

IFSCA FINTECH SANDBOX FRAMEWORK – WHAT YOU NEED TO KNOW

The International Financial Services Centres Authority (“IFSCA”), vide Circular dated March 16, 2026, has introduced a revised [FinTech Sandbox Framework](#), replacing the April 27, 2022 framework for entities seeking Limited Use Authorisation as FinTech Sandbox Entities in IFSCs. The framework takes immediate effect, while entities operating under the 2022 framework may continue until the expiry of their authorisation.

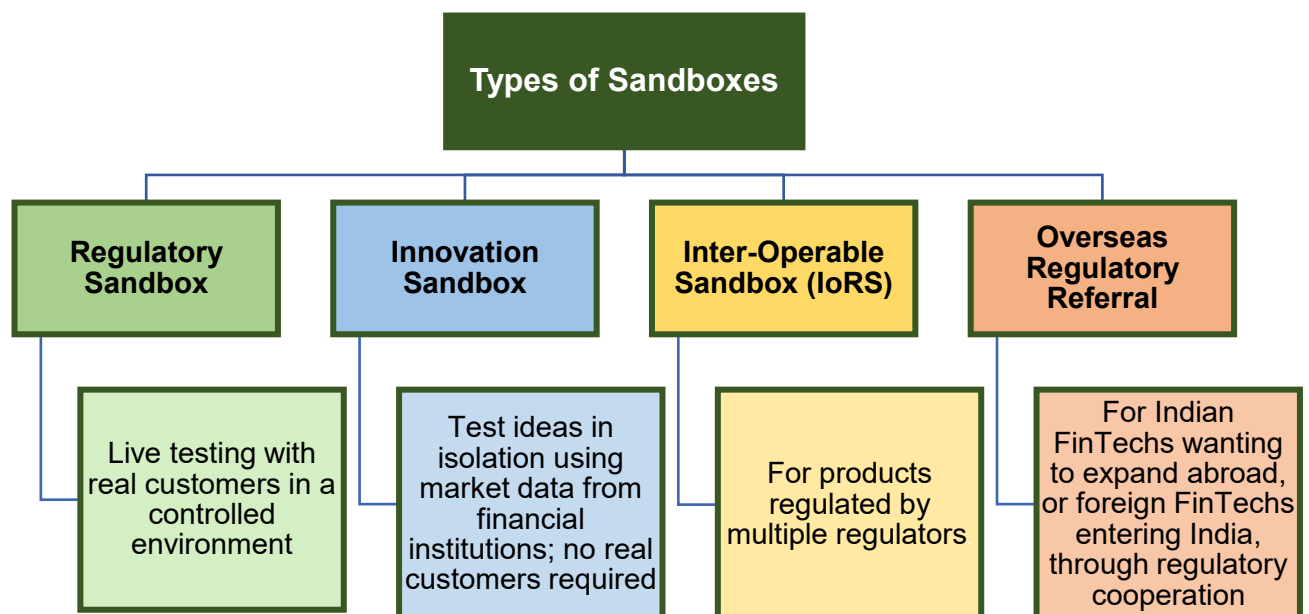
Compared to the 2022 framework, the revised framework introduces enhanced compliance requirements such as monthly reporting, extended record retention, a two-stage application process, and structured exit mechanisms while also expanding eligibility, broadening permissible activities, and enabling limited remote testing in certain cases.

A. BACKGROUND:

The rapid pace of fintech innovation has outpaced traditional regulatory frameworks, with new products often requiring real-world testing before full deployment. In response, regulators globally have introduced sandbox frameworks to address this gap. A sandbox is a controlled environment allowing FinTech entities to test innovative products with regulatory relaxations before full deployment.

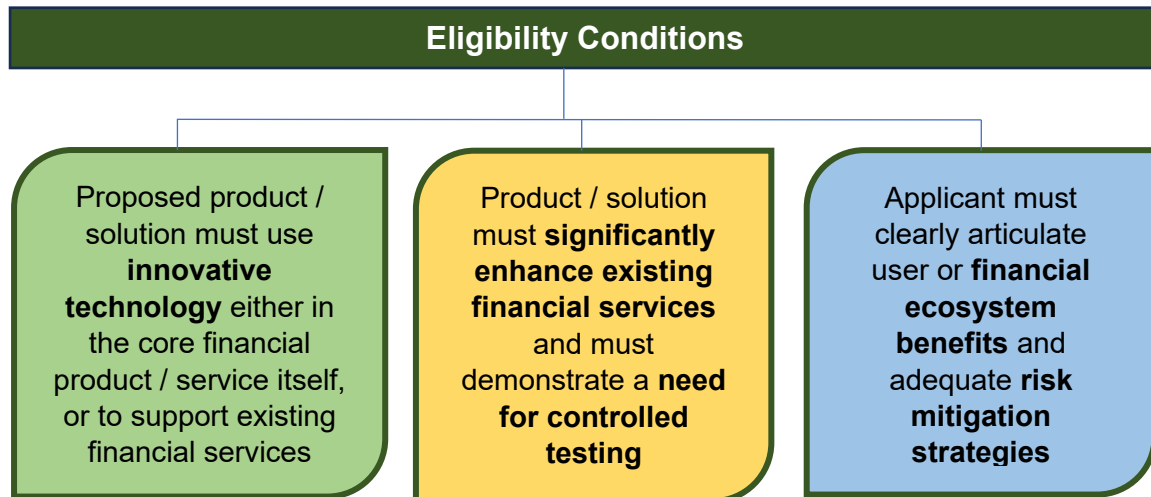
Building on the 2022 framework and evolving trends, IFSCA has introduced an expanded sandbox regime with four distinct pathways across financial sectors.

B. SALIENT FEATURES OF THE NEW REGULATION:

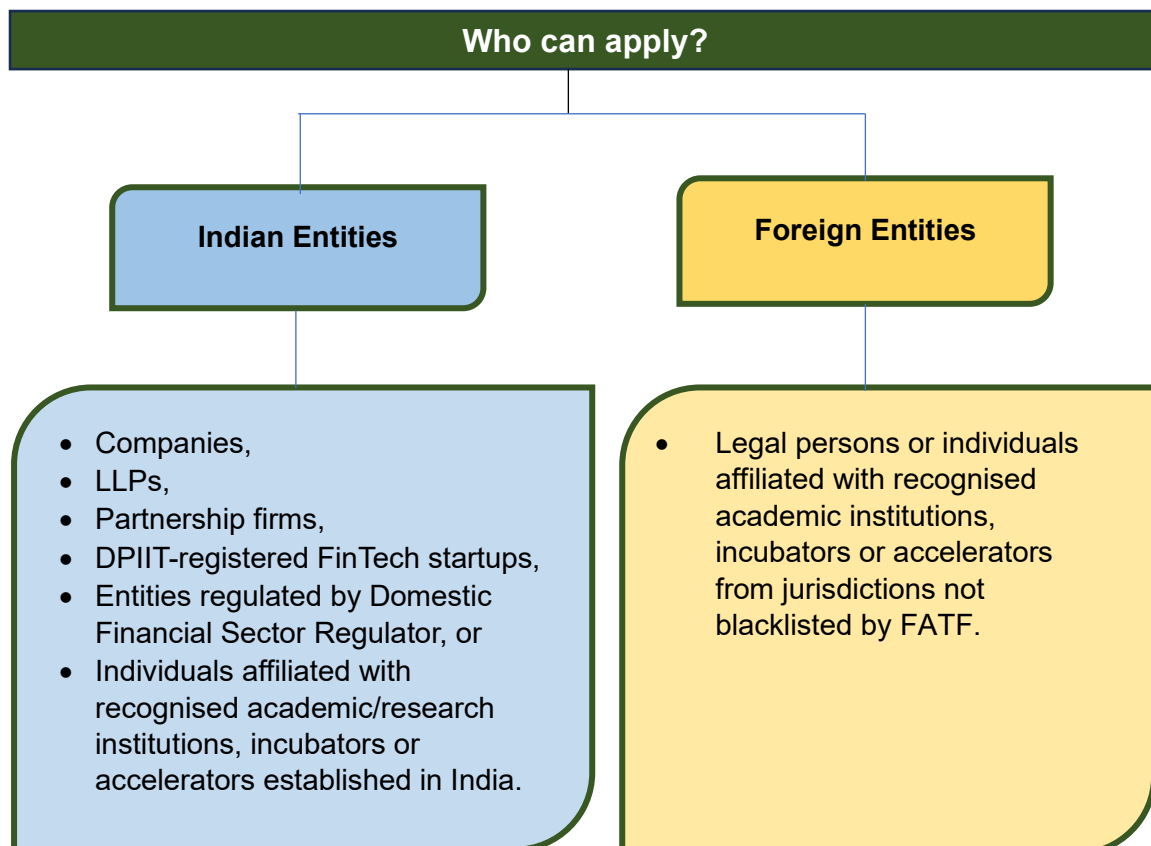


Eligibility

Prior to submitting an application, entities are required to meet three fundamental conditions that reflect the core objectives of the sandbox framework.

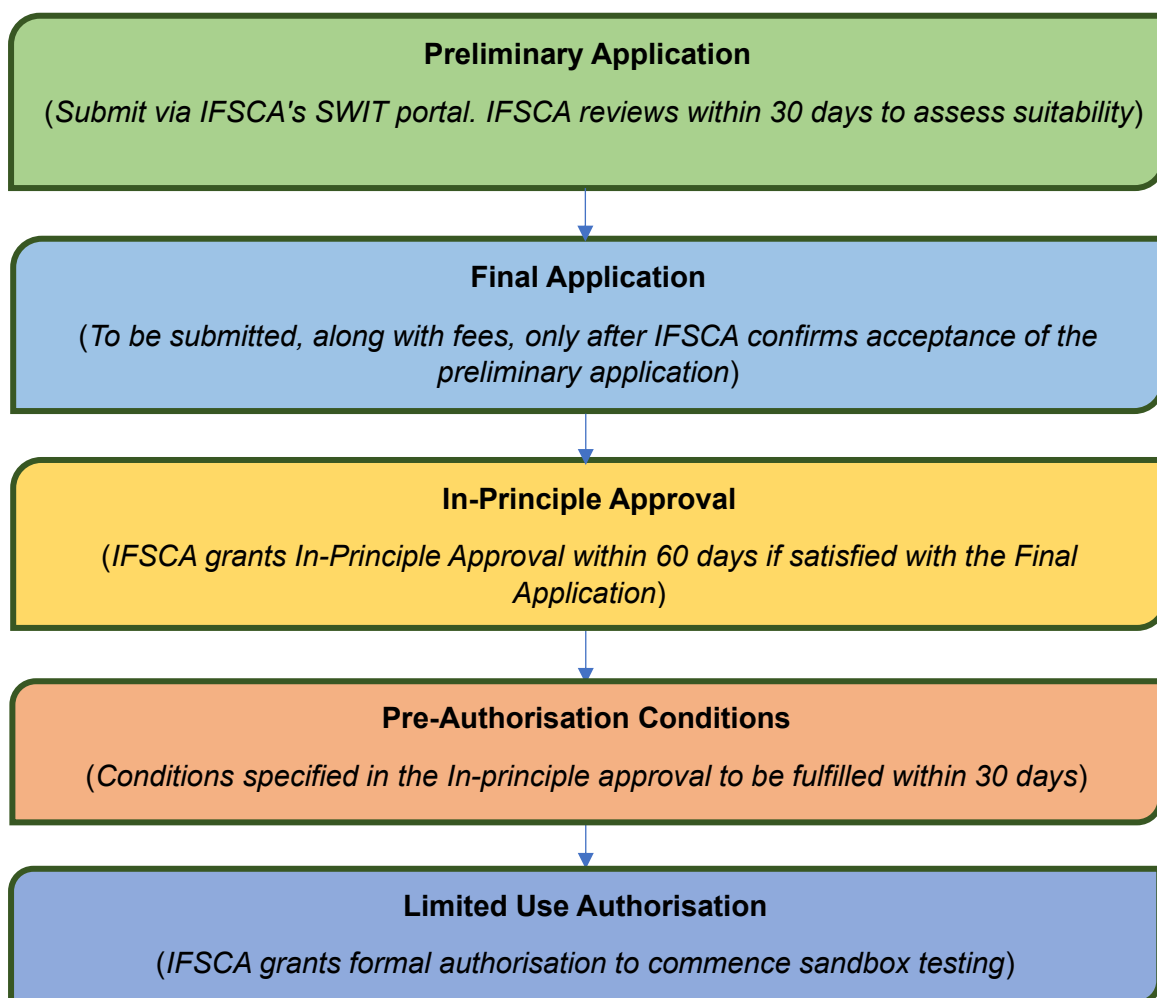


Eligibility under the revised framework has been intentionally defined in broad terms. It encompasses Indian companies, DPIIT-recognised startups, foreign entities, and individual researchers, each of whom may qualify to participate subject to compliance with the applicable criteria.



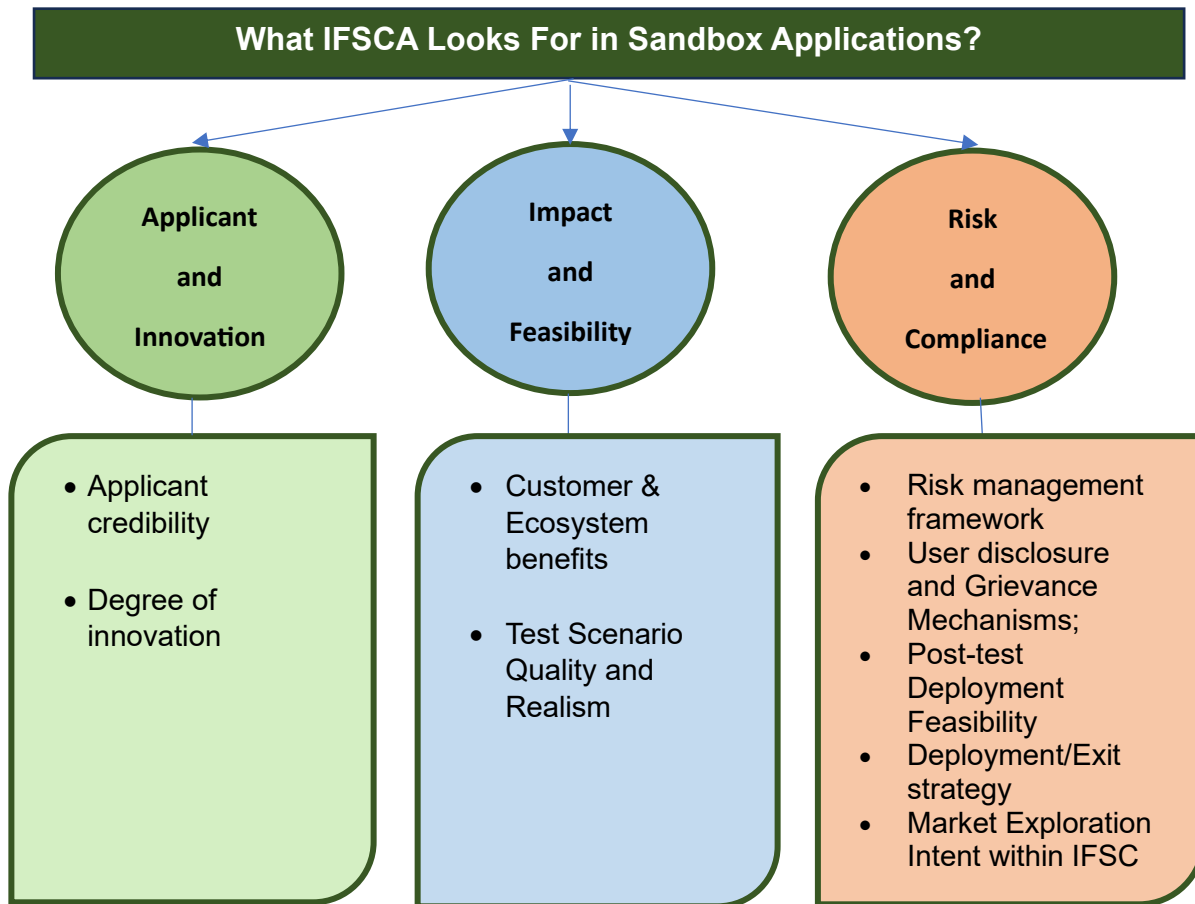
Application Process

The framework provides for a structured two-stage application process, intended to screen bona fide applicants prior to the imposition of any fees or formal obligations. This approach ensures that only proposals demonstrating a basic level of seriousness and alignment with the sandbox objectives proceed to the next stage, thereby reducing unnecessary regulatory burden on both applicants and the authority. In addition, the framework incorporates regulatory flexibility, whereby IFSCA may grant specific exemptions or relaxations to facilitate testing, subject to applicants clearly identifying and justifying such relaxations at the time of application, with IFSCA retaining full discretion to grant, refuse, or modify such requests.



What IFSCA Looks For in Sandbox Applications

Beyond meeting the eligibility criteria, the IFSCA retains significant discretion in the selection of applicants. Accordingly, it is essential to understand the parameters and considerations applied by the authority prior to submitting an application. This reflects the principle that admission to the sandbox is not automatic, but subject to a qualitative assessment of the proposal. Applicants must therefore ensure that their submissions are not only compliant on paper, but also demonstrate credibility, clarity of purpose, and alignment with the broader objectives of the sandbox framework.



Permissible activities

The sandbox extends across multiple financial sectors, with a scope that is wider than what applicants may ordinarily anticipate.

- Capital Markets: corporate finance, sustainable finance, market infrastructure, investment funds;
- Banking - finance companies, aircraft/ship leasing, payment services and settlement systems;
- Insurance and Re-Insurance;
- Pension;
- Metals and Commodities;
- Financial Support Services as per TechFin and Ancillary Services Regulations, 2025; and
- Any other activity specifically permitted by IFSCA.

Once an entity clears the eligibility and application requirements and receives its Limited Use Authorisation, it enters the Testing Stage - the operational heart of the sandbox framework.

C. THE TESTING STAGE

| The Testing Stage | |
|------------------------------|--|
| Duration | Maximum 12 months, extendable by a further 6 months at IFSCA's discretion upon written request. |
| User Protections | <ul style="list-style-type: none"> • FSE must fully disclose to users what is being tested and the risks involved. • Written acknowledgment must be obtained from all users confirming they have read and understood the risks. • FSE must disclose whether compensation will be provided for any losses during testing and obtain express written consent before onboarding users. |
| Reporting Obligations | <ul style="list-style-type: none"> • Monthly status reports due by the 10th of the following month covering KPIs, incidents, and corrective actions. • Final report must be submitted within 30 days of the Testing Stage expiry. • Records of all tests must be maintained for 7 years from sandbox exit. • Any regulatory order adversely affecting the FSE must be disclosed to IFSCA within 15 days. |
| Financial Records | <ul style="list-style-type: none"> • All transactions must be in foreign currency, though administrative expenses may be met in INR. • Financial information must be reported to IFSCA in US Dollars. • Audited annual financial statements must be furnished within 30 days of finalisation. |
| Material Changes | Any material change affecting the Authorisation requires prior written approval from IFSCA. |

D. SANDBOX EXIT AND REVOCATION

| Sandbox Exit and Revocation | |
|-----------------------------|--|
| End of Testing Stage | The Limited Use Authorisation and all associated regulatory relaxations automatically expire at the end of the Testing Stage, subject to IFSCA approval for any early exit request. |
| Revocation by IFSCA | <p>IFSCA may revoke the Limited Use Authorisation at any time (with prior notice and opportunity for written submissions) if the FSE:</p> <ul style="list-style-type: none"> • Obtained the authorisation on the basis of false or incomplete information; • Fails to implement required risk mitigation measures; • Submits false, misleading, or inaccurate information in reports; • Violates applicable statutory or regulatory requirements; • Suffers a loss of reputation; |

| | |
|------------------------|--|
| | <ul style="list-style-type: none"> • Subject to an insolvency or liquidation order against it or its parent. • Compromises the digital security of the IFSC financial market; • Carries on business in a manner detrimental to users or the public; • Fails to address technical defects in the product; or • Fails to implement IFSCA's directions or comply with the framework. <p>In urgent cases, IFSCA may suspend the authorisation without prior notice, subject to the FSE being given an opportunity to make representations thereafter.</p> |
| Exit Compliance | <p>Upon revocation, the FSE shall cease user activity, notify users, fulfil all obligations, dispose of confidential data, and submit an exit report within 30 days.</p> |

E. ANALYSIS:

Taken together, the framework's provisions reveal both its ambitions and its trade-offs. The following is an assessment of what the framework does well and where room for improvement remains.

Pros

- Provides multiple sandbox types.
- Enables cross-sector and cross-border testing.
- Expands eligibility to domestic entities, foreign entities, start-ups, and individuals from recognised academic or research institutions.
- Prescribes clear evaluation criteria. Covers risk, disclosures, and user protection.
- Defines testing, reporting, and exit framework. Provides regulatory clarity.

Considerations

- Multi-stage approvals with defined timelines. May delay testing.
- Drafted in detailed and legalistic manner. Limits accessibility.
- Approvals and relaxations are discretionary. Creates uncertainty.
- Consumer protection relies on disclosures. Lacks detailed safeguards.
- Application fees at the final stage. May deter early-stage and individual innovators.
- Lacks simplified guidance, illustrations, or standard templates. May affect ease of implementation.

F. CONCLUSION:

The IFSCA framework represents one of the more comprehensive fintech sandbox regimes in India today. It introduces four distinct sandbox pathways, enables coordination across regulators, and incorporates cross-border testing mechanisms. Its expanded scope covers startups, emerging technologies such as AI, DLT, and quantum solutions, and international participation that marks a significant evolution from earlier sandbox models in India. However, global comparisons highlight areas where the framework can be further strengthened.

Lessons from Global Frameworks

Globally, several jurisdictions have adopted regulatory sandbox frameworks to foster fintech innovation while ensuring regulatory oversight. Among these, the Financial Conduct Authority (UK) is widely regarded as a pioneer, having introduced one of the earliest and most influential sandbox models in 2016. Its framework, known for strong consumer protection safeguards and efficient approval processes, has since served as a benchmark for other regulators. Similarly, the Monetary Authority of Singapore (MAS) has developed a highly efficient and accessible sandbox regime, known for its minimal entry barriers for early-stage participants. These global frameworks provide useful insights into best practices that can inform the continued evolution of the IFSCA sandbox.

From MAS (Singapore):

- Greater simplicity through Sandbox Express, with pre-defined parameters, standardised forms, and a streamlined single-email submission process for low-risk products or services.
- Faster approval timelines via Sandbox Express, with targeted assessment and response within approximately 21 working days.
- Use of illustrative case studies to enhance clarity and accessibility.
- No application fees, thereby lowering entry barriers for early-stage startups.

From FCA (United Kingdom):

- A collaborative and facilitative regulatory approach, with a dedicated case officer assigned to each participant from the outset.
- Stronger consumer protection beyond disclosure-based safeguards, including limits on customer numbers, transaction caps, and predefined testing boundaries to mitigate risk.
- Encouragement of diverse and inclusive participation, explicitly welcoming applications from firms of all sizes, sectors, and backgrounds.
- Efficient application screening and evaluation, with initial feedback typically provided within 2–3 weeks.

The IFSCA framework is robust in its design, but its long-term success will depend on effective execution. With improvements in simplicity, speed, and regulatory support, it has the potential to evolve into a globally competitive sandbox, one that not only supports Indian innovation but also positions GIFT City as a preferred destination for fintech experimentation worldwide.



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