

Inter-operable Regulatory Sandbox: Standard Operating Procedure

Background

The Inter-Regulatory Technical Group on FinTech (IRTG on FinTech) has been constituted under the aegis of Sub-Committee of the Financial Stability and Development Council (FSDC-SC) for inter-regulatory co-ordination among the financial sector regulators on FinTech-related issues including **Inter-operable Regulatory Sandbox (IoRS)**. The Group is chaired by Chief General Manager of the FinTech Department, RBI with representation from other financial sector regulators, viz., SEBI, IRDAI, IFSCA and PFRDA and one representative each from DEA and MeITY.

One of the mandates of the Group was to suggest models on IoRS mechanism for hybrid products / services falling within the remit of more than one regulator as also to facilitate framing Standard Operating Procedure (SOP) for the same. The SOP for IoRS is as given below:

2. IoRS – A process

IoRS is a mechanism to facilitate testing of innovative hybrid financial products / services falling within the regulatory ambit of more than one financial sector regulator. To obviate the need of innovators, to engage with different regulators regarding their hybrid product, a common window has been made available.

3. Participants in the IoRS

The financial regulators that are members of the IRTG on FinTech have consented to participate in the IoRS arrangement under the aegis of IRTG on FinTech.

4. Product / Services to be admitted in IoRS

Financial products / service providers whose business models / activities / features fall within the remit of more than one financial sector regulator, shall be considered for the testing under IoRS.

5. Governance

- i. FinTech Department of RBI shall act as nodal point for receiving applications under IoRS and shall be designated as 'Coordination Group (CG)' for IoRS. All the necessary secretarial support shall be provided by them.
- ii. The application for IoRS shall be on '*on tap basis*' in a prescribed application form. The RS framework of the regulator under whose remit the '**dominant feature**' of the

product falls, shall govern it as '**Principal Regulator (PR)**'. The regulator/s under whose remit the other features apart from the dominant feature of the product fall shall be the '**Associate Regulator (AR)**'

- iii. Two sets of factors would be considered or deciding the dominant feature. Firstly, the type of enhancement to the existing products like loans, deposits, capital market instruments, insurance, G-sec instruments, pension products, etc., and secondly, the number of relaxations sought by the entity for undertaking the test under the IoRS. The dominant feature shall be decided with greater weightage to the number of relaxations sought. The relaxation, if warranted, shall be considered by PR / AR on case-to-case basis and decision to that effect shall be binding and final.
- iv. Based on the dominant features of the product, the eligibility criteria and networth criteria as applicable for the RS of the concerned regulator (PR) shall be applicable to the applicant entity for participation in the IoRS.
- v. Based on the minimum eligibility criteria of the regulator under whose remit the dominant feature of the product falls, the Coordination Group (CG) (FinTech, RBI) shall conduct preliminary scrutiny of the application and forward the same to the concerned PR and AR(s) under whose purview the innovation falls.
- vi. In order to keep the IoRS process simple and non-disruptive, detailed scrutiny of the application shall be done by the PR based on its own framework. The PR shall co-ordinate with AR(s), regarding the features of the product, which falls under their remit.
- vii. In case SEBI is the AR, since the provisions of the SEBI Act allows only SEBI registered entities to participate in their RS, the unregistered applicant may get into a MoU or any other arrangement with a SEBI registered entity to participate in IoRS.
- viii. The applications from Indian FinTechs having global ambition and foreign FinTechs seeking entry to India, shall be referred to IFSCA, for taking forward the proposals, as IFSCA will be the PR for all such applications.
- ix. The PR shall reserve the right of admissibility of the hybrid product / solution / innovation as per its RS framework and accordingly communicate to the applicant. The decision to that effect shall also be communicated to CG / IRTG on FinTech, for information.
- x. AR(s) shall provide specific inputs, stipulate condition regarding aspects falling under its remit for parameters to be tested, boundary condition, risks to be monitored, etc.
- xi. The AR(s) shall provide inputs at the earliest but not later than 30 days from receipt of reference from the PR.
- xii. The test design shall be finalised by the PR in consultation with the AR.
- xiii. Any co-ordination issue between PR and AR to reach common views on the regulatory treatment of innovative products, services and business models shall be discussed and sorted out in the IRTG on FinTech before initiation of the live testing under IoRS.

The IRTG on FinTech in its subsequent meetings shall monitor the progress of the products being tested under IoRS.

- xiv. The evaluation of product shall be done as per the framework of the PR, which may also reflect appraisal by the AR(s), while deciding on suitability and viability of the product / services.
- xv. Post successful exit from the IoRS, the entity shall approach PR and AR(s), for authorisation and for seeking regulatory dispensation before launching the product in the market. The decision of respective regulator shall be binding on the entity.
- xvi. The product being admitted and successfully exiting the IoRS shall be published by the regulator concerned vide Press Release, specifically indicating that, it is under IoRS of IRTG on FinTech.
