INNOVATION SANDBOX OPERATING GUIDELINES

JULY 23, 2021

Version 2

Table of Contents

1. OVERVIEW 2
2. INNOVATION SANDBOX APPROACH 2
3. PURPOSE OF THE GUIDELINES 3
4. TARGET AUDIENCE 3
5. STAGES OF SANDBOX TESTING 4
6. ELIGIBILITY CRITERIA 4
7. DURATION OF THE SANDBOX TESTING 5
8. GUIDELINES FOR PARTICIPATING MIIS IN SANDBOX 5
9. APPLICATION AND APPROVAL PROCESS 5
10. EXTENSION / EXIT FROM INNOVATION SANDBOX 10
11. OUTCOME OF INNOVATION SANDBOX 10
12. DOCUMENTATION & RECORDS 11
13. SUBMISSION OF REPORTS 11
14. REVIEW PROCESS 11
15. CONFIRMATION OF REPORTS 11
16. ANNEXURE – I ..... ERROR! BOOKMARK NOT DEFINED.
17. ANNEXURE- II ..... ERROR! BOOKMARK NOT DEFINED.

Innovation Sandbox Operating Guidelines

1. Overview

"Innovation Sandbox" is a testing environment where Financial Institutions/Fintech Firms/Startups/Individual can test their solutions isolated from the live market.

The **objective of innovation sandbox** is to Promote innovation both in terms of new product and services as well as new ways of delivering existing product and services so as to:

i. Create new opportunities in the securities market
ii. To make existing services more efficient / investor friendly/ inclusive;

This would be achieved by giving access to test data and test environment to Financial Institution, FinTech firms, startups and entities not regulated by SEBI including individuals.

Innovation sandbox may be used to identify and promote the innovative applications for the benefit of society in general and securities market in particular. This will benefit the excluded and underserved customers and improve the financial inclusion.

The following benefits are envisaged through Innovation Sandbox:

1.1. Accessible channels enabling faster development of the fintech solutions.
1.2. Increased industry collaboration promoting better and innovative fintech solutions for the industry.
1.3. Expedited route to market of new ideas by providing a single point of validation of proofs of concept.
1.4. There are presently various leading organizations in Securities market ecosystem who have built sandboxes which are primarily restricted to their own business roles / functions and the data which they handles. In order to focus on a 360 degree view of securities market, it is proposed to follow a collaboration approach in building an industry wise sandbox.
1.5. Improved regulatory efficiency by engaging with the fintech firms at the early stages of development.

2. Innovation Sandbox Approach

2.1. Financial Institutions, FinTech firms, startups and entities not regulated by SEBI including individuals (the "sandbox applicant") can apply to participate in the

innovation sandbox (the “sandbox”) to experiment with innovative financial services in the production-like environment.

2.2. Applicants to undergo onboarding & evaluation/Approval process.

2.3. Upon approval, the sandbox applicant becomes the entity responsible for deploying and operating the services with Enabling Organizations like MIIs - Stock Exchanges, Depositories and Qualified Registrar and Share Transfer Agents (QRTAs) providing access to test data and test environment to the sandbox applicant.

2.4. A Steering Committee comprising of representatives from the Market Infrastructure Institutions (MIIs) and QRTAs is constituted by SEBI for carrying out all the administrative functions of the Innovation Sandbox.

2.5. Upon identification of an applicant as eligible for participation and testing in the Innovation Sandbox, it would be mandatory for the applicant to sign a Non-disclosure agreement protecting all the related parties like, the Testing Partner, Regulator, Investor, Distributor, etc. from any kind of potential risk of data leakage, sale of data etc.

2.6. Sandbox must publish support email for resolving any applicant’s queries. This email will be distribution list among steering committee.

3. Purpose of the Guidelines

The Innovation sandbox guidelines (the “guidelines”) aim to provide guidance to the applicant on the application process and the evaluation / eligibility criteria.

4. Target Audience

The guidelines will be of particular interest to firms/ individuals that are looking to apply technology in an innovative way to provide financial services that are or likely to be regulated by SEBI or to the firms/ individuals that uses the data which is available with MIIs and QRTAs and build product and services which have potential to be used for the entre financial sector and are in alignment with the objective of the Innovation Sandbox. The target audience includes but is not limited to FIs, FinTech firms, startups, professional services firms partnering with or providing support to such businesses and entities not regulated by SEBI including individuals.

5. Stages of Sandbox Testing

The details of the stages are as below:

5.1. **Stage – I:** During Stage – I, limited access to the test environment shall be provided and there shall be cap on the utilization of resources in terms of processing power, memory, storage etc.

5.2. **Stage – II:** During Stage – II, the cap on the utilization of resources shall be removed, subject to availability of resources at that point of time.

6. Eligibility Criteria

6.1. **Stage- I Eligibility Criteria**: The Stage-I eligibility criteria shall be the following:

6.1.1. Applicant must be an Indian Citizen or entities registered in India. The Know Your Customers (KYC) norms must be in line with the Central Know Your Customers Registry (CKYCR) and KYC Registration Agency (KRA) KYC requirements comprising of following:

6.1.1.1. Name of the Financial Institution/Fintech/Startup/Individual

6.1.1.2. Name(s) of the Directors, Partners, if applicable

6.1.1.3. Address of Registered Head Office / Correspondence Address

6.1.1.4. Date and Year of establishment / Registration, if applicable

6.1.1.5. Contact Number and Email Id

6.1.1.6. Website, if applicable

6.1.1.7. Govt. Issued Identification Details like Passport, Voter Id, Driving license, PAN Aadhaar Card, etc.

6.1.1.8. Letter of undertaking that the applicant is not blacklisted or debarred by any Govt. department due to breach of general or specific instructions, corrupt or fraudulent or any other unethical business practices.

6.1.1.9. Any other information as may be required to process the application.

6.1.2. **Genuine need to test the solution:** The applicant should have a genuine need for testing the solution using resources available in the Innovation Sandbox. The applicant should provide justification of requirement to access the test data and test environment and also inform what dataset is required.

6.2. **Stage- II Eligibility Criteria:** The Stage-II criteria are as following

6.2.1. **Purpose:** The purpose of the applicant should be aligned with the objective of the innovation sandbox.

6.2.2. **Adequate Progress:** The applicant should demonstrate that they have achieved adequate progress and are on track with their testing plan.

6.2.3. **Post-testing strategy:** The applicant should present their post-testing plan.

6.2.4. **Benefits to investors:** The solution should offer identifiable benefits (direct or indirect) to investors and / or to the capital market and financial sector as a whole.

6.3. An applicant is eligible for Stage-II after completing minimum 60 days in the Stage-I of Innovation Sandbox testing. Applicants are required to make a presentation before the steering committee for evaluation and entry to Stage-II either physically or through virtual mode.

7. Duration of the Sandbox Testing

The duration of the sandbox testing stage is maximum of twelve months and extendable upon request of the applicant duly approved by the steering committee.

8. Guidelines for participating MIIs in Sandbox

8.1. MIIs need to publish their APIs/Services/File Upload Interfaces for integration with FinTechs. MIIs could have their APIs portals which are referenced/redirected from the Innovation Sandbox API portal.
8.2. The data provided for testing should be artificial, anonymized, and historical.
8.3. No actual/identifiable PI data (Name of the investor, Date of Birth, PAN, Address, Email, Phone/Mobile numbers, Bank/Card details, any other investor information that may lead to any indication on investor details) should be part of test data.
8.4. Access to the data and environment shall be provided as specified in the stage-I and stage-II. Based on the outcome and success/ suitability of the testing, additional data and resources shall be provided.

9. Application and Approval Process

Prior to submitting an application, the applicant can seek clarification regarding the sandbox by writing a mail to: ***info@innovation-sandbox.in***

9.1. STAGE-I:

9.1.1. The applicant must submit the Application through the portal https://innovation-sandbox.in and must indicate a specific Enabling organization (Named Enabling Organization) for seeking the data/ platform.

9.1.2. The application shall be automatically forwarded to all the members of the steering committee for examination.

9.1.3. The responsibility of processing of that particular application would be with the named enabling organization.

9.1.4. The named enabling organization perform the KYC verification and other members of the steering committee confirms the criteria “Genuine need to test” preferably within 15 days. The named enabling organization shall intimate the applicant the acceptance / rejection of their application within this period. The quorum for the approval shall be SEBI and named enabling organization.

9.1.5. If approved, applicant enters stage-I of Sandbox testing and access shall be provided to the applicant for 60 days with capping on the utilization of resources.

9.1.6. The applicant will be informed, with reasons, if the application is rejected. The applicant may, after a period of one month, re-apply for the sandbox when it is ready to meet the objective and eligibility criteria of the sandbox.

9.1.7. Applicant must submit monthly status report to the steering committee.

9.1.8. The steering committee would preferably meet once every month to review the status of the applications.

9.1.9. The steering committee shall review the status of all applications undergoing sandbox testing and decide whether applicant is suitable to continue the testing.

9.1.10. Applications where decision could not be taken will be referred to the SEBI appointed sub-committee on Innovation Sandbox on need basis.

9.2. STAGE-II:

9.2.1. The applicant must submit the Application Form for Stage-II in the portal https://innovation-sandbox.in

9.2.2. The application will be forwarded to all the members of the steering committee.

9.2.3. Steering committee shall review whether the applicant is eligible to enter Stage-II preferably within 30 days of the submission of the application and intimate the decision to the applicant. Applications where decision could not be taken will be referred to the SEBI appointed sub-committee on Innovation Sandbox on need basis. In this case, applicant may be required to make a presentation before the SEBI appointed sub-committee on Innovation Sandbox.

9.2.4. If approved, applicant enters stage- II of Sandbox testing: Capping on the utilization of resources is removed (subject to availability of resources during that point of time) and applicant continues testing.

9.2.5. The applicant must submit monthly reports as mentioned in the clause 13 of this document i.e. “Submission of Reports”.

9.2.6. After 90 days of testing in stage-II, the steering committee shall decide whether the applicant is suitable to continue the testing.

9.2.7. If found suitable, Applicant continue the testing until the approved duration of sandbox testing.

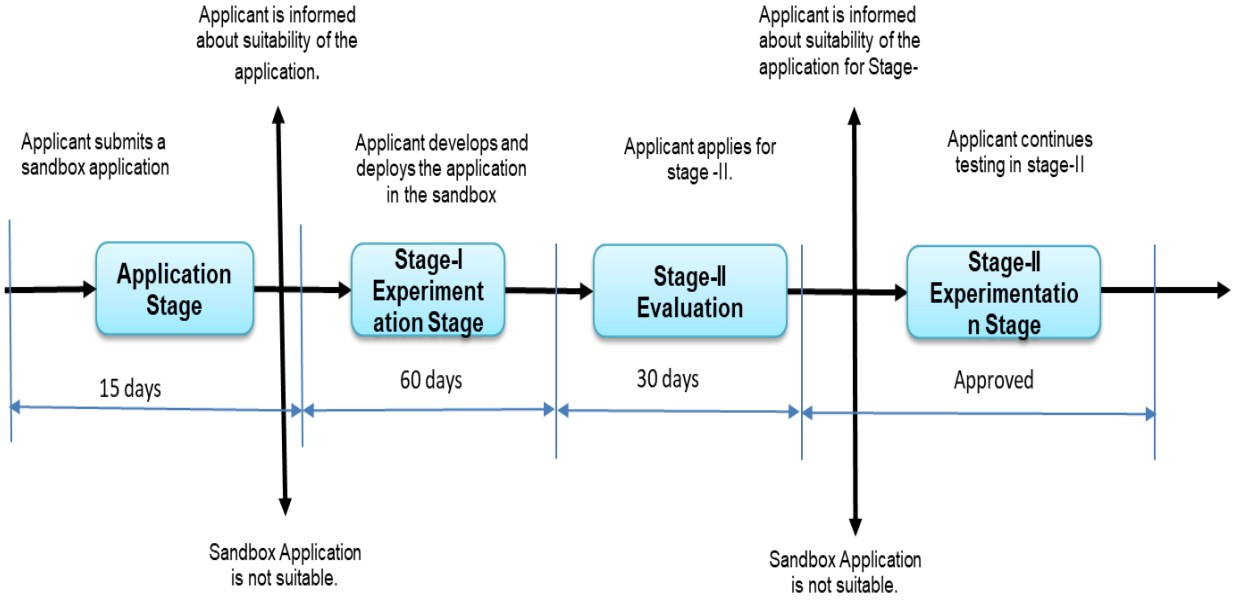


Figure 1: Application approval process for the Innovation Sandbox

Chart 1: Application and Approval Process: Stage-I

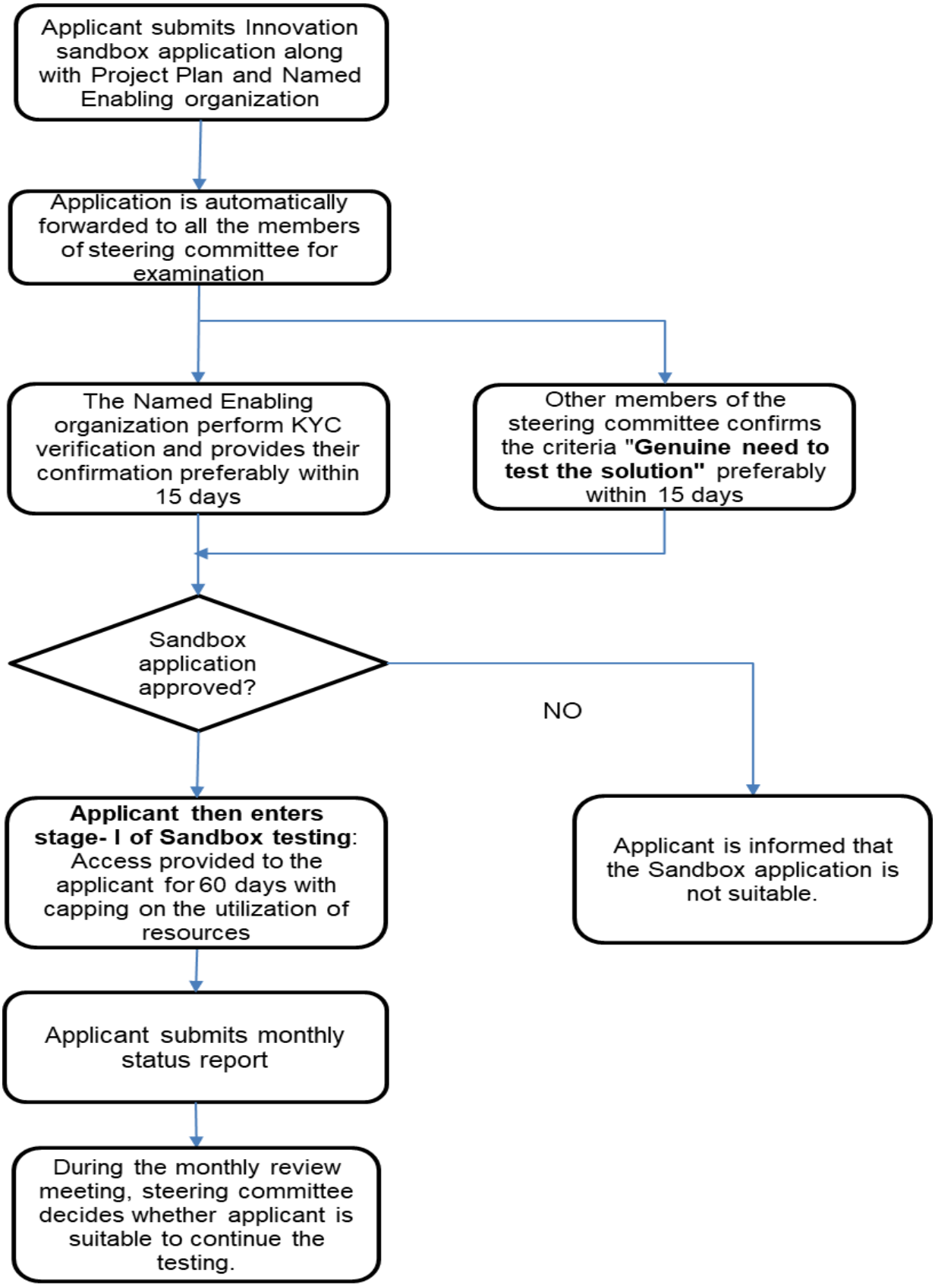
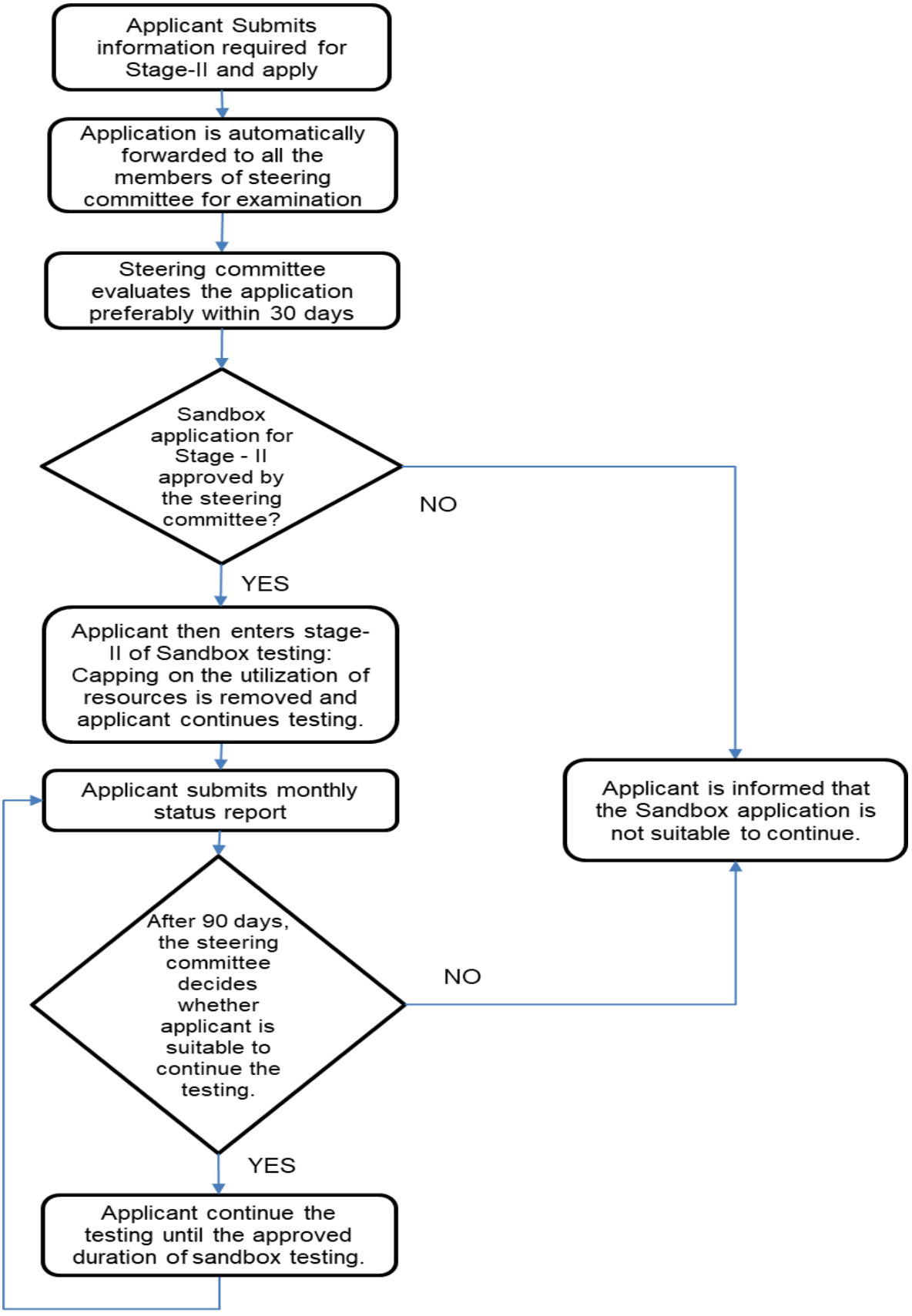


Chart 2: Application and Approval Process : Stage-II



10. Extension / Exit from Innovation Sandbox

In the event that the sandbox applicant requires an extension of the sandbox period, the sandbox applicant should make an application to the Committee at ***info@innovation-sandbox.in*** at least 1 month before the expiration of the sandbox period and provide reasons to support the application for extension. The Committee will review the application and approval will be granted on a case-to-case basis. The Committee's decision on the application for extension is final.

In the following conditions a sandbox applicant could be exited from the Sandbox:-

10.1. Termination of project / testing

10.1.1. The committee shall decide to terminate the testing under any of the following circumstances:

i. During the course of the testing, it is found that the testing is not being carried out towards the intended / specified objective, based on the latest test scenarios, expected outcomes and schedule mutually agreed with applicant.

ii. The innovation towards which testing is being carried out, is either detrimental to either investors or any of the stakeholders in the industry or such a testing violates the regulatory guidelines in any manner

iii. The applicant is unable to complete the testing

10.2. Expiry of agreed timeline / No extension

10.2.1. Upon completion of the permitted timelines towards testing in Innovation Sandbox and in the event that no further time extension has been sought / granted the Testing would be deemed to be over and the applicant will have to exit the Innovation Sandbox

10.3. Failing to meet the Regulatory requirements:

10.3.1. The sandbox applicant is unable to fully comply with the relevant legal and regulatory requirements, as determined by the Committee from time to time.

11. Outcome of Innovation Sandbox

The Sandbox applicant should demonstrate that the Innovation sandbox displays the following outcomes:

11.1. **Product showcase:** A platform for showcasing the working prototype of the solution which may help fintech firms secure more funding.

11.2. **Product regulation:** Assessing compliance and readiness with SEBI's regulations.

11.3. **Industry interoperability:** Providing an environment where developers could explore industry challenges and use cases for innovative technologies linked to interoperability of new solutions across the industry.

12. Documentation & records

All Sandbox Applicants must ensure proper maintenance of records during the testing period to facilitate reviews of test by SEBI/MIIs. The Participants shall also maintain such records for a period of 3 years from the completion of testing/exit from the Sandbox

13. Submission of Reports

13.1. The Sandbox applicant must submit project plan along with the Application Form for participation in Innovation Sandbox. The project plan shall include timelines and milestones of major activities.

13.2. The Sandbox applicant must submit monthly reports to the Committee on the progress of the test, which includes information on key performance indicators, key milestones and statistical information against the project plan.

13.3. The Sandbox applicant must submit a final report to Committee within 30 calendar days from the expiry of the testing period.

14. Review Process

The steering committee would preferably meet once every month to review the status of the applications.

14.1. The steering committee shall review the status of all applications undergoing sandbox testing and decide whether applicant is suitable to continue the testing.

14.2. Applications where decision could not be taken will be referred to the SEBI appointed sub-committee on Innovation Sandbox on need basis.

15. Confirmation of Reports

The monthly and final reports must be confirmed by the CEO/ Registered individual or by an officer duly authorized by the CEO/ Registered individual.