



भारतीय प्रतिभूति और विनियम बोर्ड Securities and Exchange Board of India

CIRCULAR

SEBI/HO/ITD/ITD/CIR/P/2021/16

FEBRUARY 02, 2021

To,

All Stock Exchanges, Depositories and Qualified Registrar and Share Transfer Agents

Dear Sir/Madam,

Subject: Revised Framework for Innovation Sandbox

1. The capital market in India has been an early adopter of technology. SEBI believes that encouraging adoption and usage of financial technology ('FinTech') would have a profound impact on the development of the securities market. FinTech can act as a catalyst to further develop and maintain an efficient, fair, transparent and inclusive securities market ecosystem.
2. To create an ecosystem which promotes innovation in the securities market, SEBI feels that startups including FinTech firms should have access to market related data, and test environments which are otherwise not readily available to them, to enable them to test their innovations effectively before the introduction of such innovations in a live environment.
3. With a view to operationalize the abovementioned endeavor, SEBI had proposed a concept of "Innovation Sandbox". Innovation Sandbox facilitates access to an environment (testing facilities and test data) provided by **Enabling Organizations** like Stock Exchanges, Depositories and Qualified Registrar and Share Transfer Agents (QRTAs) wherein innovators (hereinafter referred to as **Sandbox Applicants**) would be testing their innovations in isolation from the live market and would be used for offline testing of the proposed solution of the applicant.
4. **Steering Committee:** To drive the Innovation Sandbox, a steering committee comprising of representatives from the enabling organizations has been formed. The responsibilities of the steering committee are as follows:



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- 4.1. The steering committee shall supervise the operations of the Innovation sandbox. SEBI representative shall also be included as a member of this committee.
- 4.2. The steering committee shall process the applications submitted by sandbox applicants, approve / reject applications, assign a **lead enabling organizations** etc.
- 4.3. The secretariat for a particular application would be the assigned lead enabling organization.
- 4.4. The lead enabling organizations shall also be responsible for onboarding the applicant post approval of the application and monitoring the applicant throughout the lifecycle of the sandboxing.
5. On review of the existing framework, in order to encourage innovation and make it even more convenient for participation in the Innovation Sandbox, the objective and eligibility criteria of the Innovation Sandbox has been revised with graded entry norms.
 - 5.1. **Revised objective of Innovation Sandbox:** To promote innovation both in terms of new products and services as well as new ways of delivering existing products and services so as to:
 - 5.1.1. Create new opportunities in the securities market
 - 5.1.2. To make existing services more efficient / investor friendly/ inclusive

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

5.2 **Stages of Innovation sandbox:** The details of the stages are as below:

- 5.2.1 **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.
- 5.2.2 **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.

5.3 **Eligibility Criteria:** The eligibility criteria for Stage-I and Stage-II are as follows:

- 5.3.1 **Stage- I Eligibility Criteria:** The Stage-I eligibility criteria shall be the



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following:

- 5.3.1.1 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:
- Name of the Financial Institution/Fintech/Startup/Individual
 - Name(s) of the Directors, Partners, if applicable
 - Address of Registered Head Office / Correspondence Address
 - Date and Year of establishment / Registration, if applicable
 - Contact Number and Email Id
 - Website, if applicable
 - Govt. Issued Identification Details like Passport, Voter Id, Driving licence, PAN Aadhaar Card, etc.
 - 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.
 - Any other information as may be required to process the application.
- 5.3.1.2 **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.
- 5.3.2 **Stage- II Eligibility Criteria:** The Stage-II criteria are as following
- 5.3.2.1 **Purpose:** The purpose of the project should be aligned with the objective of the innovation sandbox.
- 5.3.2.2 **Adequate Progress:** The applicant should demonstrate that they have achieved adequate progress and are on track with their testing plan.
- 5.3.2.3 **Post-testing strategy:** The applicant should present their post-testing plan.
- 5.3.2.4 **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.

5.3.3 An applicant is eligible for Stage-II after completing minimum 60 days in the



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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.

Features and Structure of Innovation Sandbox

6. The components and structure of the Innovation Sandbox can be broadly classified into following categories:

6.1. Design Components

6.1.1. Data Sets

6.1.1.1. One of the most important components of an Innovation Sandbox is access to securities market related data, which will enable applicants to test and improve their FinTech solutions.

6.1.1.2. The datasets that will be made available to applicants shall be clearly defined and known to market participants. Indicative datasets which may become part of the Innovation Sandbox are as follows:

- a) Depositories data: Holding data, KYC data
- b) Stock exchange data: Transactions data like order log, trade log
- c) RTA data: Mutual fund transactions data

6.1.1.3. The datasets shall be historical and anonymized data and shall also contain data related to episodic market events. Live data shall not be made available to applicants.

6.1.1.4. Access to datasets shall be provided in a phased manner starting with limited amount of data and based on validations, more exhaustive data would be provided to applicants.

6.1.1.5. The use of datasets shall be governed by a comprehensive confidentiality agreement which shall include an 'End User Agreement' clearly specifying that the datasets made available shall not be sold or sublet or shared or misutilized in any manner with any other entities, and shall be used only for the stated purpose.



6.1.2. Infrastructure

6.1.2.1. The datasets to be used for testing solutions in the Innovation Sandbox shall be shared preferably through application program interface (APIs), which would be published and made available to all eligible applicants.

6.1.2.2. Existing test platform shall be made available by the enabling organizations to the eligible applicants to ensure that the innovative solution is working in the enabling organization's environment.

6.1.2.3. Enabling organizations shall also provide Innovation Sandbox test kit (comprising of Test data, test environment, APIs, configurable access rights etc.) to the eligible applicants.

6.2. **Intellectual Property Rights (IPR):** It is envisaged that there will be multiple applications with similar ideas in the innovation sandbox. Hence, no claim with respect to the IPR shall be applicable in the Innovation Sandbox.

6.3. Administrative Components

6.3.1. Application Assessment

Applications received for participating in the Innovation Sandbox will be assessed by the steering committee. It would follow graded eligibility criteria.

6.3.2. Interface for Innovation Sandbox

Enabling organizations shall endeavor to make the entire sandbox participation lifecycle (applying, tracking, on-boarding, monitoring, reporting, etc.) completely digital to ensure transparency and efficiency. The Innovation Sandbox web portal can be accessed at: <https://innovation-sandbox.in/>



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This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 and Section 19 of the Depositories Act, 1996 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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