



BOARD OF THE BANK OF LITHUANIA

RESOLUTION ON THE APPROVAL OF THE REGULATORY SANDBOX FRAMEWORK OF THE BANK OF LITHUANIA

19 September 2018 No 03-166
Vilnius

Acting pursuant to Article 42(4)(1) of the Republic of Lithuania Law on the Bank of Lithuania, the Board of the Bank of Lithuania has resolved:

1. To approve the Regulatory Sandbox Framework of the Bank of Lithuania (attached).
2. To establish that this Resolution shall enter into force on 15 October 2018.

Chairman of the Board

Vitas Vasiliauskas

THE REGULATORY SANDBOX FRAMEWORK OF THE BANK OF LITHUANIA

CHAPTER I GENERAL PROVISIONS

1. The Regulatory Sandbox Framework of the Bank of Lithuania (hereinafter 'Framework') establishes the procedure for submitting and reviewing applications to enter the regulatory sandbox of the Bank of Lithuania and for carrying out activities in the said regulatory sandbox.

2. The provisions of the Framework shall be applicable to potential and current financial market participants under supervision, as stated in Article 42(1) of the Republic of Lithuania Law on the Bank of Lithuania, (hereinafter 'financial market participants').

3. The regulatory sandbox of the Bank of Lithuania must serve to ease the implementation of financial innovation in Lithuania's financial market, especially when regulation of any activity that relies on financial innovation is insufficient or unclear. Furthermore, the regulatory sandbox is intended to help the Bank of Lithuania understand in advance the possible effects of financial innovation on consumers and the financial system, identify emerging risks, determine possible shortcomings regarding regulation of the financial market (where these are associated with the implementation of financial innovation) and, within its competence, eliminate or reduce such regulatory shortcomings and any possible negative effects of financial innovation.

4. The provisions of the Framework shall not limit the right of financial market participants to start any activities that are linked to financial innovation or start applying financial innovations in the course of their activities without recourse to the regulatory sandbox of the Bank of Lithuania.

5. The terms used in the Framework shall be as follows:

5.1. the **regulatory sandbox of the Bank of Lithuania** (hereinafter '**regulatory sandbox**') is a framework set up by the Bank of Lithuania which allows financial market participants to enter a controlled environment, where the scope of activity is limited and other measures to safeguard the interests of consumers and the general public are applied, for a limited period of time in order to test financial innovations that bring benefits to society under the guidance and supervision of the Bank of Lithuania;

5.2. **financial innovations** are financial or insurance services or products, including the issuance of securities, means for providing such services and products to clients, and business models which due to new or newly-applied technologies or for any other reason significantly change the activities of the supervised financial market participants.

6. In carrying out the functions established in the Framework, the Bank of Lithuania shall cooperate with other state institutions that are responsible for the implementation of legislative requirements applied to financial market participants in relation to the prevention of money laundering and terrorists financing, personal data protection, consumer rights protection, competition or taxes, and/or compliance with these requirements, as well as exchange information where this is necessary for the Bank of Lithuania and other state institutions to consult financial market participants operating in the regulatory sandbox and carry out any other functions that have been established in legal acts that are associated with financial market participants operating in the regulatory sandbox.

7. The Bank of Lithuania shall carry out the functions established in the Framework insofar as they are not vested in the European Central Bank in accordance with the provisions of Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European

Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ 2013 L 287, p. 63).

8. Any documents submitted to the Bank of Lithuania and any actions carried out by the Bank of Lithuania in accordance with the Framework shall be subject to the provisions of the General Regulations on the Submission and Examination of the Applications of the Financial Market Participants Supervised by the Bank of Lithuania for Authorisations and on the Granting of the Authorisations approved by Resolution No 58 of the Board of the Bank of Lithuania of 6 May 2004 on the approval of the regulations on the submission and examination of the applications of the financial market participants supervised by the Bank of Lithuania for authorisations and on the granting of the authorisations. The Board of the Bank of Lithuania shall adopt the decisions set forth in paragraphs 17-19 (except for the interim decision established in paragraph 19), and paragraph 22 of the Framework.

9. The Bank of Lithuania shall publish on its website any information regarding decisions to allow financial market participants to enter the regulatory sandbox, the end of any activity in the regulatory sandbox, and summary information about the results of such activities. Other information that is received while performing the functions established in the Framework shall be protected in accordance with Articles 19 and 43 of the Republic of Lithuania Law on the Bank of Lithuania, which regulate the protection of information that is received for the purposes of financial market supervision.

CHAPTER II REGULATORY SANDBOX TOOLS

10. The following tools shall be used in the regulatory sandbox:

10.1. Active consultation of financial market participants. During the submission and review of any applications to enter the regulatory sandbox and for the duration of the financial market participant's activity in the regulatory sandbox, the Bank of Lithuania shall seek to cooperate with the financial market participant and, on its own initiative or at the request of the financial market participant, provide consultations within its competence;

10.2. Active application of the principle of proportionality when interpreting and applying legal acts regulating the financial market. During the submission and review of any applications to enter the regulatory sandbox and for the duration of the financial market participant's activity in the regulatory sandbox, the Bank of Lithuania shall aim to interpret and apply the provisions of legal acts regulating the financial market with regard to the essence, scope, and complexity of the specific activity which relies on financial innovation as well as the risks involved. When interpreting and applying the provisions of legal acts regulating the financial market, the Bank of Lithuania shall adhere to the following principle: temporary and limited-scope activity in the regulatory sandbox which brings benefits to society, especially if additional measures are applied to safeguard the interests of consumers and the general public, serve to justify a more flexible and innovation-conducive interpretation of legal acts;

10.3. No enforcement measures unless necessary. While the financial market participant is operating in the regulatory sandbox, the Bank of Lithuania shall not apply enforcement measures set forth in legal acts neither to the financial market participant nor its managers. Enforcement measures shall be applied only when this is crucial for supervisory purposes or when enforcement measures are compulsory and imperative to prevent significant damage to consumers or the general public.

CHAPTER III FINANCIAL INNOVATION ELIGIBILITY CRITERIA

11. Financial market participants may enter the regulatory sandbox if their financial innovation meets the following criteria:

11.1. it is new to Lithuania's financial market;

11.2. if implemented, it would bring more convenient, safer and cheaper financial services or other identifiable benefits to consumers;

11.3. its testing in a live environment and the application of tools established in Chapter II of the Framework are objectively necessary and may contribute to the implementation of the said financial innovation;

11.4. it is ready to be tested in a live environment: the financial market participant has carried out an assessment of its adaptability, allocated sufficient resources, carried out a risk analysis and understands any other testing conditions which are to be indicated in the testing plan referred to in paragraph 15 of the Framework;

11.5. it will be further developed in Lithuania.

CHAPTER IV SUBMISSION, REVIEW AND APPROVAL OF APPLICATIONS TO ENTER THE REGULATORY SANDBOX

12. The financial market participant shall have the right to enter the regulatory sandbox only when the Bank of Lithuania adopts a decision to approve admission to the regulatory sandbox.

13. Wishing to enter the regulatory sandbox, the financial market participant must submit an application to the Bank of Lithuania (see the annex to the Framework), which provides, inter alia, information regarding the managers or other participants of the financial market participant as indicated in paragraph 14 of the Framework, information which serves to substantiate that the financial innovation to be tested in the regulatory sandbox meets the criteria set forth in paragraph 11 of the Framework, as well as the testing plan.

14. A person may not act as the manager of the financial market participant, member of its collegiate management body, or natural or legal entity that directly or indirectly owns 20% or more of the voting rights or interest in the authorised capital of the financial market participant, if they satisfy at least one of the following conditions:

14.1. the person is a natural entity convicted for a serious or grave crime or a crime or criminal offence against property, property rights and property interests, the economy and business order, the financial system, public security, the civil service and public interests or equivalent crimes under the criminal laws of other countries, where the conviction has not yet expired or been withdrawn or where less than 3 years have passed since the time of the final conviction for the abovementioned criminal acts;

14.2. the person is a legal entity which is currently subject to a valid conviction for criminal acts indicated in paragraph 14.1 of the Framework and where less than 3 years have passed since the final conviction.

15. With due regard to the essence, scope, and complexity of the specific activity which relies on financial innovation as well as the risks involved, the testing plan must:

15.1. describe in detail the financial innovation to be tested, actions to be taken in the regulatory sandbox, any anticipated cooperation with other financial market participants and intended results;

15.2. determine the start and end of the testing period and deadlines for obtaining interim results. The testing period may not be longer than 6 months; however, the Bank of Lithuania may extend it for up to 12 months if the financial market participant presents reasoned arguments why it needs the extension, or until the Bank of Lithuania adopts a decision regarding the issuance of a licence or other authorisation if, during its participation in the regulatory sandbox, the financial market participant applied to the Bank of Lithuania for a licence or any other authorisation;

15.3. describe the regulatory sandbox tools (see Chapter II of the Framework), which will be required for testing the financial innovation;

15.4. describe the client group (consumers, legal entities, professional investors, etc.) that the financial market participant intends to target while testing the financial innovation, methods for their targeting, means used to inform potential clients about their participation in the financial innovation test, and any related risks;

15.5. indicate the main risks associated with financial innovation testing for the financial market participant or its clients, means of managing such risks, as well as describe the procedure for reviewing possible requests or claims by clients;

15.6. describe measures that will be used to limit the scope of activities during financial innovation testing (the largest possible number of clients, the maximum value of debt to a client, etc.), and any other means to safeguard the interests of consumers and the general public (a guarantee fund or civil liability insurance to meet potential claims, etc.);

15.7. describe the actions to be taken after a successful exit from the regulatory sandbox to further develop the tested financial innovation in line with the requirements of legal acts regulating the financial market, and the activity termination plan which is to be applied if, following the exit from the regulatory sandbox, service provision will be terminated.

16. If the testing conditions established in the testing plan, which is to be submitted to the Bank of Lithuania, do not meet the requirements set forth in the Framework or they are insufficient to harmonise further financial innovation development and consumer interest protection, the Bank of Lithuania shall propose to amend the testing plan and/or include in the testing plan additional measures to safeguard the interests of consumers and the general public within the time limit set by the Bank of Lithuania.

17. The Bank of Lithuania shall adopt a decision regarding admission to the regulatory sandbox within 3 months from the date of submission of the application and the testing plan or, with regard to paragraph 16 of the Framework, from the day the amended plan is submitted to the Bank of Lithuania and shall inform the financial market participant about its decision no later than within 5 working days from the day the decision was adopted.

18. The Bank of Lithuania shall refuse admission to the regulatory sandbox if one of the following conditions exists:

18.1. the submitted documents are not in line with the requirements of the Framework, information submitted in accordance with the Framework or additionally demanded by the Bank of Lithuania is insufficient or incorrect;

18.2. the managers and other participants of the financial market participant indicated in paragraph 14 of the Framework do not meet the requirements set forth therein;

18.3. there is sufficient ground to believe that the financial innovation to be tested does not meet the criteria established in paragraph 11 of the Framework;

18.4. the financial market participant fails to submit the testing plan within the time limit set forth in paragraph 19 of the Framework or to implement the proposals submitted by the Bank of Lithuania in accordance with paragraph 16 of the Framework within the time limit set by the Bank of Lithuania.

19. The financial market participant has the right to apply to the Bank of Lithuania regarding admission to the regulatory sandbox in two stages. In the first stage, it submits an application to enter the regulatory sandbox (see the annex to the Framework). Pursuant to paragraph 17 and paragraphs 18.1-18.3 of the Framework, the Bank of Lithuania shall adopt an interim decision within 2 months from the date of submission of the application to the Bank of Lithuania. If the interim decision states that the managers and other participants of the financial market participant and the financial innovation to be tested meet the requirements established in the Framework, in the second stage, the financial market participant no later than within 2 months shall submit to the Bank of Lithuania a testing plan. Pursuant to paragraphs 16-18 of the Framework, the Bank of Lithuania shall adopt a final decision regarding admission to the regulatory sandbox within 2 months from the submission of the testing plan to the Bank of Lithuania.

20. If the Bank of Lithuania refuses to approve the application, the financial market participant shall have the right to re-apply only after 6 months from the date the Bank of Lithuania adopted the decision to refuse admission to the regulatory sandbox.

CHAPTER V PARTICIPATION IN THE REGULATORY SANDBOX

21. When the financial market participant enters the regulatory sandbox:

21.1. tools indicated in Chapter II of the Framework shall be applied;

21.2. the financial market participant must adhere to the requirements established in legal acts regulating the financial market as well as testing conditions indicated in the testing plan which is to be submitted to the Bank of Lithuania;

21.3. the Bank of Lithuania shall monitor and inspect compliance with the requirements established in legal acts regulating the financial market as well as testing conditions indicated in the testing plan. On a monthly basis (until the seventh day of the next month), the financial market participant must submit to the Bank of Lithuania interim testing reports that contain a description of the milestones achieved, as well as other information requested by the Bank of Lithuania within the period determined by the Bank of Lithuania;

21.4. the financial market participant shall have the right to present to the Bank of Lithuania in writing reasoned arguments why it needs to extend the testing period or amend the testing conditions indicated in the testing plan. The Bank of Lithuania shall examine the request and adopt a decision regarding the amendment of the testing plan within 1 month from the date of submission of the request in accordance with paragraphs 16-18 of the Framework.

22. If during its participation in the regulatory sandbox the financial market participant fails to meet the requirements established in legal acts regulating the financial market or testing conditions indicated in the testing plan or the interests of the general public or the clients of the financial market participant are threatened, the Bank of Lithuania shall request the financial market participant to eliminate any identified infringements or deficiencies within the time limit set by the Bank of Lithuania. If the financial market participant fails to eliminate the identified infringements or deficiencies within the time limit set by the Bank of Lithuania, the Bank of Lithuania shall revoke its approval of admission to the regulatory sandbox. Any decision by the Bank of Lithuania to revoke its approval of admission to the regulatory sandbox must include adequate reasoning and be submitted to the financial market participant no later than within 5 working days after the decision was adopted.

CHAPTER VI EXIT FROM THE REGULATORY SANDBOX

23. The right to operate in the regulatory sandbox shall end when:

23.1. the financial market participant decides to terminate financial innovation testing prior to the agreed term. The financial market participant must inform the Bank of Lithuania in writing about such a decision within 5 working days of reaching the decision;

23.2. the Bank of Lithuania adopts a decision to revoke its approval of admission to the regulatory sandbox;

23.3. the testing period comes to an end.

24. When the right to operate in the regulatory sandbox comes to an end:

24.1. the tools indicated in Chapter II of the Framework shall be no longer applied and the financial market participant shall have the right to continue its activities in the regulatory sandbox only if it complies with the requirements established in legal acts regulating the financial market;

24.2. the financial market participant must submit the final testing report summarising the outcomes of the test to the Bank of Lithuania within 1 month from the date it exited the regulatory sandbox;

24.3. if the financial market participant decides to continue the activities carried out in the regulatory sandbox and applies to the Bank of Lithuania regarding the issuance of a licence or other authorisation, the Bank of Lithuania shall not re-evaluate the conditions for issuing a licence or other authorisation which were originally evaluated when the application to enter the regulatory sandbox was considered or the activities in the regulatory sandbox were monitored, and shall not request the financial market participant to provide the already submitted documents and information.

CHAPTER VII FINAL PROVISIONS

25. Periodically, but at least once every 2 years, the Bank of Lithuania shall review the provisions of the Framework and amend them if necessary. When amending the Framework, the experience of the Bank of Lithuania and other financial supervisory authorities as well as technological developments and developments in the financial market shall be taken into account.

Annex
to the Regulatory Sandbox Framework of
the Bank of Lithuania

(example of application form)

APPLICATION TO ENTER THE REGULATORY SANDBOX

Part I. Legal entity

A. Identification details¹

Name	
Legal entity code	
Legal form	
Head office address	
Correspondence address (if different from the head office address)	
Telephone number	
Email address	

B. Activities carried out

A short description of the organisational structure and financial standing of the legal entity and the activities carried out.

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C. Managers^{2, 3}

I, the undersigned, confirm that I have not been convicted for a serious or grave crime or a crime or criminal offence against property, property rights and property interests, the economy and business order, the financial system, public security, the civil service and public interests or equivalent crimes under the criminal laws of other countries, where my conviction has not yet expired or been withdrawn or where less than 3 years have passed since the time of the final conviction for the abovementioned criminal acts.

I understand that, in accordance with the procedure set out by the legal acts of the European Union and the Republic of Lithuania, the supervisory authority may verify the data and other information provided in this application and other data and information, which I do not object to and agree that the supervisory authority collects all of the information about me that is required for reviewing this application. I understand and agree that, when examining the data and information that I submitted to the supervisory authority, the supervisory authority may rely on respective local and foreign authorities, to which, in accordance with the procedures set out in legal acts, the data

¹ Please provide a copy of the document which attests to the registration of the legal entity if the legal entity has not been established in the Republic of Lithuania.

² A manager shall be understood as the sole management body and members of a collegiate management.

³ This section is not to be filled in if the Bank of Lithuania already supervises the financial market participant.

and information that I submitted to the supervisory authority might be disclosed for verification purposes.

For the duration of participation in the regulatory sandbox, I undertake to notify the Bank of Lithuania without undue delay, but no later than within 5 working days, of any changes to the information submitted as part of this application.

Name, surname and personal identification number (where no personal identification number is available – the date and place of birth)	Position	Signature

D. Primary participants^{4, 5}

I, the undersigned, confirm that:

- I have not been convicted for a serious or grave crime or a crime or criminal offence against property, property rights and property interests, the economy and business order, the financial system, public security, the civil service and public interests or equivalent crimes under the criminal laws of other countries, where my conviction has not yet expired or been withdrawn or where less than 3 years have passed since the time of the final conviction for the abovementioned criminal acts (if the undersigned is a natural entity);
- the person I am representing has not been convicted for a serious or grave crime or a crime or criminal offence against property, property rights and property interests, the economy and business order, the financial system, public security, the civil service and public interests or equivalent crimes under the criminal laws of other countries, where less than 3 years have passed since the time of the final conviction for the abovementioned criminal acts (if the undersigned is a representative of a legal entity).

I understand that, in accordance with the procedure set out by the legal acts of the European Union and the Republic of Lithuania, the supervisory authority may verify the data and other information provided in this application and other data and information, which I do not object to and agree that the supervisory authority collects all of the information about me that is required for reviewing this application. I understand and agree that, when examining the data and information that I submitted to the supervisory authority, the supervisory authority may rely on respective local and foreign authorities, to which, in accordance with the procedures set out in legal acts, the data and information that I submitted to the supervisory authority might be disclosed for verification purposes.

For the duration of participation in the regulatory sandbox, I undertake to notify the Bank of Lithuania without undue delay, but no later than within 5 working days, of any changes to the information submitted as part of this application.

Name, surname and personal identification number of the natural entity (where no personal identification number is available – the date and place of birth) or the name and code of the legal entity	Owned share of voting rights or authorised capital	Signature

⁴ A primary participant shall be understood as a natural or legal entity that directly or indirectly owns 20% or more of the voting rights or interest in the authorised capital of the financial market participant.

⁵ This section is not to be filled in if the Bank of Lithuania already supervises the financial market participant.

Part II. Financial innovation

E. A short description of the financial innovation to be tested

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F. Compliance with eligibility criteria

Criteria	Supporting information
Genuine innovation (paragraph 11.1 of the Framework)	
Consumer benefit (paragraph 11.2 of the Framework)	
Need for testing (paragraph 11.3 of the Framework)	
Readiness for testing (paragraph 11.4 of the Framework)	
Ambition to develop in Lithuania (paragraph 11.5 of the Framework)	

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(date of completion)

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(name, surname and signature)