

Regulatory Sandboxes and Fintech Funding: Evidence from the UK

A Discussion

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This paper...

Do Regulatory Sandboxes allow new fintech companies to raise (more) capital?

Look at the admission of fintech startups into the FCA Regulatory Sandbox

Different fintechs admitted at different times, allowing a staggered diff in diff analysis

Regulatory Sandboxes

- Fintech startup firms present several risks
 - Regulatory risks... Does the company comply with current regulation?
 - Does it raise new regulatory issues?
- Sandboxes allow to “test” the start-up in a controlled environment under the direct supervision of the regulator
- Reducing risks and asymmetric information

The Results

- Firms admitted to a regulatory sandbox are more likely to raise funding... admission to the sandbox is associated with a 15% increase of funding
- The effect is stronger for younger and more opaque firms
 - Interpreted as supportive of asymmetric information theories
- Results is robust to the inclusion of
 - Investors×Date Fixed effects
 - Firms×Date Fixed effects

Overall

- Very Nice and well written paper
- New and Interesting Contribution
- Lots of attention paid into identification

Comments:

1. Go to the next level
2. Is the Sandbox a marketing device? Or does it convey relevant information?
3. Various

Regulatory Sandboxes: Perspectives

1. The FCA says the sandbox helps it understand new technologies — and any associated risks — before products hit the mass market
2. There now appears to be a race to the bottom among regulators to set up the most "light-touch" possible regimes so as to attract start-ups to their jurisdictions — whether or not they are offering consumers and investors anything useful. Sandboxes are a part of that. [...] The biggest reason firms want to be in their sandbox is the PR value it brings ([Financial Times](#), December 5 2018)

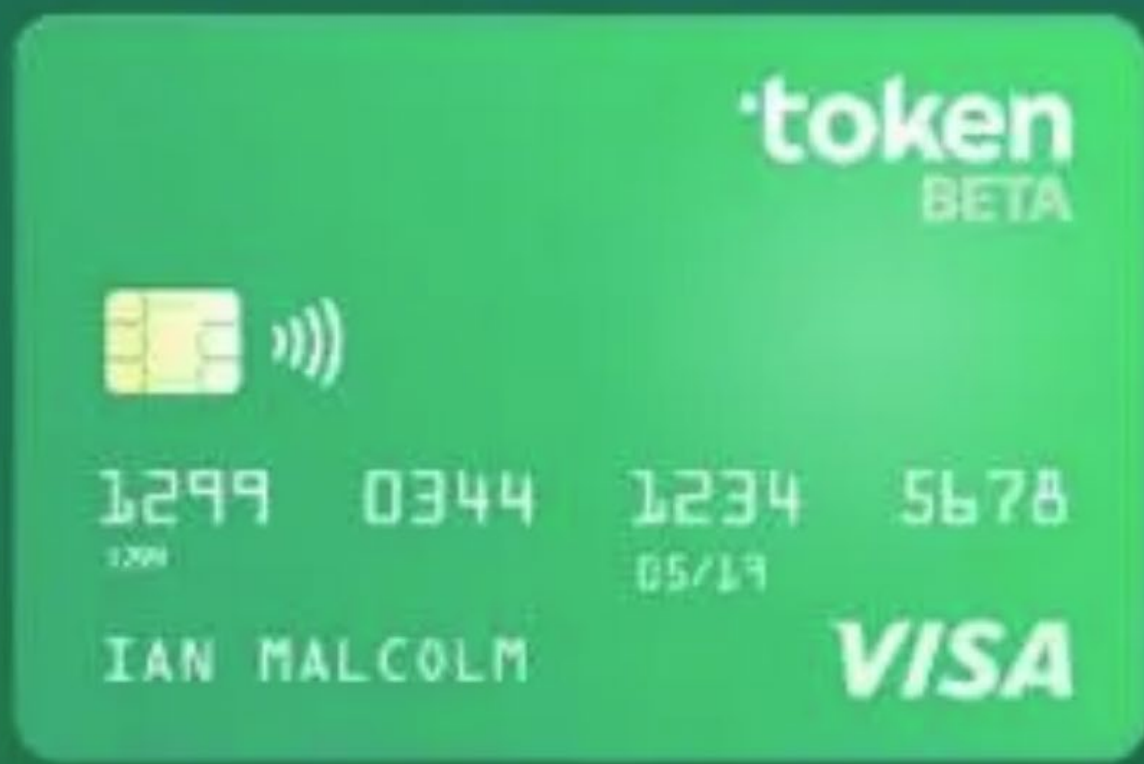
Token Card

“

Monolith Studio's TokenCard closed its token launch Tuesday, May 2, 2017, after exceeding its crowdsale goal in mere minutes.

TokenCard is the first debit card powered by smart contracts incorporating the VISA payments network with Ethereum. It immediately gained attention in the Ethereum community after its announcement and quickly reached and surpassed contribution goals for this one-of-a-kind project. For the first time, token holders will be able to use **Ether as well as other ERC20 tokens to purchase items anywhere that accepts VISA debit cards.**

TokenCard: Smart Contracts + VISA



Token Card

To the contrary, a spokesman from Visa Europe told us on Friday that:

“

At this point I'm unable to establish any business relationship between Visa and this company. Our lawyers are looking into this and I will come back to you if I have any further insight.

[Financial Times](#), May 8 2017

token

Be Your Own Bank



1234

5678

9012

3456

1234

JOHN SAMYER

Performance

- Knowing that admission to the Sandbox increases finance is important... but..
 - Do Sandboxes admit good firms?
 - Do Sandboxes contribute to make the business of good firms viable?
- Degrees of transparencies in ICOs?
- Still interesting to look at survival... especially for the first cohorts...
- Google Searches?
 - In the first cohort:
 - BitX rechanged its name in Luno and it is thriving crypto platform
 - Tramonex offered digital remittance services but disappeared

Google Searches

● **tramonex**
Search term



+ Compare

Worldwide ▾

2004 - present ▾

All categories ▾

Web Search ▾

Interest over time 



Google Searches

● Luno
Search term



+ Compare

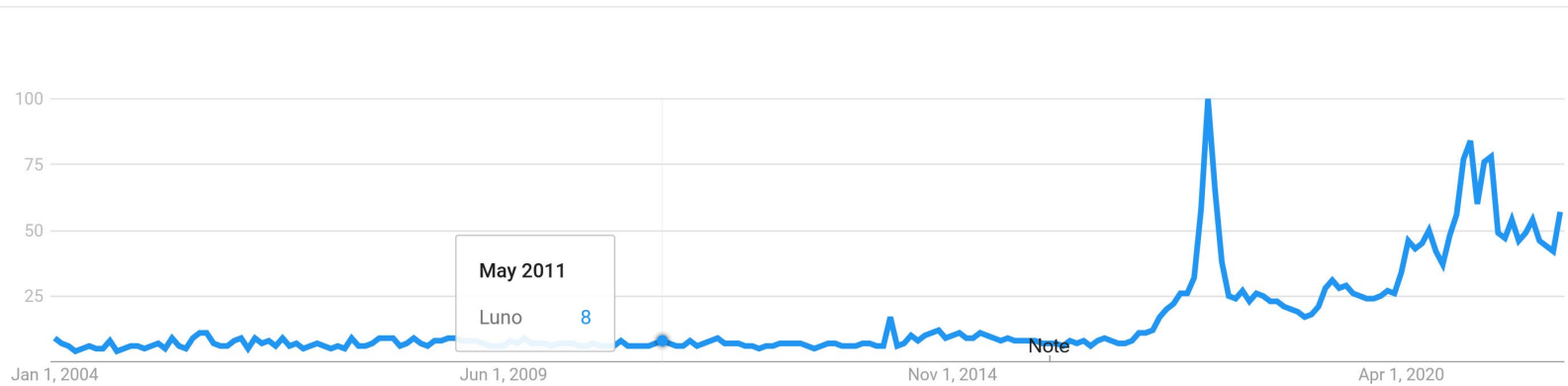
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2004 - present ▾

All categories ▾

Web Search ▾

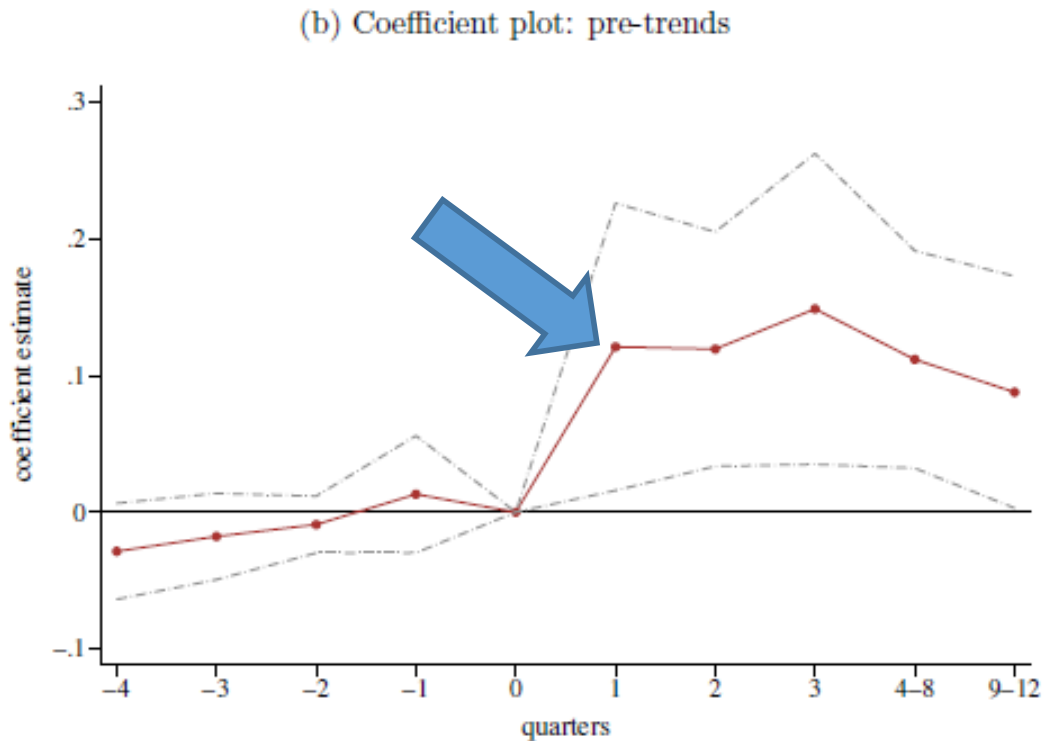
Interest over time ?



Sandboxes as a testing environment

- Sandboxes provide an environment where new technologies are tested against existing regulation
- Successful experiments should spillover into other firms:
 - After graduation, do we observe more entries of firms operating in similar fintech segments of sandbox startups?
 - Are sandbox firms' patents more likely to be cited?

What does the sandbox do?



What is important? Being admitted into a Sandbox? Or graduating from a Sandbox?

What does the sandbox do?

- PitchBook data are at higher frequency than a quarter
- Look at the precise moment of the financing... at admission?
Towards the end? Related to any information released by the FCA?
- Can you fail the sandbox test? Does this have an effect on the financing?

Other comments

- Put more on the forefront the analysis with the matched control group
- Rather than assigning investment, check the probability of investment
- More discussion on economic significance

Summarizing

- Very nice and relevant paper: both for academics and policy markers
- Push further the performance analysis
- Try to understand what the Sandbox does
 - Certification or actual information?