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LEGAL UPDATE

When Sandbox Testing Ends: Suspension, Exit and Post-Exit Obligations

Regulatory Sandbox Directive No. FS/01/2026 | National Bank of Ethiopia

Part Three of Three: Suspension, Exit and Post-Exit Obligations



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When Sandbox Testing Ends: Suspension, Exit and Sanctions under the National Bank of Ethiopia's Directive

1. Introduction

Admission to the sandbox is only the beginning of a regulatory relationship, and the Regulatory Sandbox Directive No. FS/01/2026 (the "Directive") devotes considerable attention to how that relationship ends. The first part of this update examined entry into the sandbox, and the second addressed the conduct of testing. This final part considers the circumstances in which testing may be suspended or terminated, the pathways and outcomes of exit, the monitoring that continues afterwards, and the sanctions that attach to non-compliance.

2. Suspension: A Power Exercisable at Any Time

The National Bank of Ethiopia (the "National Bank") may suspend testing at any time on stated grounds, which include failure to submit required reports, significant technical or operational disruption, cybersecurity vulnerabilities that expose consumers, inadequate risk management, financial distress, and market instability. The list closes with a general ground covering any other concern considered to materially affect financial stability, consumer protection, or regulatory integrity, which gives the National Bank a wide residual discretion.

The consequences for the participant are immediate and time-limited. Testing must cease upon receipt of the suspension notice. A corrective action plan must be submitted within ten working days, and testing must resume within thirty working days once the identified deficiencies are rectified to the satisfaction of the National Bank. A further extension of up to fifteen working days may be granted on formal request, subject to a review of progress. Where the deficiencies are still not remedied at the end of that period, the National Bank is required to terminate testing. The practical effect is that a suspension is a short corrective window and should not be treated as a pause of open duration.

3. Three Pathways of Exit

A participant may leave the sandbox in one of three ways: by voluntary exit before the approved period ends, by forced termination demanded by the National Bank, or by completion of the testing period under the accepted test plan. A participant that withdraws voluntarily must give at least thirty working days' written notice stating its reasons.

Whichever pathway applies, the exiting participant carries a defined set of obligations. It must submit an assessment report covering test activities, results, adoption, compliance, consumer protection, residual risks, and any recommended regulatory amendments. It must also provide a certificate or clearance from the Information Network Security Administration or another appropriate authority confirming that no residual risks remain that could compromise financial stability, consumer protection, or data security, and it

must show that affected consumers have been informed and protected. The security clearance requirement applies even where exit is forced, and participants should therefore plan for the time and cost of obtaining it before testing begins.

Forced termination is available to the National Bank at its own discretion in the event of serious regulatory breaches such as fraud, money laundering violations, or consumer protection failures, failure to meet milestones or reporting duties, undue risk to consumers or financial stability, insolvency, failure to complete corrective measures, and other factors with undue consequences. The participant must cease all operations immediately on notification.

4. Five Possible Outcomes at Completion

When testing is completed, the National Bank classifies the result into one of five categories, having regard to the participant's regulatory compliance and its treatment of consumers. The first is transition to licensing or authorisation, where the innovation is viable, compliant, and free of undue risk; the participant then follows the ordinary licensing process under the existing laws. The second is a conditional or phased transition, where the innovation shows potential but needs refinement, and the participant operates under specified conditions. The third is a one-time extension of testing where further data is needed to reach a conclusive determination.

The fourth outcome, regulatory adjustment required, deserves particular attention. Where an innovation is beneficial but cannot be licensed because of a gap in the law or regulations, the participant must cease testing and may apply again only after the necessary legal or regulatory changes have been made. The Directive sets no timetable for such changes, so a participant in this position may face an indefinite wait. The fifth outcome is exit without licensing, where the result is unsatisfactory or the innovation presents unacceptable risks. A completed sandbox test therefore does not entitle a participant to a licence, and each of these outcomes remains a matter of regulatory determination.

5. Post-Exit Monitoring

The National Bank's oversight does not end at exit. Monitoring continues for a period that it determines by reference to the exit pathway and the nature, scale, and risk profile of the innovation. The period is capped at one year from exit, but the cap applies unless otherwise specified, which leaves room for a longer period in particular cases. A participant that exits voluntarily or by forced termination must submit periodic reports on unresolved consumer and risk matters, provide records on request, cooperate with targeted reviews, and notify the National Bank of subsequent incidents or claims linked to the test. A participant that moves to licensing or operates under conditional approval must report on performance, complaints, and incidents, and must notify material changes in operations, ownership, governance, or technology. These duties are to be integrated into the applicable licensing or supervisory framework to avoid duplicated

reporting. Where monitoring reveals non-compliance, misrepresentation, or consumer harm attributable to the sandbox, the National Bank may take supervisory or enforcement action, and on satisfactory completion it issues a written confirmation closing the sandbox-related obligations.

6. Prohibited Activities and Administrative Sanctions

The Directive prohibits participants from, among other things, giving false or misleading information, using consumer data beyond the test without consent, implying that sandbox participation amounts to full licensing, engaging in deceptive marketing, operating outside the approved test scope, changing the business model without approval, continuing operations after suspension, facilitating money laundering or terrorist financing, and accepting deposits or issuing financial instruments without regulatory approval.

Contravention attracts a graduated set of administrative sanctions. An administrative fine of Birr 50,000 applies to the first group of prohibitions, which concern misrepresentation, data misuse, deceptive marketing, operating outside scope, and unapproved changes to the business model. A fine of Birr 100,000 applies to the second group, which includes fraud, illicit financial activity, unauthorised deposit-taking, and continued operation after suspension or termination. Repeated or continuing violations may result in permanent disqualification from the sandbox. The National Bank may additionally impose enhanced reporting or independent assurance, restrict features, transaction limits, or customer numbers, suspend or terminate participation, or disqualify the participant from future cohorts. It may reduce or waive a penalty where the violation was unintentional, promptly remedied, and free of material consumer harm or systemic risk. These sanctions apply without prejudice to other applicable laws, so civil and criminal liability remain available.

7. Independent Observations

Several points arising from the text merit the attention of prospective participants. First, the Directive provides an appeal only against the rejection of an application. It contains no express procedure for challenging a suspension, a forced termination, an outcome classification, or an administrative fine, and the availability of review in those cases would depend on general administrative law. Second, the power to withdraw regulatory support without prior notice, together with the wide residual grounds for suspension and termination, places considerable discretion with the National Bank. Third, the drafting of the sanctions provisions is not fully consistent. The list of conduct attracting the lower fine refers to failure to report incidents, which does not appear among the prohibited activities in the range it cites, and the higher fine refers to continued operation after termination while the corresponding prohibition refers to operation after suspension or non-extension. These inconsistencies may give rise to interpretive questions in enforcement. Fourth, the participant remains fully liable for losses during testing, including

those arising under a waiver, so adequate financial resources and insurance arrangements are matters of commercial necessity.

8. Practical Implications and Conclusion

Taken as a whole, the Directive offers a structured and supervised opportunity, but it places the burden of risk, cost, and compliance firmly on the participant. Prospective applicants should prepare their exit strategy, consumer transition arrangements, data retention plans, and security clearance before testing begins, not after. They should build governance and reporting systems capable of meeting the short suspension and incident reporting periods, and they should treat the possibility of an unfavourable outcome as a real commercial risk. Institutions that approach the sandbox with a complete and realistic plan are better placed to benefit from it, and early legal review of the test plan and participant obligations is advisable.

Disclaimer

This legal update is provided for general informational purposes only and does not constitute legal advice. The application of the Directive may depend on the specific circumstances of an institution, innovation, or transaction, and professional legal advice should be sought before any action is taken in reliance on it.

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