

Cyprus Securities and Exchange Commission

Regulatory Sandbox

FAQs

1. What is the Cyprus Securities and Exchange Commission's (hereinafter "CySEC") Regulatory Sandbox and what purpose does it serve?

The CySEC Regulatory Sandbox is an environment within which participants are able to test innovative technology tools and solutions they have developed. It is a strict environment which does not constitute a regulatory-exempt space and, thus, the testing is being performed within defined testing parameters and timeframes (including any prior licensing where required) with the support, supervision and guidance of CySEC.

The CySEC Regulatory Sandbox is a response to Fintech, RegTech and SupTech advancements in areas of financial services which fall under CySEC's supervisory scope. Its purpose is to encourage the enhancement of technological evolution to the benefit of the financial market participants, while ensuring that such developments are in line with the current and upcoming regulatory framework.

2. Who is eligible to participate?

The Regulatory Sandbox aspires to facilitate tests covering a wide range of products/services across all financial sectors within CySEC's supervisory scope. Participation in the Regulatory Sandbox is voluntary. CySEC welcomes applications from entities under its supervision, entities intending to obtain CySEC authorisation, as well as unregulated entities having developed a technologically enabled innovative solution for the local financial services market.

In specific:

(a) CySEC authorised entities: Cyprus Investment Firms, Administrative Service Providers, Alternative Investment Fund Managers/ UCITS Management Companies, Crypto Asset Service Providers, Crowdfunding Service Providers.

(b) Unregulated entities:

- (i) Entities that collaborate with a CySEC-authorized entity for the purpose of participating in the CySEC Regulatory Sandbox pursuant to a collaboration agreement which has to be submitted to CySEC as part of the application process.
- (ii) Entities intending to test a tool/solution which involves or benefits the financial services participants/market falling within the remit of CySEC supervision, but may not themselves require CySEC authorisation / collaboration with a CySEC-authorized entity because:
 - i. The entity qualifies for a regulatory exemption (e.g. it will offer its tool/solution to entities solely within its corporate group thereby qualifying for the "intra-group exemption" pursuant to Article 4(1)(b) of the Investment Services and Regulated Markets Law 87(I)/2017); or
 - ii. The tool/solution offered will entail the use of demo accounts and thereby no offer of services in relation to real money/financial instruments; or
 - iii. The entity will use historic data to test its tool/solution.

3. Are entities operating in Cyprus under the passporting regime eligible?

Entities operating in Cyprus under the passporting regime are eligible for participation in the CySEC Regulatory Sandbox. However, for such participation they will be able to test their tools/solutions within the framework applying to unregulated entities. This is because pursuant to the principle of mutual recognition and home member state supervision such entities are regulated by the competent authority of their home EU Member State.

4. How will I know whether my innovative tool/solution is right for the CySEC Regulatory Sandbox?

The characteristics the tool/solution must meet are:

- There must be a consumer / financial market benefit and/or improvement offered locally;
- The stage of development must be such that the tool/solution is ready to be tested;
- The proposition must be innovative in view of the overall product / service/ business model;
- There must be a need for testing to confirm compliance with the applicable regulatory framework;
- The underlying product / service must fall within the remit of CySEC supervision.

In case an entity is uncertain as to the suitability of its tool/solution for testing within the CySEC Regulatory Sandbox, they are encouraged to contact the CySEC team dedicated to the operation of the sandbox at regulatory.sandbox@cysec.gov.cy prior to filing their application.

5. What does CySEC consider as innovative?

The tool / solution proposed for testing in the Regulatory Sandbox must include:

- a new/improved way of providing services or products, and/or
- enhance an existing activity (e.g. fostering regulatory compliance by reducing time costs and monetary costs, such as automated regulatory reporting and remote onboarding solutions), and/or
- a new business/social model, through the use of emerging or existing technology/ies in the Cyprus financial services market. The following list provides indicative non-exhaustive technologies, which may be used by prospective applicants within their innovative propositions:
 - Application Programming Interfaces (APIs);
 - Artificial Intelligence (AI);
 - Machine Learning (ML);
 - Data Analytics / Big Data Analytics;
 - Biometrics, Digital ID;
 - Tokenisation;
 - Cloud Computing;

- Blockchain and Distributed Ledger Technology (DLT) and Smart Contracts;
- New Encryption Methodologies;
- Quantum Computing;
- Internet of Things (IoT);
- Robotic Process Automation (RPA);
- Natural Language Processing (NLP).

6. *Is the Sandbox an environment for developing and testing innovative solutions?*

The Regulatory Sandbox is a project established and operated by CySEC, through which regulated and unregulated entities can test their innovative solutions within their own environment under CySEC supervision. The Regulatory Sandbox is not a testing lab nor a digital environment provided by CySEC to facilitate the development of technological advancements.

All testings are conducted on the participant's testing environment using the participant's own data (the type of data to be used will be agreed and determined with CySEC during the application phase).

7. *How do I apply?*

After reviewing the eligibility criteria listed in the answers to Questions 2 – 4 herein, eligible entities interested in participating in the Sandbox and testing their innovative solution must download the Application Form from CySEC's Website ([here](#)), complete it and send it via email to regulatory.sandbox@cysec.gov.cy, together with the supporting documentation / information listed in section 10 of the Application Form.

Application Forms that are duly completed and submitted via the above-mentioned email will be reviewed by CySEC. Propositions that meet the eligibility criteria will be admitted to the Regulatory Sandbox, subject to conditions that may be set by CySEC, including due to the number of concurrent tests running at any point in time the Regulatory Sandbox.

8. *Is there an application fee?*

No, there is no application fee for participating in the Regulatory Sandbox.

9. *Is there a specific timeframe or deadline for applying?*

CySEC's Regulatory Sandbox shall be open to prospective applicants on an ongoing basis throughout the year. Nevertheless, CySEC may at its discretion, set a limit on the number of firms that can participate and/or the solutions that can be tested concurrently.

10. How will I test my innovative solution in the Regulatory Sandbox?

Preparation phase: Upon acceptance to the Regulatory Sandbox, the preparation phase is initiated and lasts approximately 1-2 months.

During the Preparation phase, the CySEC officer allocated to each participant shall cooperate with the participant to establish the parameters governing the testing and exit phase, the appropriate safeguards for risk mitigation, the testing plan and any potential restrictions and conditions that must be met prior to testing.

The outcome of this process will be the conclusion of a final, mutually agreed, testing agreement that will be binding upon the applicant and will be adhered to throughout the remaining Sandbox lifecycle.

Finally, the said testing plan agreed during the preparation phase includes the frequency and methods of communication between the participant and CySEC to be followed throughout the testing phase.

Testing phase: Regulatory Sandbox participants can test their solution in their own testing environment using their own data, for a period of up to 6 months. Participants must have all resources required (including human, financial and technological) to facilitate the testing through the Regulatory Sandbox.

During this time, participants are expected to give CySEC access to their testing environment, in order for the latter to monitor and oversee the impact of the innovative solution, compliance with the testing plan and parameters, adherence to the applicable legal and regulatory regime and draw relevant conclusions.

Throughout the testing period, participants will be required to submit reports on the progress of the test in the frequency contained in their testing agreement. The regulatory obligations of CySEC-authorized entities will remain fully applicable throughout this period.

In the event that participants wish to extend the testing period beyond the six (6) months, they must submit their request in writing, at least one (1) month prior to the expiration of the testing period. In such request, participants are expected to define the additional time required for testing (up to a maximum of 6 months) and provide CySEC with adequate reasons in support of their request.

CySEC shall review testing time extension requests and decide on a case-by-case basis on whether an extension shall be granted and whether any conditions shall apply during the extended period.

Evaluation / Exit phase: CySEC will internally evaluate the extent to which the pre-defined testing objectives have been fulfilled and testing parameters have been complied with. Based on such evaluations, CySEC will assess whether any amendments are required to the existing regulatory framework in order to facilitate technological innovation in the area of financial services.

The participant will submit an exit report to CySEC within thirty (30) days from the completion of the testing period. CySEC may provide non-binding feedback in relation to the participant's exit report, typically within 30 business days.

Upon exiting the Regulatory Sandbox, and depending on the testing outcomes and CySEC feedback, the participant may deploy the innovative tool / solution in the financial services market or terminate its further development and provision altogether.

11. *How long after I have submitted my application, will I know whether I have been accepted?*

Applicants shall be notified by CySEC within 6-8 weeks following the submission of a duly completed application form, on the acceptance or rejection of their application.

12. *Will the information / documentation submitted to CySEC be treated confidentially?*

All information / documentation submitted to CySEC for the purpose of applying to and participating in the Regulatory Sandbox will be treated in accordance with the CySEC data protection policy, the EU General Data Protection Regulation and the Cyprus 125(I)/2018 Law on the Protection of processing personal data and the Free Movement of such data.

13. *Will there be a dedicated CySEC officer to direct any queries throughout my participation in the Sandbox?*

A dedicated CySEC officer will be assigned to each applicant and will act as its "single point of contact". The said officer will be overseeing and coordinating the design and implementation of the testing phase, providing regulatory guidance throughout the testing phase and sharing CySEC's feedback after the participant's exit from the Regulatory Sandbox.

14. *What guidance and tools will be offered to participants throughout the Regulatory Sandbox?*

The dedicated CySEC officer will provide tailored support to the participant from the preparation phase and throughout the participant's journey in the Regulatory Sandbox.

Such guidance aims at clarifying the applicable regulatory regime in conjunction with the innovative solution being tested, assessing the adherence to the testing plan/predefined parameters/regulatory expectations, identifying regulatory enhancements required to support the relevant innovative solution developed.

A channel of communication between not only CySEC officers, but also other Regulatory Sandbox participants is encouraged for exchanging sincere experiences, suggestions and feedback.

15. What happens in case the testing plan is not complied with?

Where it becomes apparent during CySEC monitoring that a participant is not complying with the testing plan, instructions for immediate remedial action will be communicated to such applicant. Failure to comply with the relevant remedial action may lead to CySEC deciding to inform the applicant of the requirement for early test termination and/or administrative fines or other forms of supervisory/legal action.

16. What happens in case of early termination of the testing phase?

In the event that either of the participant or CySEC decides to proceed with early termination of the testing phase, the participant will transit to the Evaluation / Exit phase and the exit and transition plan shall be activated.

In case early termination is triggered by the participant, such intention should be communicated to CySEC by no later than five (5) working days after the participant made the relevant decision.

In case early termination is triggered by CySEC, this should be communicated to the participant with reasonable explanation by no later than five (5) working days after CySEC made the relevant decision.

17. Will CySEC issue a list of participants?

CySEC will maintain a list of the Regulatory Sandbox participants on its website and will further produce and publish reports with feedback, testing outcomes and conclusions, regulatory clarifications stemming from the testing of specific innovative tools / solutions, best practices and lessons learned. In such reports, no names of entities, clients or any identification information will be made or disclosed.

18. Are participants permitted to advertise their participation in the Regulatory Sandbox?

Participants may disclose **in public**:

- their participation in the Regulatory Sandbox, and
- the innovative tools / solutions they are testing in the Regulatory Sandbox.

All entities participating in the Regulatory Sandbox must include the following disclaimer in their website:

'[x] entity participates in the CySEC Regulatory Sandbox and is testing innovative tools / solutions, which aim at improving the client experience, simplifying reporting

obligations and tasks, and enhancing overall the financial services market by applying the latest technological advancements. The innovative tools / solutions being tested, namely [specify the tool or solution] has/have not been approved by CySEC. Compliance with all legal and regulatory obligations by all entities participating in the CySEC Regulatory Sandbox throughout the testing period is fully applicable, unless you have been informed of any exemptions by [x] entity.'

19. Are participants obliged to disclose to clients that the innovative product, tool, or solution intended to be provided to them, is subject to testing?

All entities participating in the Regulatory Sandbox must:

- disclose to their clients and/or prospective clients that the innovative product, tool or solution intended to be provided to them, is subject to testing under the Regulatory Sandbox;
- disclose to their clients and/or prospective clients any mitigating steps applied to address risks stemming from the application of the innovative solution;
- inform their clients and/or prospective clients that the innovative product, tool, or solution has not been approved by CySEC; and
- obtain their client's and/or prospective client's explicit consent for that product, tool or solution to be offered to them.