]. The main requirements include genuine innovation, clear benefits for consumers, the need to test in a sandbox, and an appropriate level of preparedness.

Participants will be granted an exemption or relaxation from temporary regulatory requirements. This can be done in the form of a letter stating that limited licenses, exceptions to certain rules, or no control measures will be taken. However, requirements for consumer protection, data privacy, and the fight against money laundering will never be abolished[5].

Specific parameters and restrictions: The Sandbox sets parameters such as trial period (usually 6-12 months), number of customers (for example, 1,000-10,000 people), transaction volume, and geographical location. This implements the principle of "fail small, learn fast."

Intensive monitoring and support: Companies participating in the Sandbox are assigned special curators, regular monitoring is carried out, and expert advice is provided. This is fundamentally different from traditional remote control.

Hilary Allen, as a professor of enlightenment law at Georgetown University, puts forward a critical view of sandboxes, arguing that the main danger of sandboxes lies in the possibility of "regulatory capture."[1] That is, as a result of close cooperation between regulatory bodies and companies, regulators may be overly favourable disposed. Allen acknowledges that in sandboxes, consumers are likely to be involved in testing real products, including not having complete information about risks. At the same time, he acknowledges that sandboxes can be useful if they are properly designed, but emphasizes that consumer protection and transparency should be prioritized in this process.

Another prominent scholar, Christie Ford and Quinn Ashkenazy, discussed the application of the sandbox to the field of legal services in their 2024 article "The Legal Innovation Sandbox"[6]. They argue with evidence that sandboxes can be more useful in the legal services sector, unlike in the fintech sector. Ford and Ashkenazi note that the key normative assumptions of the sandbox - that innovation is self-sustaining, that the market selects bad ideas, and that a private sector-based strategy serves the public interest - are unusual and sometimes alarming in the context of legal services, although finance is common in regulation. However, in their articles, they emphasize that the sandbox approach is actually particularly promising in developing legal innovations, promoting public interests, and addressing the crisis of access to justice.

Regulatory sandbox mechanisms became widespread globally with the launch of the world's first official sandbox by the UK Financial Services Authority in 2016.[7] The experience of Great Britain has served as a model for many countries.

The UK model is based on conducting practical experiments with real customers in real market conditions. The system operates by issuing limited licenses, providing individual regulatory guidelines, and temporarily exempting from certain rules. Initially, it accepted companies in the form of a group once every six months, but from 2021 it switched to the "always open" model[8].

The Singapore Monetary Authority launched its sandbox in November 2016 and became the most effective model in Asia[8]. Singapore offers three different formats: a simple

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Sandbox for complex business models, Sandbox Express as a quick route and Sandbox Plus, which provides cross-border testing. The Singapore model operates as an integral part of a comprehensive fintech ecosystem, rather than a separate initiative. The FinTech Innovation Hub provides consulting and the Financial Sector Technology and Innovation Program provides funding with grants of up to fifty percent of the project costs[9].

Responsibility for regulating the fintech and digital finance sector in the Republic of Uzbekistan is distributed among several bodies: the Central Bank oversees traditional financial services and digital payments, while the National Agency for Perspective Projects (NAPP) oversees crypto assets and digital finance innovations.

On October 14, 2024, Resolution No. PR-357 of the President of the Republic of Uzbekistan approved measures for the further development of the startup projects and venture financing ecosystem. This resolution provides for the creation of support mechanisms for fintech startups, ensuring favourable conditions for their development, and the use of international experience[10].

Starting from 2026, residents of Uzbekistan will be granted the right to issue tokenized stocks and bonds. That is, companies will be able to put their assets on the exchange through digital tokens. For this purpose, it is planned to create a special electronic trading platform. Starting January 1, 2026, a regulatory sandbox for stablecoins will be launched in Uzbekistan. This special legal regime ensures that stablecoins operate under control as a means of payment. NAPP and the Central Bank carry out joint control.

Buckley, Arner, and Zetzsche emphasize the compliance of sandboxes with international standards and require special precautions for high-risk innovations such as stablecoins.[3] In their opinion, stablecoins require strict requirements for money laundering, terrorist financing, and consumer protection.

A study published in 2024 by Sofia Ranchordas and Valeria Vinci analyzes the complex relationship between sandboxes and innovative regulation[12]. They point out three main problems of sandboxes: firstly, there is no consensus on what innovation development means and how it is achieved; secondly, there is a lack of clarity on the definition and operation of the sandbox; thirdly, there is a risk of regulatory coverage due to close cooperation between regulators and regulators. Analyzing the experience of Italy, they emphasize the need to ensure transparency, objectivity, and accountability in the implementation of sandboxes.

Conclusion. A number of important initiatives are being implemented in Uzbekistan to regulate digital investments. In order to create a favourable environment for online investment platforms and crypto-assets, a special regulatory sandbox regime is being created. Through this, new financial mechanisms such as crowdfunding and tokenization will be tested, and customer protection will be systematically ensured. All activities are under NAPP control, and KYC/AML standards and cybersecurity requirements are strictly observed. New documents - Presidential decrees and draft laws - are being developed based on international standards. For example, from 2026, permission to issue tokenized shares and recognition of stable tokens (stablecoins) will be established. At the same time, the responsibility for illegal operations with digital assets is clearly defined in the codes (criminal liability, administrative measures). The above events will serve as an important foundation for the introduction and development of modern investment instruments in Uzbekistan, creating a safe environment for investors and society.

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With proper design and effective implementation of sandboxes, Uzbekistan can become a powerful tool for developing the digital economy, attracting international investment, and strengthening its position as a fintech hub in the region. However, transparency, accountability, adherence to international standards, and commitment to continuous learning will be key factors on this path.

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