
INNOVATION SANDBOX OPERATING GUIDELINES

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Innovation Sandbox Operating Guidelines

1. Overview

“Innovation Sandbox” is a testing environment where Fintech firms can test their solutions isolated from the live market. The purpose of innovation sandbox is to provide a collaborative space accessible to all the Fintech participants including the MIIs.

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:

- i. Accessible channels enabling faster development of the fintech solutions.
- ii. Increased industry collaboration promoting better and innovative fintech solutions for the industry.
- iii. Expedited route to market of new ideas by providing a single point of validation of proofs of concept.
- iv. 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.
- v. The Innovation sandbox will provide legitimacy to the fintech solution which may enable them to build their own Intellectual property (IP) and efficient business models.
- vi. Improved regulatory efficiency by engaging with the fintech firms at the early stages of development.

2. Innovation Sandbox Approach

- i. FinTechs or Financial Institutions or any interested firm (the “applicant”) can apply to participate in the innovation sandbox (the “sandbox”) to experiment with innovative financial services in the production-like environment.
- ii. Applicants to undergo onboarding & evaluation/Approval process.

- iii. Upon approval, the applicant becomes the entity responsible for deploying and operating the services (the “sandbox entity”), with MIs providing the appropriate regulatory support by relaxing specific legal and regulatory requirements prescribed from time to time, which the sandbox entity will otherwise be subject to, for the duration of the sandbox.
- iv. MIs - Stock Exchanges, Depositories and Qualified Registrar and Share Transfer Agents (QRTAs) shall make their services available to the Sandbox Entity.
- v. 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.
- vi. Sandbox must publish support email for resolving any applicant’s queries. This email will be distribution list among MI’s teams participating in the Innovation Sandbox.

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 that are looking to apply technology in an innovative way to provide financial services that are or likely to be regulated by SEBI. The target audience includes but is not limited to FIs, FinTech firms, and professional services firms partnering with or providing support to such businesses.

5. Sandbox Evaluation Criteria

The Applicant should be a FI/Fintech/Startup/Individual. The applicants will be evaluated based on the below mentioned criteria and their application shall contain necessary supporting information to certify the same:-

- i. FI/FinTech

- Company should be registered in India or have a partnership with an Indian registered entity,
 - The company shall have a Net-worth of not less than INR 25 lakhs.
 - Self-declaration of net worth by the applicant as on the day of application submission shall be considered.
- ii. Startups
- The entity should be a company incorporated and registered in India and shall meet the criteria of a start-up as defined in the Gazette notification of the Department for Promotion of Industry and Internal Trade dated February 19, 2019
 - The startup should be registered with Startup India
- (See definition section in the following link for the start-up definition: <https://www.startupindia.gov.in/content/dam/invest-india/Templates/public/198117.pdf>)
- iii. Individual
- If an Individual applicant is a student, a certificate issued from Institute/University Dean's Office for permission to apply for Innovation Sandbox, should be submitted.
 - If an Individual applicant is not a student, then he/she is required to have a minimum net worth of INR1 lakh.
- b. The Applicant should submit an application form on the email ID – InnovationSandbox@nse.co.in along with all complete information and relevant details (see annexure – 1 for details to be sent in the email). Shortly, Digital Onboarding Portal – called “*Innovation Hub*” for Fintech firms/startups would be made available to submit their proposal.

In case of any missing information, applicant will be given a 10 day time period to re-submit the same, failing which the application will be considered as ‘Rejected’. Post rejection of the application, applicant need to wait for 3 months of cooling period before submitting the next innovative idea.

- c. The proposed financial service includes new or emerging technology, or uses existing technology in an innovative way. The proposed financial service:-
- i. Addresses a problem, or brings benefits to consumers or the industry. For example, these could be supported by evidence from relevant consumer or industry research;
 - ii. Able to offer solutions: Service enhancement, Process enhancement, faster service delivery, Enhanced governance, Security, etc.

- iii. Not detrimental to the investors, regulation, or any stakeholder in any manner
- d. The applicant should have the intention and ability to deploy the proposed financial service in India on a broader scale after exiting the sandbox.
 - i. The test scenarios and expected outcomes of the sandbox experimentation should be clearly defined, and the applicant should report to the Steering Committee constituted for this purpose (“Committee”), on the test progress based on an agreed upon schedule.
 - ii. The appropriate boundary conditions should be clearly defined, for the sandbox to be meaningfully executed while sufficiently protecting the interests of consumers and maintaining the safety and soundness of the industry.
 - iii. Significant risks arising from the proposed financial service should be assessed and mitigated. For example, providing evidence of preliminary testing of the proposed financial service as part of the sandbox application, identifying the risks discovered from the preliminary testing and the proposal for mitigating the risks.
 - iv. An acceptable exit and transition strategy should be clearly defined in the event that the proposed financial service has to be discontinued, or can proceed to be deployed on a broader scale after exiting the sandbox.
- e. The applicant and all its directors, partners, etc. should meet the ‘Fit & Proper’ criteria as prescribed under the SEBI regulations

6. Eligibility Criteria

All Applicants must fulfill the following eligibility criteria for inclusion into the Innovation Sandbox:

- a. **Applicability:** Conceptually, the Innovation Sandbox framework is applicable to any entity, which intends to innovate on the products, services, and/or solutions for the securities and commodities market in India.
- b. **Genuine need to test:** The applicant should have a genuine need for testing the solution using resources available in the Innovation Sandbox. The applicant should demonstrate that the solution cannot be developed properly without testing in the Innovation Sandbox.

- c. **Testing readiness of the solution:** The applicant has the necessary resources to support testing in the sandbox. The applicant must show well developed testing plans with clear objectives, parameters and success criteria.
- d. **Post-testing strategy:** The applicant should demonstrate their post-testing plan.
- e. **Direct benefits to consumers:** The solution should offer identifiable benefits (direct or indirect) to consumers and to the capital market and the Indian economy at large.
- f. **Secure:** The solution shall be validated for cyber security parameters. The applicant is required to submit a cyber-security compliance certificate as per SEBI's Cyber Security guidelines.

The applicant must demonstrate eligibility to the satisfaction of the assessor by showing clear evidence as listed above.

7. Guidelines for participating MIs in Sandbox

- 1. MIs need to publish their APIs/Services/File Upload Interfaces for integration with FinTechs. MIs could have their APIs portals which are referenced/redirected from the Innovation Sandbox API portal.
- 2. The data provided for testing should be artificial, anonymized, and historical.
- 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
- 4. Access to the limited data shall be provided in the initial phase. Based on the outcome and success/ suitability of the testing, additional data shall be provided

8. Application and Approval Process

Prior to submitting an application, the applicant can seek clarification regarding the sandbox by writing a mail to: InnovationSandbox@nse.co.in

- i. At the "Application Stage", the Steering Committee constituted for this purpose ("Committee") shall review the application and endeavor to inform the applicant

of its potential suitability for a sandbox within 30 working days after it receives a complete set of information necessary for the assessment (T0).

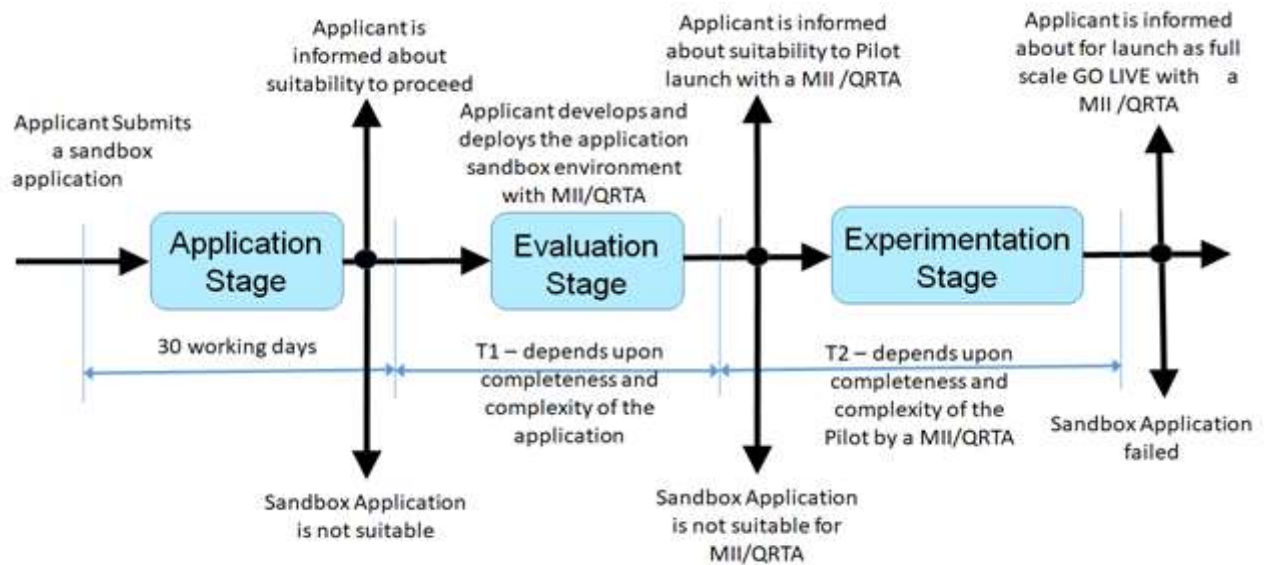


Figure 1: Application approval process for the Innovation Sandbox

- ii. At the “Evaluation Stage”, the time required to fully assess the application (T1) is dependent on its completeness and complexity, and the specific legal and regulatory requirements involved.
 - a. Participant will be invited to present the idea to the Committee by face to face meeting or over a video conference.
 - b. Due to the exploratory nature of the approach, the applicant will be allowed to make adjustments to the application for resubmission (for example, refining the boundary conditions) after discussing with Committee. The applicant will be informed in writing whether to proceed with the sandbox.
- iii. 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, principles and evaluation criteria of the sandbox.
- iv. In the event that the sandbox entity intends to make material changes to the financial service under experimentation during the “Experimentation Stage”, the sandbox entity should make an application by sending an email at InnovationSandbox@nse.co.in at least 1 month in advance and provide details of the changes with reasons (the “change requests”). The applicant can continue experimenting with the existing solution while Committee reviews the change requests and inform the sandbox entity of its decision.

- v. MII/QRTAs can run the application/service in pilot under experimentation stage till application is functionally and architecturally sound to go LIVE to market. Individually MII/QRTA who are working with Fintech/FI would decide the time period “T2”, depending upon maturity of pilot, market conditions and their business priorities

9. Extension / Exit from Innovation Sandbox

In the event that the sandbox entity requires an extension of the sandbox period, the sandbox entity should make an application to the Committee at InnovationSandbox@nse.co.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 entity could be exited from the Sandbox:-

1. Termination of project / testing

- 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

2. Expiry of agreed timeline / No extension

- 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

3. Failing to meet the Regulatory requirements:

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

10. Outcome of Innovation Sandbox

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

- i) **Product showcase:** A platform for showcasing the working prototype of the solution which may help fintech firms secure more funding.
- ii) **Product regulation:** Assessing compliance and readiness with SEBI's regulations.
- iii) **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.

11. Documentation & records

All Sandbox Entities must ensure proper maintenance of records during the testing period to facilitate reviews of test by SEBI/MIs. The Participants shall also maintain such records for a period of 5 years from the completion of testing/exit from the Sandbox

12. Submission of Reports

- 12.1 The Sandbox Entity must submit interim reports to the Committee on the progress of the test, which includes information on key performance indicators, key milestones and statistical information.
- 12.2 The Sandbox Entity must submit a final report to Committee within 30 calendar days from the expiry of the testing period

13. Confirmation of Reports

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

14. Annexure – I

Application Form for participation in Innovation Sandbox
(Guidelines::Application form should use drop downs for categorization user interface for most of the queries. Text boxes for most of the questions/queries should allow 100 words.)

| Innovation Sandbox – Application | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| <p>The Innovation Sandbox is a restricted environment in which a FI/Fintech company/Individual can test innovative propositions in an offline test environment that simulates a live environment.</p> <p>Please send your completed application form to InnovationSandbox@nse.co.in Please ensure that your application is complete in all aspects</p> | |
| Name of the Fintech Company /Individual | |
| Name(s) of the Directors, Partners, etc. | |
| Address of Registered Head Office | |
| Registration Number | |
| Date and Year of establishment / Registration | |
| Contact Number and Email | |
| Website | |
| Description | |
| 1. About You | |

A. Please provide us with detailed description of your Firm

B. Please describe a listing and description of various key products offered by you in the marketplace

C. Are you planning to work with other firms to undertake this test? If yes, please provide their names, contact details, a description of their role and the extent to which contractual agreements with partners are in place.

2. About Your Innovation

A. Provide a short summary of your proposition and its stage of development. If you already have a business plan attach it to your application email

B. Explain how your idea would be beneficial to various stakeholders in the Industry towards, customer convenience, markets, process enhancement, strengthening regulations, etc.

C. Explain why your idea requires a testing in the ‘Innovation Sandbox’ and what kind of data access would you require for a seamless testing of your idea

D. Provide a summary of the risks your proposition may involve (to all, consumers, industry and your business) and how you propose to mitigate them in the ‘Innovation sandbox’ test.

3. About Your Testing Plan (Criteria – Ready to test)

A. Describe the use case that you are proposing to test in the sandbox.

B. Describe the objectives of your proposed test and how you will measure if your test has been successful.

C. Describe the timeline and key milestones of your proposed test.

D. What type of customers will participate in your test and how do you intend to source these?

E. What is expected to be the total duration of your test in the ‘Innovation Sandbox’?

F. What is your exit plan, i.e. how will you wind down your test if it is unsuccessful during testing?

G. What are your next steps if the test is successful?

H. Have you tested your application with any dummy data? If yes, please attach test results.

4. Declaration

- A. We hereby declare that <<Company/Individual name>> and all its Directors & Partners fully comply with the Fit & Proper criteria as defined by SEBI**
- B. We hereby declare that the company/individual meets the minimum capital / networth requirements as prescribed under the 'Innovation Sandbox' Regulations**
- C. We hereby declare that we would not carry out any tests that deviate from or undermine the extant regulatory principles, in any manner**
- D. We hereby agree to sign an (End User Agreement & Non-Disclosure agreement) with our Testing Partners protecting them from any kind of potential risk arising out of various tests carried out by us**
- E. We agree to participate in periodic reviews during the Testing phase and shall submit periodic updates from time to time to the Regulator and the Steering committee**
- F. In the event of a 'Successful' testing, we agree to share a detailed implementation plan of the proposed product**
- G. We understand that permission to participate in the 'Innovation Sandbox' completely lies with the Steering Committee and would abide by their decisions in this regard**

Enclosures:-

For individuals:

1. **Company's registration certificate**
2. **Self-certified Net-worth Certificate**
3. **Certificate issued from Institute/University Dean's Office for permission to apply for SEBI Innovation Sandbox, in case of students.**
4. **Copy of PAN**

For FI/FinTech and Startups

1. **Self-certified Net-worth Certificate**
2. **Copy of Incorporation Certificate**
3. **Details of Past projects / testing carried out**
4. **Copy of PAN / TIN of the Company & its Directors**