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Sub: Discussion Paper on Framework for Regulatory Sandbox

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute appreciate the opportunity to submit our response to the **CONSULTATION PAPER ON FRAMEWORK FOR REGULATORY SANDBOX.**

IAIP is an association of over 2000 local investment professionals who are CFA charter holders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals, that; promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 155,000 members in over 152 countries. In India, the community of CFA charter holders is represented by the Indian Association of Investment Professionals.

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

With regards to the above mentioned consultative paper, we have proposed a few suggestions.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

Our responses to the Point 72 of the draft framework is mentioned below:

A. Details of our Organisation:

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B. Key Contributors:

1. Mr. Ujjwal Jain, CFA

C. Suggestions / Comments:

1. Introducing the proposed framework for regulatory sandbox is a welcome step and we believe it will help in enabling the creation of new business models and technologies. This will in turn, foster an efficient, fair and transparent capital market environment in India.
2. To this end, we need to ensure that regulatory standards and stakeholder protection clauses is not diluted or ignored, to jeopardize the experiment and public faith.

Need to flesh out different areas of innovation

Owing to the novelty of this approach, start-ups will need clarity around the areas of innovation, which SEBI would like to encourage. To this end, creating a positive list, or a negative list of areas of innovation will be a welcome step.

A possible positive list can be:

1. Markets & Market places
2. Product Innovation (Mutual Funds, ETFs etc.)
3. Analytics
4. Blockchain
5. Exchange Technologies
6. Cloud Based Platforms
7. Wealth-Tech (wealth management + technology)
8. Investment-Tech (investment products/management + technology) etc.

Breaking the "gated gardens" between innovation and regulatory sandbox

SEBI is proposing two sandboxes for firms based on their age and market position- one for new age firms to experiment and the other for incumbents to live test their products.

SEBI needs to break down the walls between these sandboxes because to simulate real testing, the firms need to assess the impact of their products on all stakeholders irrespective of their size and position in the market.

Assuming that this suggestion will be considered seriously, we also propose:

Breaking the regulatory silos for start-ups inside SEBI

Building innovation/regulatory sandbox is a visionary step. However, if the overall approval environment is opaque and slow, the eventual success of such a step can get hampered.
Anecdotal and empirical evidence suggests instances where certain start-ups waited for 5 months for an RIA license.
Such sandboxes may be targeting new age firms to bring significant novelty in terms of business models, revenue models and product innovation. So, if the overall approval framework is not rejigged, it is possible that innovation of one part from SEBI may be counteracted by lack of reforms in other parts.

So, a principle-based approach for granting approvals and a "license-on-tap" approach will be better suited to kickstart innovation and wider acceptance of this sandbox.

Breaking the "gated gardens" between agencies

The second level to deepening the innovation environment around securities, exchanges and other allied domains, is to break the silos between the sandboxes proposed by different regulators.

Hypothetically, a firm may wish to incorporate elements of credit inclusion with an investment security, blended with insurance clauses. In that case, such a firm may be locked out of any particular sandbox.

So, the goal for SEBI should be to build sandbox with a view of inter-operability with RBI's and IRDAI's.

Lessons Learned from the International Experiences

SEBI needs to incorporate specific elements from the experiences of Financial Conduct Authority (FCA) UK [1], specifically fintech innovation of Monetary Authority of Singapore (MAS) [2] and other developed economies.

Interestingly, one year after the launch of its sandbox, FCA came out with a "Lessons Learned" report [3]. SEBI can design its sandbox keeping in view the best practices from international agencies.

Citations

[1] Regulatory Sandbox, FCA https://www.fca.org.uk/firms/regulatory-sandbox

[2] Fintech Regulatory Sandbox http://www.mas.gov.sg/Singapore-Financial-Centre/Smart-Financial-Centre/FinTech-Regulatory-Sandbox.aspx

[3] Financial Conduct Authority Regulatory Sandbox Lessons Learned Report [PDF] https://www.fca.org.uk/publication/research-and-data/regulatory-sandbox-lessons-learned-report.pdf

If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA @ +91 98196 30042 or at advocacy@iaipirc.org

Sincerely yours,

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