O.P. JINDAL GLOBAL
INSTITUTION OF EMINENCE DEEMED TO BE
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A Private University Promoting Public Service

CYRIL SHROFF
CENTRE FOR
AI, LAW & REGULATION

Jindal Global Law School
India's First Global Law School

Comments on draft IFSCA FinTech Sandbox Framework

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About CSCAILR

The Cyril Shroff Centre for AI, Law & Regulation ("Centre/CSCAILR") at Jindal Global Law School at O.P. Jindal Global University focuses on world-class research, knowledge creation, training, and capacity building, while engaging closely with government bodies, intergovernmental organizations, corporates, think tanks, legal institutions, and academia to shape AI governance and regulation for India and the world.

The Centre connects scholarship with real policy implementation, produces high-quality research and actionable recommendations, and works directly with policymakers to support responsible AI innovation and the development of state-of-the-art regulatory frameworks, grounded in law and societal needs.

About the Comments

One of the core areas of focus for the Centre is financial regulation and we are currently undertaking a couple of research projects focused on examining the use of algorithmic and AI-driven software in finances. We have been observing the developments with the International Financial Services Centres Authority (IFSCA) and the Gujarat International Finance Tec-City.

We consider it our privilege to have the opportunity to provide comments on the IFSCA's Draft Fintech Sandbox Framework.

I | Executive Summary of Comments

We have provided detailed comments in the format suggested by the IFSCA in Section III. Briefly, our comments aim to strengthen the Draft IFSCA FinTech Sandbox Framework by improving clarity, consistency, and procedural fairness while ensuring it remains genuinely innovation-friendly.
Our key suggestions are:

- The framework should define "innovation" objectively, avoiding vague terms like "new," and adopt an impact-based, technology-neutral definition aligned with international practice.
- The eligibility criteria should not exclude independent innovators or early-stage teams, and the prescribed list of eligible activities should be replaced by a functional test tied to IFSCA's remit.
- Rigid requirements, such as mandatory testing partners and a single extension limit, should be replaced by a more flexible, risk-based approach.
- The regulatory relaxations should be clearly spelled out within the framework. This not only showcases the use case of the sandboxes and the benefits of participating in a sandbox but also promotes transparency, trust, and confidence and reduces potential for arbitrariness.
- Monitoring should rely on standardized reporting templates and, where necessary, independent verification.
- User protection must be strengthened through informed consent, plain-language risk disclosures, and mandatory compensation policies for losses arising from testing failures.
- Procedural fairness should be built into the framework through internal review mechanisms for rejected applications and a mandatory notice requirement before revocation. These measures reduce arbitrariness and ensure decisions are transparent and review-resistant.

Finally, we have also provided a suggestion which is not linked to a clause but it might help the IFSCA cement its role as the premier agency promoting financial innovation. IFSCA should introduce, either within these regulations or in any supporting communications, a structured pathway linking the innovation, regulatory, and interoperable sandboxes. These sandboxes have the potential to provide the right support at different stages of an innovative business' journey and they mirror the journey as well: from testing in isolation, to testing with consumers, and to test with bigger exposure with multiple regulators. Therefore, these sandboxes should be positioned as such.
We remain committed to help the IFSCA in preparing a world-class framework for its sandboxes, and remain available at: cscailr@jgu.edu.in.

II | Detailed Comments

S. No.	Clause No.	Comments/Suggestions/ Feedback	Detailed Rationale	Industry best practices comparable with the parallel Jurisdictions across the globe
			Defining 'Innovative'	
1.	3(h)	The word “new” should be dropped from the definition.	Using “new” as a definitional element is problematic for the following reasons: (i) It is vague and does not prescribe an objective threshold for what might qualify to be “new” (e.g., is repurposing an existing KYC model for cross-border flows “new” or not?); (ii) It has a risk of false negatives whereby it may be used to screen out materially beneficial but only marginal improvements (e.g., process redesigns or novel deployment of established technology); and (iii) It invites subjectivity in analysis of the reviewers as different reviewers can set different bars for 'novelty' (e.g., the same API-based solution admitted by one panel could be rejected by another for being not “new”). Deleting “new” in this definition and incorporating other suggestions in this section at S. No. 2, 3, and 4 comprehensively will increase legal certainty, reduces arbitrariness, and aligns the framework with international practice.	The Financial Stability Board (FSB), a G20-mandated standard setter, uses a working definition of FinTech as technology-enabled innovation in financial services with a “material effect” on the provision of those services.[1] This impact-based framing is mirrored in the Bank of England's definition of FinTech as well: “fintech is technology-enabled financial innovation, which is changing the way financial institutions provide, and consumers and businesses use, financial services.”[2]

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			Defining 'Innovative'	
2.	3(k)	The words “that may add value to the financial products or financial services offered in the IFSC” should be dropped from the definition.	These words in the definition are not necessary for defining this sandbox per se. The key description of the sandbox is it allows testing of ideas and products in isolation. These extra words are operational and qualitative description of activities in the sandbox. Indeed, in some cases, this definition might be perceived to disincentivise certain entities from applying to this sandbox and be excluded. For instance, it might exclude entities who cannot immediately see them driving value for existing IFSC products or services. Therefore, the best practice would be to keep the sandbox type/definition neutral and assess “value” under evaluation criteria, not inside the definition. This preserves technology-neutrality and legal clarity.	The Monetary Authority of Singapore (MAS) describes their equivalent of the innovation sandbox as a controlled environment to test innovative financial services with guardrails without hard-wiring a market-specific “value-add” qualifier into the definition.[3] The Financial Conduct Authority (FCA) likewise defines their Digital Sandbox functionally without any reference to or restricting it to circumstances where there is a 'value-add'.[4]

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			Defining 'Innovative'	
3.	5(i) and 5(ii)	These clauses suffer from uncertainty: a. In 5(i), what might amount to 'innovative' technology in the core product to qualify for the sandbox; b. In 5(ii), what product, solution, or idea might be termed 'innovative' to qualify; Clauses 5(i) and 5(ii) read together, what might amount to an 'innovative' technology used for an 'innovative' product/solution/idea to qualify.	The draft uses the word "innovative" in two different eligibility tests but never defines it. This leads to three issues: (a) overlap, because the same proposal can be argued under both tests; (b) inconsistent decisions across reviewers; and (c) scope for arbitrary inclusion or exclusion. A simple fix is to define innovation once using the 4Ps (Product, Process, Position, Paradigm) framework, whereby, innovation refers to any improvement in the product or services, process for delivery of product or services, the percrption of the product or services with its users, and any improvement to the business model around the products or services. Thereafter, these clauses should be merged into one as an innovative technology might deliver a non-innovative product, and a non-innovative technology might deliver an innovative product. Accordingly, the revised clause in the place of Clause 5(i) and 5(ii) should be: "The Applicant must propose the use of innovative technology/processes, or present an innovative product or service/idea".	The FCA publishes five clear entry tests for firms applying to its sandboxes:[5] 1. They should be in-scope, 2. They should pursue genuine innovation, 3. They must demonstrate consumer benefit, 4. They must demonstrate readiness, 5. They must have the need for support. Each of these have both positive and negative indicators to evaluate the criteria which is consistent throughout the framework and does not leave room for ambiguity, arbitrariness, or confusion. Similarly, Australian Securities and Investments Commision (ASIC) Enhanced Regulatory Sandbox (ERS) also uses an Innovation Test and a Net Public Benefit Test, and it tells applicants the exact criteria which is quite reliable.[6]

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			Defining 'Innovative’	
4.	15 (b)	Usage of innovative solutions including technology would also benefit from the definition of 'innovation’	As discussed in the point above at S. No. 3, a definition of 'innovation' would also benefit this evaluation criteria. This clause specifies that evaluation within the sandbox should happen based on use of "innovative solutions including technology”. With innovation defined, this clause will be able to offer greater regulatory certainty.	Same as above.

S. No.	Clause No.	Comments/Suggestions/ Feedback	Detailed Rationale	Industry best practices comparable with the parallel Jurisdictions across the globe
			Eligibility Criteria	
5.	5(iii) and 5(iv)		This requirement creates unnecessary barriers for individual innovators and early-stage teams who may lack institutional backing but possess viable innovations. Many fintech ideas originate from independent founders, early-stage startups, incubators, or small research labs that are not formally affiliated with a research or academic body.	ASIC allows natural persons and businesses to test within limits. The FCA accepts firms of all sizes, authorized or unauthorized, without academic-affiliation requirements. These broad approaches are designed to capture innovation from all corners of the market. Notably, individual eligibility was part of India's 2020 framework but has been removed in the current draft.

S. No.	Clause No.	Comments/Suggestions/ Feedback	Detailed Rationale	Industry best practices comparable with the parallel Jurisdictions across the globe
			Eligibility Criteria	
6.	6 (read with Annexure I)	The list provided in Annexure I prescribing that the product or solution must fall into the categories listed therein should not be prescribed as such. It should be prescribed functionally.	A predefined list can create a 'check-box' approach to innovation. Technologies that are cross-cutting, like Decentralized Finance (DeFi) or AI-driven services, may not align neatly with the listed activities, creating ambiguity about their eligibility. Annexure I should use a functional approach to eligibility by focusing on the fact that the activities of the entity applying should be an activity that is within the remit of the IFSCA. This will prevent further amendments to these regulations if IFSCA's remit expands. Accordingly, Clause 6 can be revised to: "An Applicant may be permitted to develop and/or test FinTech ideas or products and/or solutions falling within the activities regulated by the IFSCA, in any one of the following sandboxes"	The FCA describes permissible activities functionally (viz., for the FCA the activity should be within their jurisdiction[7]) rather than through closed lists, enabling continual evolution of use-cases and not needing amendments when remit expands.
7.	9, 33	The stipulation that all 'In-principle Approvals will require the Applicant to have at least one Testing Partner' has been drafted as a default requirement for all firms. This might not be required by some entities who do not need such a Testing Partner.	Mandatory 'Testing partner' requirement may not be necessary for all types of innovations being pursued. Certain business models, particularly in consumer-facing technologies (B2C) or those developing standalone infrastructure, may not require a partner for testing. This raises barriers and delays and unnecessary burdens for innovators.	Neither the FCA, nor the MAS or ASIC expect each Applicant to obtain a Testing Partner as a pre-condition.

S. No.	Clause No.	Comments/Suggestions/ Feedback	Detailed Rationale	Industry best practices comparable with the parallel Jurisdictions across the globe
			Eligibility Criteria	
8.	37	The condition in the Proviso is restrictive without any rationale. It should be "within the remit of at least one more domestic financial sector regulator other than IFSCA" instead of "within the remit of more than one domestic financial sector regulator"	The current phrasing inadvertently excludes a scenario where a product or solution falls under the joint purview of IFSCA and a single domestic regulator. For e.g., - IFSCA + RBI for cross-border payments, or - IFSCA + SEBI for tokenised securities This wording would technically disqualify such cases from IoRS consideration, even though they are precisely the type of innovations this sandbox is designed to facilitate	In the UK FCA's 2019 "Call for Input: Cross-Sector Sandbox" the condition posited was "at least one other regulator",[8] encompassing situations where it is FCA along with one other regulator. Irrespective of foreign best practices, this clause is unnecessarily restrictive and not drafted aptly.
			Support in the Sandbox	
9.	13	This clause imposes a hard limit of 18 months (12 months plus a 6-month extension) for the testing stage. The framework should allow for the possibility of a second, well-justified extension in certain circumstances.	Certain complex financial models, particularly those involving artificial intelligence or machine learning, may require longer periods to be tested safely and effectively across various market cycles. In any case, the purpose of sandboxes is to facilitate innovation. A strict time limit for being in the sandbox is counter intuitive to its purposes. If there is a requirement to limit the time a firm spends in a sandbox, it can be an internal quality metric for the IFSCA instead of a rule and it can shape its decisions according to these metrics.	The MAS provides for extensions that may be granted on a case-by-case basis for applications for such an extension made at least one month prior as provided in their FinTech Regulatory Sandbox Guidelines.[9]

S. No.	Clause No.	Comments/Suggestions/ Feedback	Detailed Rationale	Industry best practices comparable with the parallel Jurisdictions across the globe
			Support in the Sandbox	
10.	16	This clause does not inspire confidence. There should be greater certainty on the kinds of relaxations that may be provided.	This clause grants wide discretion to IFSCA to grant or refuse regulatory relaxations or exemptions as it may deem fit. Apart from this, it fails to provide confidence to the users of the sandbox about the different kinds of regulatory relaxations that may be available This can create uncertainty, lack of visibility of perceived benefits, and fears of inconsistent treatment due to lack of transparency of measures available. To enhance transparency and ensure reasoned, non-arbitrary actions, and build market confidence, the framework could specify categories of non-relaxable core obligations (e.g., relating to data privacy) and relaxable procedural requirements (e.g., reporting timelines and other curable infirmities). Similarly, there can be some clarity extended that national laws will not be suspended in the sandbox but there may be a suspension of certain relaxations of some rules and regulations (e.g., made by a sectoral regulator depending on the requirements.	The MAS transparently provides "To Maintain" regulatory requirements and "Possible to Relax" regulatory requirements in a list. This creates transparency and reposes trust for applicants regarding the kind of reliefs they may be able to claim.[10] The FCA also provides clarity that it cannot suspend national laws. But, it allows tailored authorisation requirements and compliance conditions. Similarly, the FCA mentions that it can issue comfort letters to organisations that it will not undertake investigations for certain kinds of conduct provided associated conditions are complied with.[11]

S. No.	Clause No.	Comments/Suggestions/ Feedback	Detailed Rationale	Industry best practices comparable with the parallel Jurisdictions across the globe
			Monitoring in the Sandbox	
11.	17	This clause should provide that the reporting should be undertaken in a standardised format prescribed by the IFSCA.	To promote consistency and comparability across sandbox cohorts, IFSCA should publish a standardized reporting template that includes a set of baseline metrics such as transaction volumes, user adoption and churn, complaints, fraud and loss incidents, cybersecurity events, service latency, and innovation-specific indicators such as financial-inclusion reach, cost-to-serve, or ESG-related performance. This will promote significant regulatory certainty and clarity in expectations for applicants.	All financial institutions are subject to standard, base-level monitoring in FCA in the UK and MAS in Singapore. In addition to routine supervisory activities, such as the processing of regulatory applications, this includes monitoring key indicators and the development of the institution's business, reviewing regulatory returns, questionnaires and audit reports, as well as taking any necessary follow up actions, for which detailed guidelines are standardized and published.
12.	17	There should be a provision to include an auditor's or an expert's report	The IFSCA should have the liberty ask the FSE to include an independent third-party review report of the FSE's testing process and results. This might be extremely useful for technical products where testing benchmarks can be measured more effectively by an auditor than self-reports.	No explicit rules for third party audits in any jurisdiction exist, but most other jurisdictions also do not promulgate regulations for these subjects. As IFSCA is promulgating regulations, there should be enough flexibility for the IFSCA. Therefore, this recommendation.

S. No.	Clause No.	Comments/Suggestions/ Feedback	Detailed Rationale	Industry best practices comparable with the parallel Jurisdictions across the globe
			Monitoring in the Sandbox	
13.	20	This clause might benefit from further clarification on the standard of consent and standard of disclosure required.	While the clause imposes an obligation on firms to obtain consent and provide disclosure of risks, it does not go far enough. The framework could, for instance: - Require a standard of consumer consent which is similar to the EU's GDPR standard of informed and free consent. - Require a standard in disclosure of risks to specify that the risks will be informed in clear, plain and unambigous language. In the context of IFSCA sandboxes, this would imply any any consent obtained to be freely obtained, should be specific to a particular purpose, and should demonstrate an understanding of the associated risks within the consent.	MAS requires that customers be informed of material risks and that consent be meaningful; MAS sandbox guidance emphasise clear disclosure of risks and the use of plain language. MAS also expects firms to keep records of consent and the disclosure.[12]
14.	20	The compensation criterion is incomplete.	The clause implies compensation is optional. For a live Regulatory Sandbox, this is a significant consumer protection gap. The framework should mandate that all FSEs should have a clear, pre-approved policy for compensating users for any financial loss directly attributable to testing failures or product defects. Parties with vastly superior bargaining power should not be allowed to bypass their fundamental duty of care, even within a sandbox. Indeed, even where informed consent is taken, FSEs should not entirely absolved of liability for direct losses caused by its own product failures.	The Hong Kong Securities and Finance Commission, Monetary Authority, and Insurance Authority all in their respective sandbox frameworks require the entities to specify compensation criteria and method for any customer losses.[13]

S. No.	Clause No.	Comments/Suggestions/ Feedback	Detailed Rationale	Industry best practices comparable with the parallel Jurisdictions across the globe
			Monitoring in the Sandbox	
15.	20	There should be a clarification that IFSCA might impose conditions in its LUA that prescribe liability and compensation criteria suitable for each applicant.	This is in line with the above suggestion at S. No. 14. As a condition of providing an LUA, the IFSCA should have the power to require the entities being given an LUA to have a compensation program in cases of any incidents affecting consumers.	Similar to above at S. No. 14.
			Suggestions on good regulatory practices	
16.	7	No substantive suggestions on the Clause itself. But, a mechanism to consider disputes or complaints arising from rejection of Preliminary Applications should be specified to avoid judicial review challenges.	Since the regulation lacks an internal remedy, aggrieved applicants may directly seek judicial review, leading to unnecessary procedural scrutiny and delay in regulatory outcomes. Incorporating a short, time-bound internal review, or appeal mechanism for rejected preliminary applications would increase transparency, strengthen institutional credibility, and minimise premature resorts to writ jurisdiction.	This is a specific requirement given the Indian judicial review framework and in compliance with standards of 'fairness' and good governance.

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			Suggestions on good regulatory practices	
17.	25	This clause is structured as a discretion that may be exercised by IFSCA. It should instead be structured as an obligation on the IFSCA.	As a statutory authority subject to judicial review under Articles 32 and 226/227 of the Constitution, the IFSCA is obligated to adhere to the principles of reasonableness, non-arbitrariness, and equality as stipulated in Article 14. A discretion in providing prior notice has the potential to undermine procedural fairness and confer unguided power. Further, it can significantly prejudice the entity holding the LUA. Indeed, the affected entity should have a sight of the fact that their LUA is getting terminated to be ready for compliance with regulations which might have been relaxed under a sandbox. This clause should be structured as an obligation. Accordingly, IFSCA should be obligated to provide notice. This will also prevent unnecessary judicial review exercises in writ courts.	This is a specific requirement given the Indian judicial review framework and in compliance with standards of 'fairness' and good governance.

S. No.	Clause No.	Comments/Suggestions/ Feedback	Detailed Rationale	Industry best practices comparable with the parallel Jurisdictions across the globe
			General Suggestions	
18.	N/A	Tiering of Sandboxes and graduation process should be clarified. The framework should introduce a structured graduation mechanism that allows entities to progress seamlessly across sandbox stages.	The regulation must consider the applicants beginning with the FinTech Innovation Sandbox, advancing to the FinTech Regulatory Sandbox, and ultimately transitioning to the Inter-Operable Regulatory Sandbox (IoRS) or to full authorisation, as applicable. The Authority should expressly state that it will encourage and facilitate such progression, treating sandbox participation as a continuous regulatory journey rather than isolated processes. A well outlined tiering process would ensure regulatory continuity and reduce procedural duplication. It would also enable entities to scale within a predictable framework while reinforcing IFSCA's role as an enabler of long-term, innovation-led market development. Further, the framework extensively covers entry, testing, and failure/exit but is silent on the process for a successful entity to "graduate" to a full authorisation. The tiered graduation process explicitly laid out could provide a streamlined pathway for a successful FSE to transition from a limited authorisation to a full license.	N/A - this is a general suggestion looking at the kind of sandboxes offered in India and how a journey could be envisaged through these sandboxes for an applicant.

References

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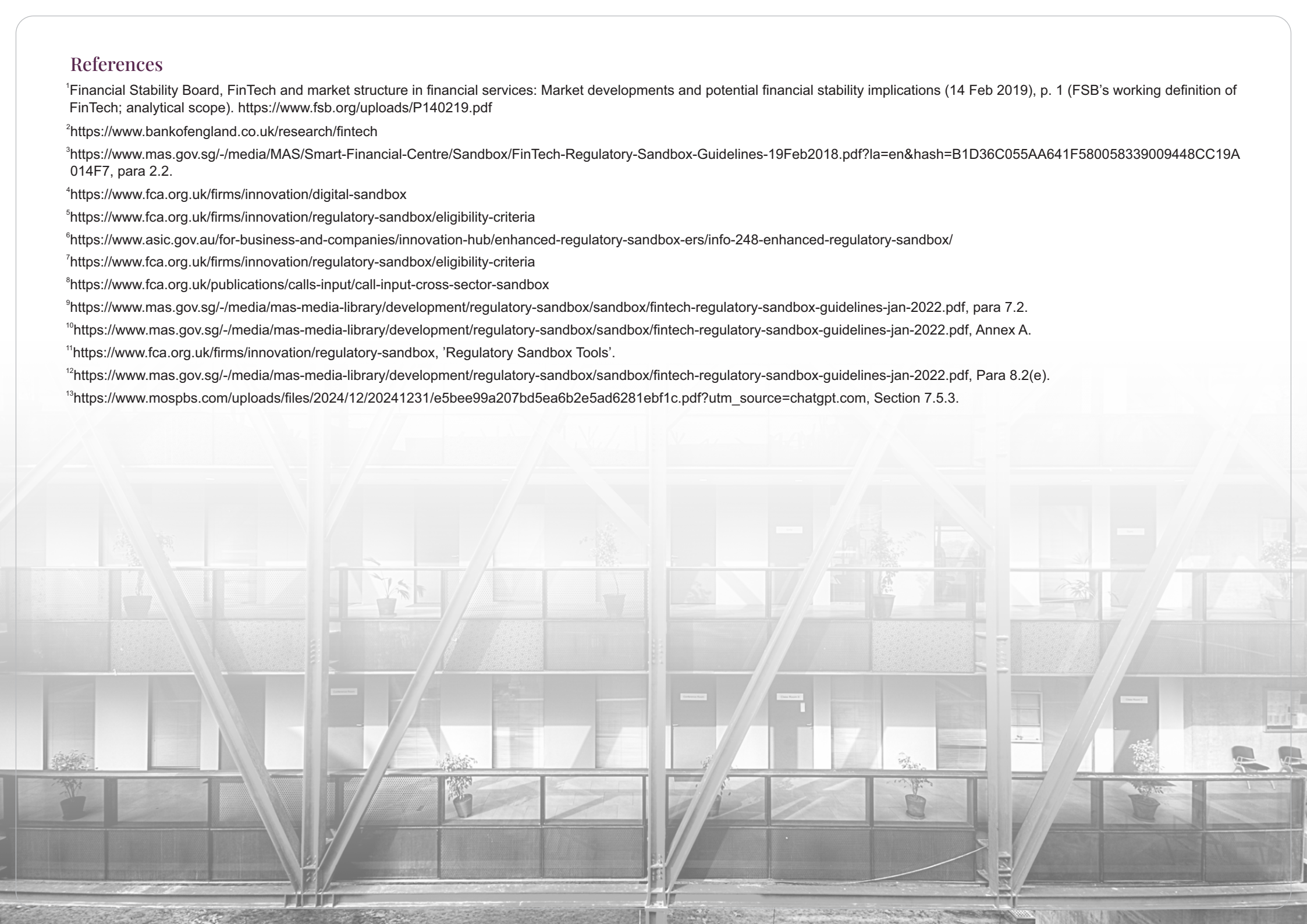

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