

FREQUENTLY ASKED QUESTIONS
THE MFSA FINTECH REGULATORY SANDBOX

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REVISIONS LOG

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Q1 What is Fintech?

The term 'FinTech' has significant implications on numerous studies surrounding FinTech globally. However, these studies fail to clearly define the definition of FinTech and its corresponding characteristics. As a phenomenon that happens at a narrow scope, FinTech is considered as a '*horizontal phenomenon*' across the entire financial sector rather than as a separate industry.

FinTech is defined by the MFSA within [Rule 3 of the MFSA Act](#) (Chapter 330 of the Laws of Malta) ('Rule 3') as "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".

For a deeper understanding of what is FinTech and its implications on the wider financial market refer to the MFSA's [FinSight on What is Fintech?](#)

Q2 What is the MFSA FinTech Regulatory Sandbox?

Initially published on the 22 July 2020, the MFSA FinTech Regulatory Sandbox ('Sandbox') seeks to provide a regulatory environment which fosters sustainable technology-enabled financial innovation, or as more widely known, financial technology ('FinTech'), through legal certainty and knowledge sharing whilst safeguarding consumer protection, market integrity and financial soundness.

Q3 How is the Sandbox established?

The MFSA FinTech Regulatory Sandbox is established under Rule 3.

This Rule was issued in terms of Article 16(2)(a) of the MFSA Act, wherein the Malta Financial Services Authority, as established under Article 3 of the MFSA Act (Chapter 330 of the Laws of Malta), 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.

Q4 What is the scope of the Sandbox?

The Sandbox seeks to test the proposed financial innovation from a regulatory perspective with the aim to understand:

- i. its **adoption within the financial services market and its implications**, including identification of any inherent regulatory gaps, challenges, and risks; and
- ii. its **adherence with the requirements set out in financial services legislation**, any applicable legislation, and any other requirements that may be imposed by the MFSA.

Therefore, the Sandbox allows innovative Solutions to be explored within the financial services market through close dialogue between the Participant and the Authority.

Q5 Who can apply for the Sandbox? And, is it open to RegTech solutions?

The Sandbox is open to all persons wishing to explore technology-enabled financial innovative solutions which could result in new business models, applications, processes or products with an associated material effect on financial markets and the provision of financial services subject to the fulfilment of four (4) eligibility criteria. In this regard, the Framework identifies three (3) types of Sandbox Participants:

- i. **Regulated FinTech Service Providers** who are a person duly authorised to provide or who intend to provide a service/s requiring an authorisation in terms of applicable financial services legislation currently in force in Malta and who utilises FinTech in its operations;
- ii. **Unregulated FinTech Service Providers** who are determined by the Authority that notwithstanding the fact that the activity and/or product proposed and or/offered within the solution may *prima facie* appear to classify as a financial service, it is either not regulated, or is otherwise exempt from, existing financial services law in Malta; and
- iii. **Technology Providers** who are providing or intend to provide a FinTech Solution ('Solution'), which is only intended for use by one or more third-party financial services providers and does not intend to use the Solution to undertake any activity which triggers an authorisation in terms of any financial services law currently in force in Malta.

Therefore, further to point (iii) above, the Sandbox is open to RegTech solutions.

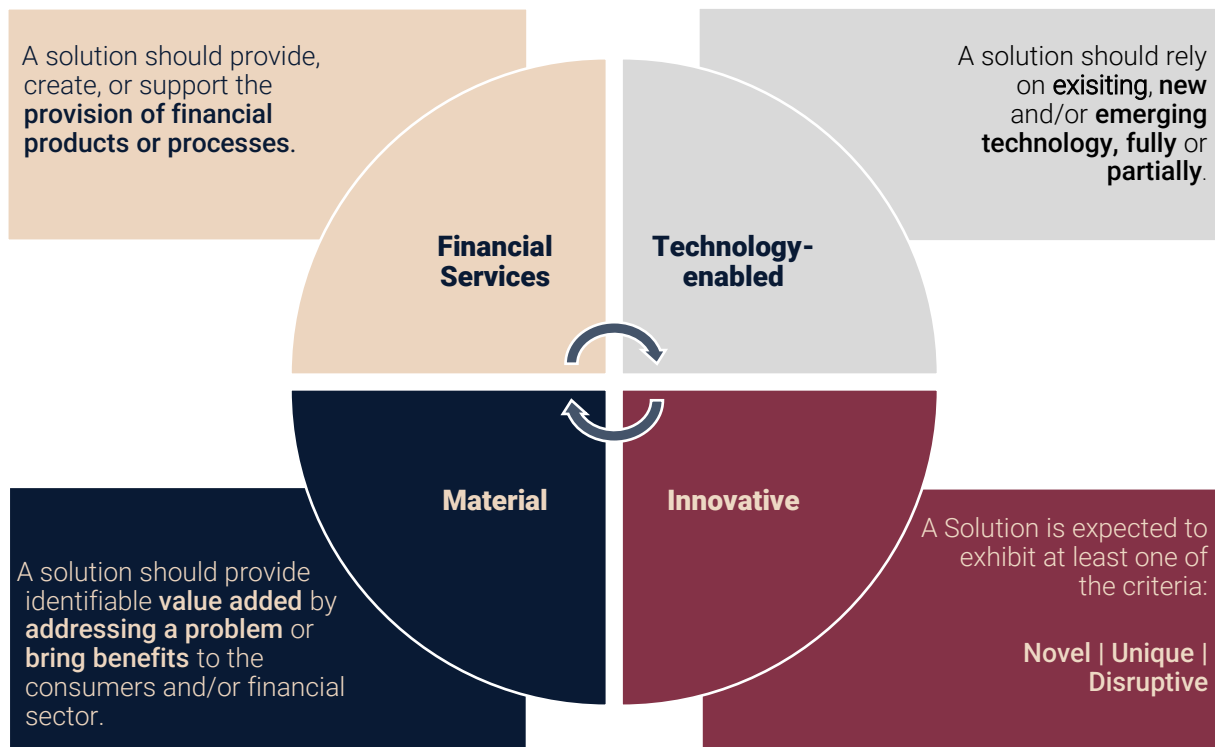
Q6 What are the Eligibility Criteria to participate in the Sandbox?

As noted in Q5, in order to participate in the Sandbox, Sandbox Applicants and their Solutions would need 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 within the context of the Sandbox.

Q7 What does the MFSa consider as FinTech and Innovative Technology?

Further to the definition of FinTech, the Solution should meet the characteristics, of Financial Service, Technology-enabled Innovation, Innovative, and Material to be considered as FinTech, as follows:



A key aspect of this definition relates to the aspect that the Solution is expected to exhibit at least be novel and/or unique which lead to either incremental, business model/efficiency or disruptive innovations.

In terms of what is considered innovative technology, the following is a non-exhaustive list of enabling technologies or innovations which are considered:

- Distributed Ledger Technology ('DLT')
- Artificial Intelligence ('AI') and Machine Learning ('ML')
- Big Data and Data Analytics
- Digital Identity, Biometrics and Sensors
- Application Programming Interface ('API')
- Cloud Computing
- Quantum Computing
- Augmented Reality ('AR') and Virtual Reality ('VR')
- Robotic Process Automation ('RPA')
- Workflow Management Systems ('WfMS')
- Web and Mobile Applications (including applications on Smart Devices and Web 3.0)
- Geographic Information Systems
- Provision of a Digital Platform
- Internet of Things
- Decentralised Finance
- Tailored Finance
- Autonomous Finance
- Open Architecture
- RegTech
- FinTech-as-a-Service
- Platformisation
- Embedded Finance
- BigTech
- Metaverse
- Crypto-Assets

Q8 What do I need as a minimum to submit a Proposal?

The Applicant should as a minimum have:

1. assessed whether the Solutions potentially falls within scope of the Sandbox and the respective Eligibility Criteria;
2. either released the Solution, or at time of commencement have the Solution ready for release to the client and/or financial service provider;
3. ideally have secured the necessary partners/clients to operate; and
4. adequate funding and capacity to operate throughout the duration of the Sandbox.

Therefore, the Sandbox is not suitable for persons that are in very early stages of development.

Q9 Do I need to be based in Malta?

Applicants are expected to test their Solution in or from within Malta and have a level of local presence either by way physical organisational and/or operational arrangements located in Malta and/or linkages to partner financial services providers which are duly authorised by the MFSA.

Q10 How and when can I apply for the Sandbox?

Interested persons can submit their proposal anytime through a dedicated online Sandbox Proposal Form which is available on the MFSA website, as follows:

<https://www.mfsa.mt/sandbox-proposal-form/>

Should you have any queries or require any clarifications in relation to process do not hesitate to contact the MFSA at fintech@mfsa.mt.

Q11 What are the Fees applicable to the Sandbox?

The applicable fees are non-refundable and should be submitted in full for the process to be considered complete. The applicable fees are as follows:

| | |
|---|--|
| Applicable Fees | Proposal Fee and Participation Fee |
| Proposal Fee | EUR 200 due upon submission of Proposal |
| Unauthorised Regulated FinTech Service Providers | Applicable Application & Supervisory Fee as per sector-specific legislation |
| Authorised Regulated FinTech Service Providers | Fee for Variation of Authorisation as per sector-specific legislation, if applicable |
| Technology Providers Unregulated FinTech Service Providers | EUR 500 per six (6) months due at Application Stage or with request for Extension |

If the fees remain unpaid, the MFSA will consider the Proposal or Application withdrawn by the Sandbox Applicant.

Q12 How does the Sandbox work in practice?

The Sandbox is open on an ongoing basis, meaning that Applicants can submit their Proposal at any time they deem appropriate. Upon submitting a Proposal, the Applicant will be assigned a dedicated contact point. This contact point will also guide the Applicant in its journey throughout the Sandbox Lifecycle, as depicted in the Annex to this FAQs. The main four (4) stages, as depicted in Figure A1 found in the Annex, are as follows:

1. Proposal Stage

As indicated in Q10, during the stage Interested Applicants submit their proposal to the MFSA through a dedicated online [Sandbox Proposal Form](#).

The proposal form includes various aspects of the Applicant and the Solution which enable the Authority to determine the qualification of participants and its eligibility.

It is important to note that for this stage to be consider complete, the Applicant should **submit a complete Proposal form**, including (i) a proposal form which includes the necessary level of detail; (ii) all the required supporting documentation; and (iii) the proposal fee of Euro 200.

Following this submission of a complete Proposal, the MFSA will carry out an eligibility assessment to determine the qualification of the Applicant and whether the eligibility criteria have been satisfied.

2. Application Stage

Upon being determined eligible, an Applicant would need to follow on of the below process depending on their qualification:

Where an Eligible Applicant has been determined as a **Regulated FinTech Service Providers**, it would be required to obtain the respective authorisation form the MFSA under the applicable law, prior to proceeding to the Testing Stage as further clarified in Q13 below.

On the other hand, the Eligible Applicants which have been determined as a **Technology Providers and Unregulated FinTech Service Provider**, will be required to satisfy certain requirements prior to proceeding to the Testing Stage, namely submitting all the required Integrity Self-Declaration for its Qualifying Holding and its Management Body
Irrespective of the qualification, a Testing Framework shall also be developed to identify the testing period, testing plan, testing objectives, testing requirements, testing disclosures and the required exit strategy.

3. Testing Stage

During the Testing Stage, the Participant shall proceed test its Solution, in line with its business model and strategy, while the MFSA carries out the Testing Plan identified within the Testing Framework.

One month before the end of the Testing Stage, the MFSA will carry out its evaluation assessment and determine the appropriate exit strategy. During this time, also know as the Evaluation Period, the Participant will also have the opportunity to request for an extension of the Testing Period.

The Participant will also require the approval by the MFSA for any material modifications to the Solution.

4. Exit Stage

During this Stage, the Sandbox Participant will then, based on the decision taken by the MFSA, implement the determined exit strategy.

Q13 Can changes be made to any documentation submitted to the MFSA or the Solution during the Testing Stage?

The Applicant, Eligible Applicant or Participant, as the case may be, will need to notify the MFSA in writing of any changes in the information and/or documentation supplied to the MFSA immediately upon becoming aware of the matter.

Also, the Participant shall, prior to releasing any material modification/s of the Solution throughout the Testing Stage, request an approval from the MFSA by providing it with the necessary details.

Q14 How long does it take for the MFSA to determine eligibility?

Assuming that a complete proposal is submitted, the MFSA will aim to conclude the Proposal Stage and provide its determination with respect to the Eligibility Assessment within one (1) month.

Q15 Do I need an authorisation to test my Solution in the Sandbox?

Depending on its qualification, an Eligible Applicant may only be required to follow one of the below procedures. For the Eligible Applicants determined as:

1. Regulated FinTech Service Provider

- **If authorised by the MFSA and the proposed solution falls within the scope of current authorisation**, then only the Testing Framework will need to be formalised.
- **If authorised by the MFSA and the proposed solution does not fall within the scope of current authorisation**, then (i) the Applicant will be required to apply for a variation of its existing authorisation; and (ii) the Testing Framework need to be formalised.
- **If not authorised by the MFSA**, then (i) the Applicant will need to seek authorisation under the applicable financial services legislation currently in force in Malta and (ii) the Testing Framework need to be formalised.

2. Technology Providers or Unregulated FinTech Service Provider

As indicated in Q12, such Eligible Applicants will be required to satisfy certain requirements prior to proceeding to the Testing Stage, namely submitting all the required Integrity Self-Declaration for its Qualifying Holding and its Management Body.

Q16 How long should the Application Stage last? And what are the expected timeframes?

The length of the Application Stage depends on various factors including (i) the qualification of the Eligible Applicant; (ii) the nature, scale, and complexity of the Applicant; (iii) and fulfilment of any pre-authorisation/pre-testing requirements. For the Eligible Applicants determined as:

1. **Regulated FinTech Service Provider** the applicable process and timeframes as outlined in the MFSA [Authorisation Process Service Charter](#) would apply.
3. **Technology Providers or Unregulated FinTech Service Provider**
Assuming that all documentation is submitted within a timely manner, the MFSA will aim to conclude its review of the documentation and development of the Testing Framework within one (1) month.

Q17 Can Sandbox Participants passport under the Sandbox Framework?

Regulated FinTech Service Provider authorised in terms of an authorisation under the applicable financial services legislation currently in force in Malta would be able to passport their activities if the said framework provides for passporting within the European Union ('EU). This notwithstanding, the MFSA may within the context of the Sandbox impose certain Testing Requirements which may limit such activity.

Sandbox Participants which are either (i) **Regulated FinTech Service Provider** authorised in terms of an authorisation under the applicable financial services legislation currently in force in Malta and which does not provide for an EU Passport, and (ii) **Technology Providers or Unregulated FinTech Service Provider** who wish to carry on the respective activities in another Member State or EEA State may exercise their European right, subject to the laws of that Member State or EEA State.

This notwithstanding, as outlined in Q8 and Q9, the Sandbox Participant would be expected to test their Solution in or from within Malta and have a level of local presence either by way physical organisational and/or operational arrangements located in Malta and/or linkages to partner financial services providers which are duly authorised by the MFSA.

Q18 Are there any Joint-Testing Frameworks across the EU and the Globe?

Applicants and Sandbox Participants may utilise the [European Forum for Innovation Facilitators Gateway](#) available on the [EU Digital Finance Platform](#) ('Platform'). This Gateway provides information on Innovation Facilitators across the EU and access cross-border testing here involving multiple national authorities.

The Platform is an EU initiative that facilitates cross-border testing of Participants' financial innovation with other National Competent Authorities ('NCAs') within the EU. The scope of the Platform is to increase accessibility and transparency of information between the NCA and FinTechs as well as allow for simultaneous testing of the Solutions with multiple NCAs.

Q19 How long can the Testing Period last?

The Participant may choose a testing duration of either six (6) or twelve (12) months, with the possibility to request to extend the duration of the Testing Phase for an additional six (6) months.

It is noted that the MFSA has the discretion to grant the extension or otherwise.

Q20 What happens in case of Early Termination?

In the event that an Early Termination of the Testing Stage has been triggered, by either the Participant or the MFSA, the Participant shall provide to the satisfaction of the Authority the appropriate steps from the applicable exit strategy which will be taken by the Participant to minimise the risk to its clients, if any.

Q21 Will the MFSA be issuing a list of Participants?

Upon conclusion of the Testing Stage the MFSA may consider publishing the following details with regards to the Participant:

1. name;
2. start/end date of participation; and
3. summary of the test results.

The aim of the above is to promote transparency and share the knowledge gained through the Sandbox with the financial industry.

Q22 Will the information submitted to MFSA be treated confidentially?

Yes, all information submitted to the MFSA for the purpose of the Sandbox will be treated confidentially.

Furthermore, The MFSA ensures that any processing of personal data is conducted in accordance with Regulation (EU) 2016/679 (General Data Protection Regulation), the Data Protection Act (Chapter 586 of the Laws of Malta) and any other relevant EU and national law. For further details, you may refer to the MFSA Privacy Notice available on the MFSA webpage:

<https://www.mfsa.mt/privacy-notice/>.

Q23 How can I keep abreast with developments on the MFSA FinTech Regulatory Sandbox?

The Authority has set up a dedicated section on its website where all publications/developments and relevant documents with respect to [Sandbox framework](#) are made publicly available on the dedicated webpage. Furthermore, one can also subscribe to the Sandbox mailing list or contact the MFSA on fintech@mfsa.mt.

Annex

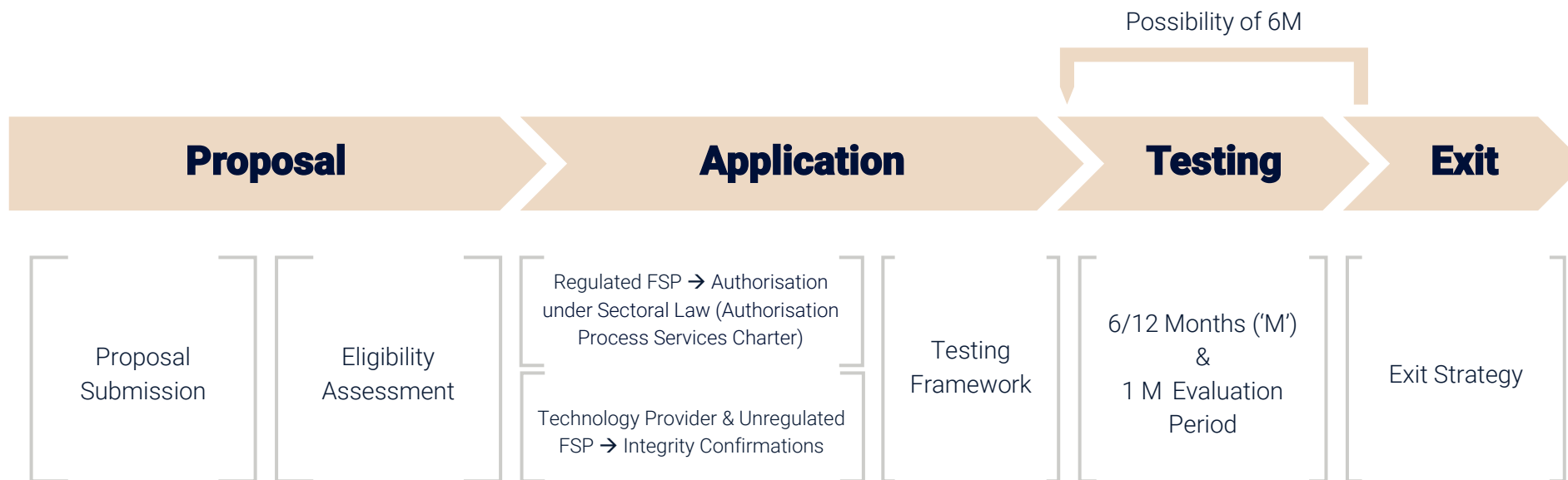


FIGURE A1: THE SANDBOX LIFECYCLE

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