

THE CYPRUS REGULATORY SANDBOX

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CySEC's call for views

The Cyprus Securities and Exchange Commission has launched a call for views on establishing a Regulatory Sandbox¹. The [Call](#) and accompanying [Press Release](#) were circulated on 16th March 2022 on CySEC's Website (the "Call") and invites stakeholders across the financial services industry to provide their own feedback on establishing a Regulatory Sandbox for the promotion of innovation in the industry. The Call refers to and concerns regulated entities, Financial Technology (FinTech)², Regulatory Technology (RegTech)³ companies, their professional associations from Cyprus or abroad and in general, any interested party with views as to the merits of establishing a Regulatory Sandbox, its scope and its testing process.

Background – Rationale

FinTech, the Covid-19 pandemic and [digitalization](#) have had a major impact in automating a number of sectors, including the financial services sector and the opening up of online channels of communication and exchange of information. CySEC is using these channels and building on the previous efforts undertaken by the [Innovation Hub](#), CySEC's initiative to support innovative businesses and engage with providers of emerging financial technologies. In particular, the practical efforts of the Innovation Hub have included guidance on whether envisaged and developed FinTech and RegTech solutions encompassed regulated and licensable activities and tools, as well as feedback on the merits of such solutions.

¹ A controlled environment operated by a regulator, enabling the testing of innovative technologies, products, services or approaches, ensuring that appropriate safeguards are in place - CySEC's Call for Views on Establishing a Regulatory Sandbox, 21.3.22.

² A term that encompasses any technology used in the context of providing financial services to clients that disrupts, augments, or streamlines traditional financial services, by way of digitalisation - CySEC's Call for Views on Establishing a Regulatory Sandbox, 21.3.22.

³ A term that encompasses any technology used that may facilitate the compliance with the regulatory perimeter or the delivery of regulatory requirements - CySEC's Call for Views on Establishing a Regulatory Sandbox, 21.3.22.

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Other initiatives, which CySEC refers to in its call and relate to the promotion of innovation in the financial services sector, include and/or contemplate the introduction of:

- the [Crypto-Asset Service Providers \(CASPs\) Registry](#), which accompanies a detailed licensing framework for entities engaged in the crypto-assets space and the offering of services related to crypto-assets;
- a [pilot regime](#) for market infrastructures based on distributed ledger technology (DLT), providing for the conditions for operating a DLT market infrastructure, trading DLT financial instruments and a cooperation framework between such DLR market infrastructures and regulators;
- the proposed [Regulation on Digital Operational Resilience](#) (“Dora”), addressing the managing and supervision of information communication technologies (ICT) risks

All these initiatives come within the EU’s greater Digital Strategy and build upon a number of other initiatives undertaken at the EU level (by way of other examples, the [White Paper on Artificial Intelligence](#) and the [European Strategy for Data](#)), which aim to bring the EU at the forefront of digital technology, data and the establishment of the necessary infrastructure.

Deadline

Interested parties have a short deadline to register their interest in participating in the call. They must provide, by **28th March 2022**, a brief paragraph to innovationhub@cysec.gov.cy, on their background and any innovation-related activities.

The Experience Abroad

At the international fora, regulatory sandboxes made their appearance in the mid-2010s, following the dual financial and sovereign debt crisis. Still shaken from the effects of the crisis and a renewed push for competition in the financial services sector, the development of new products and services has been welcomed as an opportunity to modernize the banking, insurance and investment sectors and aid with the deconcentration of risk in those industries.

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In the United Kingdom, the Financial Conduct Authority introduced its own regulatory sandbox in 2016, with other jurisdictions joining the race for innovation shortly after, namely Australia, Hong Kong and Singapore.

Innovation Hubs and Regulatory Sandboxes

In Australia and the United Kingdom, and analogously to the experience in Cyprus, the regulatory sandboxes evolved from their pre-existing innovation hubs. Regulatory sandboxes are usually comprised of limited entities which meet a number of pre-determined entry criteria, and which, in coordination with the supervisory authorities (CySEC in the case of Cyprus), are allowed and facilitated in developing their products and services within a more relaxed regulatory environment. Innovation hubs are intended to be wider. They commonly provide a pathway of communication between industry actors and regulators with regards to their innovations more generally. Regulators will equally provide guidance under both regulatory sandboxes and innovation hubs, to help actors, either individually or on an industry basis, navigate through the regulatory regime applicable to them. Thus, under the right conditions, both innovation hubs and regulatory sandboxes can prove useful.

Conclusion

CySEC's proposal to establish its own Regulatory Sandbox is a welcoming proposal towards promoting innovation and competition in the financial services sector. It also builds up on previous measures adopted both at the national and EU level and facilitates discussions on future initiatives. For this effort to be fruitful nevertheless, it will be crucial for a number and variety of actors to express their interest to CySEC's call for views.

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