

MFSA REGULATORY SANDBOX

FAQs

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REVISIONS LOG

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Question 1 What is the MFSA FinTech Regulatory Sandbox?

As envisioned within the MFSA Fintech Strategy, the Authority seeks to establish Malta as an international FinTech hub which harnesses and fosters sustainable innovation, and this is exactly what the establishment MFSA FinTech Regulatory Sandbox ('the Sandbox') strives to achieve.

The Sandbox will provide a regulatory environment for FinTech operators to test their innovation for a specified period of time within the financial services markets, under certain prescribed conditions.

The initiative aims to encourage innovation in a sustainable manner whilst offering true value and protection to consumers of financial services. It will also act as an enabler to enhance legal certainty within the market and encourage knowledge sharing through collaboration and open dialogue.

Question 2 Who is eligible to participate?

The Regulatory Sandbox welcomes start-ups, technology firms and established financial service providers which endorse technologically-enabled financial innovation in their business models, applications or products.

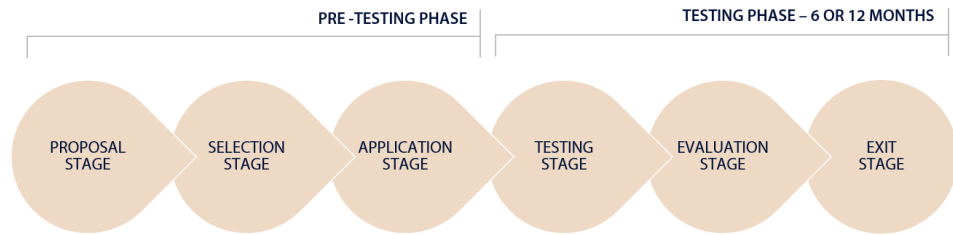
Question 3 What are the required eligibility criteria to participate in the Sandbox?

In order to be admissible for testing within the Sandbox, applicants must ensure that their proposed solution satisfy a set of eligibility criteria. Proposed solutions should be innovative and technologically-enabled, demonstrating a genuine need for testing within a controlled environment so that any inherent regulatory gaps and risks are identified.

Additionally, the solution must have identifiable benefits to consumers and be ready for testing with adequate resources to operate for a minimum of one year.

Question 4 How does it work in practice?

The Sandbox is open on an ongoing basis, meaning that interested Applicants can submit their Proposal at any time they deem appropriate. Upon submitting a Proposal a Participant Development Lead ('PDL') will be assigned to the Applicant who shall act as a dedicated contact point between the Applicant and the MFSA and who shall provide the Applicant with the necessary regulatory guidance throughout the Sandbox Lifecycle, depicted below.



Proposal Stage: Interested Applicants shall submit their proposal to the MFSA through a dedicated online proposal form. A detailed description of the Solution as well as the testing objective/s and performance measure/s, together with any supporting documentation is expected to be submitted outlining the rationale why the Solution is viable to operate within the Sandbox environment. Complimenting the submission of the Proposal is a EUR 500 administrative fee which is non-refundable and required before any assessment commences.

Selection Stage: During selection stage the Proposal will be assessed, by the Sandbox Board, in order to determine whether the respective Solution meets the required eligibility criteria. The conclusion reached will be communicated by the PDL.

Application Stage: Where a selected Applicant clearly falls within the financial services legislation currently in force in Malta, the said Applicant would require the respective authorisation/license by the Authority under the applicable law.

On the other hand, those selected Applicants who do not fall (i) within the regulatory perimeter of the Authority, or (ii) clearly within financial services legislation currently in force in Malta, will be required to satisfy the requirements as set out in the Sandbox Rule, prior to proceeding to the testing phase.

Testing Stage: Upon successful completion of the Application Stage, the Participant shall commence the Testing Phase without undue delay. The Participant shall co-operate in an open and honest manner with the MFSA and inform it promptly of any relevant information. The Participant shall take reasonable steps to ensure continuity and regularity in the delivery of its Solution.

Evaluation Stage: The Participant shall be required to submit to the Authority a report outlining the performance of its Solution on the basis of the testing objective/s and performance measure/s, together with its intended Exit Strategy.

Exit Stage: Finally, the Participant will then, on the basis of the decision taken by the Authority, either continue to operate within the Sandbox or implement the appropriate exit strategy which would either entail discontinuing the Solution or continuing with his activity outside the Sandbox.

Question 5 Where can I submit the Proposal Form?

An online form is available on ([link](#)) which enables interested parties to submit their proposals. Any queries in relation to the MFSA FinTech Regulatory Sandbox are to be directed to: fintech@mfsa.mt.

Question 6 How long can the testing period last?

Testing duration can last from six (6) to twelve (12) months and the Participant is required to abide by the set conditions and evaluate together with the Authority the results achieved before determining the Exit Strategy.

Question 7 Is authorisation required to be able to test a Proposal within the FinTech Regulatory Sandbox?

Before determining whether authorisation is required one must determine whether the Applicant classifies as a FinTech Service Provider, FinTech Supplier or Other Applicant.

In case where an Applicant classifies as a FinTech Service Provider and is already licensed or authorised with the Authority under any financial services law currently in force in Malta however, the Authority determines that the proposed Solution does not fall within the scope of the said licence or authorisation, such Applicant shall be required to apply for a variation of its existing licence or authorisation.

In case where an Applicant classifies as FinTech Service Provider but does not hold a licence or authorisation under any financial services law currently in force in Malta, then the Applicant shall be required to seek authorisation under the applicable financial services legislation currently in force in Malta.

In the event that the Applicant classifies as a FinTech Supplier or Other Applicant then no licence or other authorisation in terms of any financial services legislation currently in force in Malta shall be required however before proceeding to the testing stage they must satisfy the requirements as set out in the Rule 3.

Question 8 What does MFSA consider as innovative technology?

The Solution shall be (i) technology-enabled and (ii) innovative, resulting in new business models, processes, services or products within the financial services sector. The following is a non-exhaustive list of technological solutions which the Applicant may utilise within the Proposal:

- a. Application Programming Interface (APIs)
- b. Artificial Intelligence (AI)
- c. Big data
- d. Biometrics
- e. Cloud Computing
- f. Data Analytics
- g. Deep Learning
- h. Distributed Ledger Technology (DLT)
- i. Internet of Things
- j. Machine Learning
- k. Natural Language Processing
- l. New Encryption Methodologies
- m. Quantum Computing
- n. Smart Contracts
- o. Robotic Process Automation

Question 9 Is there a specific rule governing the FinTech Regulatory Sandbox?

MFSA Rule 3 regulates the MFSA FinTech Regulatory Sandbox. This was issued in terms of Article 16(2)(a) of the MFSA Act. As established under Article 3 of the Act, the Malta Financial Services Authority, may issue and publish Rules regulating the procedures and duties of persons licensed or authorised by it, or falling under its regulatory or supervisory functions.

Question 10 **Will the Sandbox be operating in a 'cohorts structure' or an 'open structure' format?**

The MFSA FinTech Regulatory Sandbox shall be open to Sandbox Applicants on an ongoing basis as such structure is deemed to offer more benefits to Applicants and Participants. However, the MFSA, may at its discretion, open a special purpose cohort to focus on a sector-specific Solution, after giving due notice to the public.

Question 11 Will the MFSA be issuing a list of Participants?

The MFSA will publish on its website a list of Participants together with a yearly report outlining an aggregate overview of the lessons learnt. The aim is to promote transparency and share the knowledge gained through the Sandbox with the financial industry.

Question 12 What is the role of a Participant Development Lead?

The role of the Participant Development Lead ('PDL') is to act as a dedicated contact point between the Applicant and the MFSA and who shall provide the Applicant with the necessary regulatory guidance throughout the Sandbox lifecycle.

Question 13 What Sandbox regulatory tools are going to be offered through the Sandbox?

Complimenting the individual guidance the PDL will be offering to Sandbox Participants, the MFSA will be using other regulatory tools such as toolkits, waivers and no enforcement action letter, which will be applied on a case-by-case basis at the discretion of the Authority, and as applicable by legislation.

Toolkits: these toolkits will consist of basic guidance on the respective legislation as well as templates of required policies which are necessary for entities to be able to operate. The Participant will then be entrusted to modify and enhance these policies to cater for the specificities of its business model.

Waiver: these may be granted to certain requirements as afforded by the applicable legislation and under defined conditions. Furthermore, such waivers would be without detriment to the ultimate consumer and required for the financial innovation to occur.

No enforcement action letters: The Authority may resort to the issuance of no enforcement action letter whereby it is deemed that within the given circumstances is required for the financial innovation to operate. In such scenario, the Participant will be required to (i) specify how the risks are being mitigated and (ii) verify that it is operating within the conditions specified and that the apparent breach is not detrimental to the ultimate consumer. Should the Authority determine to issue such a regulatory tool, the letter would clearly indicate the Authority's positions and conditions applicable to the Participant for it to operate within the Sandbox.

No enforcement action letters would only apply for the duration of the Sandbox testing stage and only to the actions specified within.

Question 14 What type of indemnity is there for clients, in the scenario that a FinTech Supplier or FinTech Provider fails?

During the Proposal stage the Sandbox Participant shall disclose Internal Arrangements, which shall be implemented at all times, to protect the interest of its clients. These will be agreed upon with the MFSA on a case-by-case basis before

the testing Stage commences. Where a detriment arises, these remedial measures will be initiated.

Question 15 Will clients of Participants be offered the opportunity to file a complaint to the Office of the Arbiter for Financial Services?

Clients of Participants authorised by the MFSA under sector-specific financial services law will have the opportunity for a recourse to the Office of the Arbiter for Financial Services for any complaint/s they might have, as afforded to them by the applicable law.

Question 16 Will passporting and cross-border provision of service be possible within the Sandbox Framework?

At this stage, Sandbox Participants operating under the Sandbox Framework will not be eligible to passport or cross-border their financial product / service. However, pursuant to *Pillar 4 – International Links* of the MFSA FinTech Strategy the Authority is working towards establishing international relationships with the intention to establish FinTech Bridges with different jurisdictions, both within and outside of the EU. Through the establishment of these links it is envisioned that Sandbox Participants will benefit from access to foreign markets.

On this front. The MFSA has initiated discussions and set the preliminary work to join the Global Financial Innovation Network (GFIN). Further developments will be made publicly available on the dedicated Sandbox page ([link](#)).

Question 17 What happens in case of early termination of the testing stage?

In the event that an early termination of the testing stage has been triggered, by either the Participant or the MFSA, then the Participant will immediately proceed to the evaluation stage. If the event has been triggered by the Participant, then such intention should be communicated to the MFSA by not later than five (5) working days after such decision has been taken.

Question 18 Will the MFSA be accepting SupTech Solutions within the Sandbox?

Currently, the Authority is in the process of setting up a dedicated online form through its FinTech webpage, for Persons developing SupTech solutions to submit their solution. In the meantime Persons developing SupTech solutions are invited to approach the MFSA through the following contact point: fintech@mfsa.mt.

Question 19 How can I keep abreast with developments on the MFSA FinTech Regulatory Sandbox?

The Authority has set up a specific section on its website where all publications/developments will be made publicly available ([link](#)). Furthermore, one can also subscribe to the Sandbox mailing list available on the MFSA FinTech Regulatory Sandbox website ([link](#)).

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