

MFSA RULE 3  
THE MFSA FINTECH REGULATORY SANDBOX

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

# CONTENTS

---

Title 1 - General Scope and High-Level Principles .....	1
Section 1 - Legal Basis.....	1
Section 2 - Definitions.....	1
Title 2 - Objectives .....	3
Title 3 - Scope and Applicability .....	4
Title 4 - Sandbox Lifecycle .....	5
Section 1 - Structure .....	5
Section 2 - Stage 1 - Proposal Stage.....	5
Sub-Section 1 - Proposal Form.....	5
Sub-Section 2 - Participant Development Lead.....	6
Sub-Section 3 - Preliminary Meeting.....	6
Section 3 - Stage 2 - Selection Stage.....	6
Section 4 - Stage 3 - Application Stage.....	6
Sub-Section 1 - Applications.....	6
Sub-Section 2 - Fitness and Properness Assessment.....	7
Sub-Section 3 - Matters to be Agreed.....	8
Sub-Section 4 - Conditions.....	8
Sub-Section 5 - Exit Strategy .....	8
Sub-Section 6 - Fees .....	9
Section 5 - Stage 4 - Testing Stage .....	9
Sub-Section 1 - Ongoing Obligations.....	9
Sub-Section 2 – Early Termination.....	9
Section 6 - Stage 5 - Evaluation Stage .....	10
Section 7 - Stage 6 - Exit Stage.....	11
Title 5 - Breaches and Sanctions .....	12
Section 1 - Breaches.....	12
Section 2 - Sanctions.....	12

## REVISIONS LOG

---

VERSION	DATE ISSUED	DETAILS
1.00	22 July 2020	RULE 3 OF THE MFSA ACT ISSUED

---

## Title 1 General Scope and High-Level Principles

### Section 1 Legal Basis

R3-1.1.1 In terms of Article 16(2)(a) of the MFSA Act, the Malta Financial Services Authority, as established under Article 3 of the Act, 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.

R3-1.1.2 The Authority may amend or revoke such Rules and any amendment or revocation thereof.

R3-1.1.3 This Rule is being issued in terms of Article 16(2)(a) of the Act and should be read in conjunction with any other legislative and/or regulatory framework, administered by the Authority, in force in Malta and any regulations and rules issued thereunder.

### Section 2 Definitions

R3-1.2.1 For the purposes of this Rule, the definitions identified under R3-1.2.2 should be read in conjunction with the provisions of the MFSA Act and any other law administered by the Authority for the time being in force in Malta.

R3-1.2.2 In the event that any of the definitions contained hereunder conflict with a definition under the MFSA Act or any other law administered by the Authority for the time being in force in Malta, the definitions set out in the Act or in any other such law shall prevail, unless otherwise specified herein.

‘FinTech’ means technologically-enabled financial innovation that could result in new business models, applications, processes or products with an associated material effect on financial markets and the provision of financial services.

‘FinTech Service Provider’ for the purposes of this Rule only, means a person who is duly licensed or otherwise authorised to provide or who intends to provide a service/s requiring a licence or other authorisation in terms of applicable financial services legislation currently in force in Malta and who utilises FinTech in its operations.

Provided that, a person may not refer to itself as being a FinTech Service Provider unless duly licenced or authorised by the Authority.

‘FinTech Solution’ or ‘Solution’	means a specific utilisation of FinTech.
‘FinTech Supplier’	means a person who provides or intends to provide a FinTech Solution which does not require any authorisation whatsoever in terms of any financial services law currently in force in Malta.
‘Malta Financial Services Authority Act’, ‘MFSA Act’ or ‘the Act’	means the Malta Financial Services Authority Act, Chapter 330 of the Laws of Malta.
‘Malta Financial Services Authority’, ‘MFSA’ or ‘the Authority’	means the Malta Financial Services Authority, as established by the Malta Financial Services Authority Act.
‘MFSA FinTech Regulatory Sandbox’ or ‘Sandbox’	means the regulatory environment, as established by virtue of this Rule, where FinTech operators may test their innovation for a specified period of time within the financial services sectors, under certain prescribed conditions.
‘Participant Development Lead’	means the MFSA official assigned to an Applicant pursuant to R3-4.2.2.1 of this Rule.
<b>‘Proposal’</b>	means a Solution proposed by an Applicant to the MFSA for testing within the Sandbox.
<b>‘Sandbox Applicant’ or ‘Applicant’</b>	means a person submitting a Proposal to the Authority in terms of this Rule.
‘Sandbox Participant’ or ‘Participant’	means a person participating within the testing phase of the Sandbox lifecycle.
<b>‘Selected Applicant’</b>	means an Applicant that has been selected by the Authority to proceed to the application stage, as set out in Section 4 of Title 4 of this Rule.
<b>‘Testing Phase’</b>	means the part of the Sandbox lifecycle comprising of the testing, evaluation and exit stages.

## Title 2 Objectives

R3-2.1 With the aim of supporting sustainable financial innovation, ensuring regulatory certainty and promoting knowledge sharing, the objectives of the Sandbox are as follows:

- i. Innovation  
The Sandbox will provide for a regulatory environment allowing technologically enabled financial innovation - new business models, applications, processes or products - to operate within the financial services market.
- ii. Sustainability  
Through close dialogue, the MFSA will be monitoring Participants to observe whether their innovations truly offer value to the consumer and the wider financial services sector, whilst ensuring consumer/investor protection, market integrity and financial soundness.
- iii. Certainty  
The Sandbox will enhance legal certainty within the financial services market as it provides both the Participants and the MFSA with the space to determine the appropriate requirements under the applicable regulatory frameworks.
- iv. Knowledge  
Through collaboration with Participants, the Authority will have the opportunity to enhance its capacity in assessing the regulatory implications and gaps of such Solutions, and identify the appropriate response, as necessary.

## Title 3 Scope and Applicability

R3-3.1 The Sandbox will be applicable to all FinTech Service Providers and FinTech Suppliers:

Provided that the Authority shall also consider other applicants, in terms of R3-4.4.1.5, within the framework of the Sandbox, which do not clearly fall within the scope of any financial services legislation currently in force in Malta.

R3-3.2 For participation in the Sandbox, the Sandbox Applicant shall first satisfy all the following Sandbox eligibility criteria in relation to the Solution. Accordingly, the Sandbox Applicant shall demonstrate, to the satisfaction of the Authority, that:

i. Innovation

The Solution shall be (i) technology-enabled and (ii) innovative, resulting in new business models, applications, processes or products within the financial services sector;

ii. Need

There exists a genuine need and objective for testing the Solution within a controlled environment in order to identify any inherent regulatory gaps, challenges and risks;

iii. Benefit

The Solution shall offer identifiable direct or indirect benefit/s to consumers of financial services and the wider financial services sector; and

iv. Readiness

The Solution is ready for testing within the Sandbox and that the Applicant shall have adequate resources to operate throughout the duration of the Sandbox.

R3-3.3 The MFSA may, at its discretion, also focus on sector-specific Solutions, including *inter alia* special purpose cohorts, after giving due notice to the public.



## Title 4 Sandbox Lifecycle

### Section 1 Structure

R3-4.1.1 The Sandbox shall be open to Sandbox Applicants on an ongoing basis. The Sandbox lifecycle will consist of six stages as presented in Figure 4.1, which shall be triggered upon the submission of a Proposal.

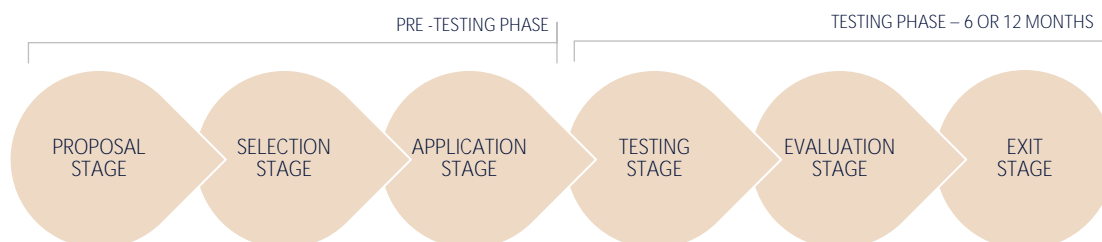


FIGURE 4.1: THE SANDBOX LIFECYCLE

R3-4.1.2 Further to the information and/or documentation required to be submitted to the Authority in terms of MFSA Rule 3, the Authority may, at its discretion and at any stage, request any additional information and/or documentation as it may deem appropriate.

R3-4.1.3 The Applicant, Selected Applicant or Participant, as the case may be, shall provide the Authority with information which is truthful, accurate and complete.

R3-4.1.4 Further to R3-4.1.3, the Applicant, Selected Applicant or Participant, as the case may be, shall notify the MFSA immediately in the event that the information previously provided to the Authority has changed.

### Section 2 Stage 1 - Proposal Stage

#### *Sub-Section 1 Proposal Form*

R3-4.2.1.1 The Applicant shall submit its Proposal to the Authority through the [online proposal form](#), which will be considered by the Authority during Selection Stage, as set out in Section 3 of this Rule, in order to determine whether the Applicant falls within the scope of R3-3.1 and whether the Applicant and its Solution meet the requirements and eligibility criteria as set out in R3-3.2.

R3-4.2.1.2 Pursuant to R3-4.2.1.1, the Authority shall take into consideration the information submitted within the Proposal to the Authority, including *inter alia* a detailed description of the Solution as well as the testing objective/s and performance measure/s, together with any supporting documentation attached thereto.

R3-4.2.1.3 The Proposal shall be subject to a non-refundable administrative fee of EUR 500, which shall be due upon the submission of the Proposal to the Authority.

Provided that the submission of a Proposal shall only be considered by the Authority as complete, upon the verification that both: (i) the respective administrative fee; and (ii) the Proposal together with all the required supporting documentation have been submitted to the Authority.

R3-4.2.1.4 The Authority shall not initiate the review of submissions deemed incomplete by the Authority in terms of this Rule.

*Sub-Section 2 Participant Development Lead*

R3-4.2.2.1 Upon being in receipt of a complete Proposal submission, the Authority shall assign a Participant Development Lead to an 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 its Sandbox lifecycle.

*Sub-Section 3 Preliminary Meeting*

R3-4.2.3.1 The Authority, upon receipt of the Proposal may, at its discretion, schedule a preliminary meeting with the Applicant.

Section 3 Stage 2 - Selection Stage

R3-4.3.1 Pursuant to R3-4.2.1.1, the Authority, shall determine during this stage whether the Applicant may proceed to the next stage and the Applicant shall be notified accordingly.

Section 4 Stage 3 - Application Stage

*Sub-Section 1 Applications*

R3-4.4.1.1 Further to R3-4.3.1, the Applicant will be informed by the MFSA on the appropriate authorisation process as set out in R3-4.4.1.3 to R3-4.4.1.5 of this Rule.

R3-4.4.1.2 The Applicant may proceed to the Testing Phase only upon satisfaction of the requirements as set out in Section 4.

R3-4.4.1.3 FinTech Service Providers

R3-4.4.1.3.1 Where the Selected Applicant is already licensed or otherwise authorised with the Authority under any financial services law currently in force in Malta and the Authority determines that the proposed Solution falls within the scope of the said licence or other authorisation, such Applicant shall be required to apply for a variation of its existing licence or other authorisation.

R3-4.4.1.3.2 Where the Applicant does not hold a licence or other authorisation under any financial services law currently in force in Malta and the Authority determines that the Applicant qualifies as a FinTech Service Provider, the Applicant shall be required to seek authorisation under the applicable financial services legislation currently in force in Malta.

R3-4.4.1.4 FinTech Suppliers

R3-4.4.1.4.1 Where the Authority determines that the Applicant is a FinTech Supplier, and whereas no licence or other authorisation in terms of any financial services legislation currently in force in Malta shall be required, such Applicant shall satisfy the requirements set out in Section 4 in order to proceed to the Testing Phase.

R3-4.4.1.4.2 Notwithstanding R3-4.4.1.4.1, where, during the Sandbox lifecycle, the Authority determines that a FinTech Supplier is carrying out any activity requiring a licence or other authorisation under a financial services law currently in force in Malta, such person shall be required to seek a licence or other authorisation under the applicable law and shall immediately suspend such activity until the said authorisation has been obtained.

R3-4.4.1.5 Other Applicants

R3-4.4.1.5.1 Where the Authority determines that the Applicant's Proposal, notwithstanding the fact that it may appear that the activity may *prima facie* classify as a financial service, does not clearly fall within a specific financial services law currently in force in Malta, such Applicant shall satisfy the requirements set out in Section 4 in order to proceed to the Testing Phase.

R3-4.4.1.5.2 Notwithstanding R3-4.4.1.5.1, where, during the Sandbox lifecycle, the Authority determines that such a person is carrying out any activity requiring a licence or other authorisation under a financial services law currently in force in Malta, such person shall be required to seek a licence or other authorisation under the applicable law and shall immediately suspend such activity until the said authorisation has been obtained.

*Sub-Section 2 Fitness and Properness Assessment*

R3-4.4.2.1 Selected Applicants shall be required to be fit and proper on a continuous basis.

R3-4.4.2.2 Pursuant to R3-4.4.2.1, the Authority shall assess the fitness and properness of a Selected Applicant against the following four criteria:

- i. Competence;
- ii. Reputation;
- iii. Conflicts of Interest and Independence of Mind; and
- iv. Time Commitment.

R3-4.4.2.3 The fit and properness requirement is an ongoing requirement. Accordingly, there may be instances which may lead to the reassessment of the Selected Applicant's suitability.

*Sub-Section 3 Matters to be Mutually Agreed Upon*

R3-4.4.3.1 The Selected Applicant shall submit to the Authority the following information:

- i. testing period, which shall be for a period of either six (6) or twelve (12) months, as the case may be;
- ii. testing objective/s and performance measure/s;
- iii. exit strategy as set out in Sub-section 5 of this Section; and
- iv. disclosures, including *inter alia* the regulatory status of the Applicant as well as the risks associated with its proposed Solution.

R3-4.4.3.2 The Authority's agreement to the matters specified in points (i) to (iv) under R3-4.4.3.1 shall be required in order for the Selected Applicant to proceed to the Testing Phase.

*Sub-Section 4 Conditions*

R3-4.4.4.1 Without prejudice to the Authority's powers under the applicable legislation, the Authority may, at its discretion, impose at Application Stage any condition/s it deems fit on the Applicant including limitation on the number and type of clients, product/services and imposition of compensation arrangements.

*Sub-Section 5 Exit Strategy*

R3-4.4.5.1 Pursuant to point (iii) of R3-4.4.3.1, the Exit Strategy shall cater for the following scenarios:

- i. Discontinuation  
The Selected Applicant shall, to the satisfaction of the Authority, specify how it will exit the market in an orderly manner, by *inter alia* closing client accounts and/or transferring business to an alternative provider and subsequently surrendering or terminating any authorisation it may hold.
- ii. Continuation outside the Sandbox  
The Selected Applicant shall, to the satisfaction of the Authority, specify how it will communicate with its clients that it has exited the Sandbox and is continuing its operations within the financial services sector, including any conditions that the Authority would have subjected it to.

*Sub-Section 6 Fees*

R3-4.4.6.1 An Applicant shall, upon submission of an application, pay to the MFSA the respective non-refundable fee as established in Table R4.1.

TABLE R4.1: APPLICATION FEES

Type of Applicant	Application Fee (EUR)
FinTech Service Providers	Applicable Fee as per Sector-specific Legislation
FinTech Suppliers	1,500
Other Applicants in terms of R3-4.4.1.5	2,500

Section 5 Stage 4 - Testing Stage

*Sub-Section 1 Ongoing Obligations*

R3-4.5.1.1 Upon successful completion of the Application Stage set out in Section 4, the Participant shall commence the Testing Phase without undue delay.

R3-4.5.1.2 If, for any reason, the Participant is not in a position to comply with R3-4.5.1.1, it shall notify the MFSA in writing setting out the reason/s for such a delay, together with an updated plan indicating the proposed date of commencement of the Testing Phase. On the basis of the information provided and the circumstances of the case, the MFSA may decide to terminate its Sandbox participation.

R3-4.5.1.3 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 also supply the MFSA with such information as the MFSA may require.

R3-4.5.1.4 The Participant shall take reasonable steps to ensure continuity and regularity in the delivery of its Solution. To this end, the Participant shall employ appropriate and proportionate systems, resources and procedures to the Authority's satisfaction.

R3-4.5.1.5 The Participant shall maintain sufficient records to be able to demonstrate compliance with the requirements set out in this Rule or any applicable legislation, as well as any other conditions imposed by the Authority.

R3-4.5.1.6 The Participant shall at all times implement measures to protect the interest of clients and, where any detriment arises, to take such remedial measures as may be considered appropriate by the Authority.

*Sub-section 2 Early termination*

R3-4.5.2.1 In the event of early termination of the testing stage, by either the Participant or the MFSA, the Participant shall immediately proceed to the evaluation stage as set out in Section 6 of this Rule.

R3-4.5.2.2 Participants intending to terminate the testing stage should notify the MFSA of their intention to do so promptly and by not later than five working days after such decision was taken.

Upon receipt of the notification in terms of R3-4.5.2.2, the internal process for the early terminate of the testing stage shall commence. Where the MFSA decides to approve such decision, it will be communicated to the Participant.

Section 6 Stage 5 - Evaluation Stage

R3-4.6.1 During the Evaluation Stage, the Participant shall be required to draw up and submit to the Authority a report outlining the performance of its Solution on the basis of the testing objective/s and performance measure/s and either (i) its intended Exit Strategy, as agreed upon with the Authority during the Application Stage pursuant to R3-4.4.3.1, or (ii) a request to extend the duration of the Testing Phase for a period of either six (6) or twelve (12) months, as the case may be.

Provided that where the Authority grants an extension in terms of point (ii) above, the Participant shall commence once again the testing stage in terms of Section 5 of this Rule.

Notwithstanding point (ii) of R3-4.6.1, the Authority may also, at its own discretion, decided to extend the duration of the Testing Phase.

R3-4.6.2 The Authority shall take into consideration the report submitted in terms of R3-4.6.1, when evaluating the Participant's performance and in arriving at its decision to either (i) require the Participant to implement its Exit Strategy, as agreed upon with the Authority during the Application Stage pursuant to R3-4.4.3.1, or (ii) grant the extension to the Participant.

R3-4.6.3 The Authority shall communicate its decision pursuant to R3-4.6.2 to the Participant by means of a notification in writing.

## Section 7 Stage 6 - Exit Stage

R3-4.7.1 Following notification of the decision in terms of R3-4.6.3, the Participant shall either (i) commence without undue delay its Exit Strategy, as agreed upon with the Authority during the Application Stage pursuant to R3-4.4.3.1, or (ii) continue its operations within the Sandbox, as the case may be.

Title 5 Breaches and Administrative Penalties and other Regulatory Measures

Section 1 Breaches

R3-5.1.1 A breach of any requirement or obligation emanating from this Rule or from any other applicable law administered by the Authority, will trigger regulatory and/or enforcement action by the Authority.

In the exercise of its regulatory and/or enforcement powers and without prejudice to any other powers the Authority may have in terms of any applicable law, the Authority may at any stage also terminate participation of the Participant in the Sandbox.

R3-5.1.2 Any person required in terms of this Rule to provide or submit any information to the Authority shall provide the Authority with information that is, accurate, true and not misleading in any way.

Section 2 Administrative Penalties and other Regulatory Measures

R3-5.2.1 The Participant shall at all times observe the Rules which are applicable to it, as well as all the other relative requirements, duties and obligations which may emanate from the applicable law and regulations issued thereunder.

The powers of the Authority prescribed in this Rule shall be without prejudice to any other powers it may have in terms of any other applicable law. The MFSA has various regulatory and enforcement powers which may be used against any person falling within the scope of this Rule not complying with their regulatory duties and obligations. Such powers include the right to impose administrative penalties and to issue no action letters.



THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

MALTA FINANCIAL SERVICES AUTHORITY  
TRIO L-IMDINA, ZONE 1 CENTRAL BUSINESS DISTRICT, BIRKIRKARA, CBD 1010, MALTA.  
[COMMUNICATIONS@MFSA.MT](mailto:COMMUNICATIONS@MFSA.MT)  
+356 2144 1155

[WWW.MFSA.MT](http://WWW.MFSA.MT)