

NEWSLETTER

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ABOUT NEWSLETTER

Presenting 9th Edition of our newsletter!

We're excited to bring you the latest updates and industry insights.

In this issue, we explore the evolving FinTech landscape by covering topics like compliance, taxation, and regulatory risk. From governance in startups to SEBI's interpretation in the recent cases, we unpack key developments shaping board independence and legal accountability.



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SEBI'S INTERPRETIVE GUIDANCE ON MATERIAL PECUNIARY RELATIONSHIP OF INDEPENDENT DIRECTORS: AN ANALYTICAL OVERVIEW OF THE INFOBEANS CASE

INTRODUCTION

On May 14, 2025, the Securities and Exchange Board of India (SEBI) issued an interpretive letter under its Informal Guidance Scheme, 2003, in response to a request made by InfoBeans Technologies Limited. The query revolved around the interpretation of the term "material pecuniary relationship" as used in Regulation 16(1)(b)(iv) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations), especially in the context of an Independent Director being engaged by a subsidiary company in a consultancy role.

This guidance assumes significance in view of the increasing globalization of Indian companies and the multifaceted roles being offered to independent directors in related group entities across jurisdictions. The SEBI response offers clarity on the regulatory expectations regarding independence criteria and provides useful interpretive principles for companies and compliance professionals.

BACKGROUND AND FACTS OF THE CASE

InfoBeans Technologies Limited, a listed entity with shares on both the National Stock Exchange and the Bombay Stock Exchange, approached SEBI through a formal application dated February 25, 2025, supplemented by a clarification on March 21, 2025. The application focused on interpreting Regulation 16(1)(b)(iv) of the LODR Regulations in the context of a proposed arrangement involving Ms. Opal Perry, who currently serves as an Independent Director on the Company's board, being engaged as a consultant to its wholly owned subsidiary in the United States.



The Company detailed that Ms. Perry's role with the subsidiary would be purely advisory, with no executive or operational responsibilities. The nature of her consultancy would focus on strategic inputs, business development, and risk management. Importantly, the Company assured that the consultancy fees to be paid to her by the US subsidiary would not exceed 10% of her total annual income. Moreover, the Company emphasized that the payment would be independent of her remuneration as an Independent Director in the parent entity and would conform to the pecuniary thresholds prescribed under the Companies Act, 2013.

LEGAL FRAMEWORK AND REGULATORY ANALYSIS

The interpretive request chiefly pertains to the application of Regulation 16(1)(b)(iv) of the LODR Regulations, which sets out the standards for assessing whether a director qualifies as independent or not. As per this provision, an independent director is required to be a non-executive director who, apart from receiving director's remuneration, "has or had no material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors."

CONCLUSION

SEBI's informal guidance in the InfoBeans matter serves as a nuanced reminder of the regulatory expectations concerning the role of Independent Directors. While the appointment of an Independent Director in a consulting capacity within a group company is not inherently disqualifying, it must be carefully assessed for materiality and potential conflicts.

Ultimately, this letter reinforces the fiduciary responsibilities of the Board and the critical role of corporate governance in preserving the independence and objectivity of directors. It encourages companies to adopt a diligent, principles-based approach rather than relying solely on numerical thresholds or form-based compliance.



THE ROLE OF COMPLIANCE IN FINTECH STARTUPS: A LEGAL AND REGULATORY PERSPECTIVE

INTRODUCTION

In recent years, the fintech sector has emerged as one of the most dynamic and transformative forces in the global financial ecosystem. Startups in this space are revolutionizing how people transact, invest, borrow, and manage money. However, this rapid evolution has brought with it an increased responsibility to operate within defined legal and regulatory frameworks. Compliance, once seen as a bureaucratic necessity, has now become a strategic imperative. As fintech startups navigate complex regulatory landscapes, the role of legal compliance has evolved from being a mere box-ticking exercise to a cornerstone of sustainable business growth and public trust.

At the early stage of their journey, fintech startups are often driven by innovation and speed to market. Their focus remains largely on developing disruptive technologies, raising capital, and scaling operations. Amidst this momentum, compliance can sometimes be perceived as an obstacle—an expensive and time-consuming process that slows down progress. However, overlooking legal compliance during the formative stages can lead to costly consequences down the line, including regulatory sanctions, reputational damage, and even forced shutdowns.

Regulatory Landscape and Compliance Imperatives for Fintech Startups in India

As soon as a fintech startup begins to offer financial products or services—whether it's digital lending, payments, wealth management, insurance tech, or blockchain-based solutions—it enters a highly regulated space. Regulators in India, such as the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI),

and now the Financial Intelligence Unit (FIU), play an important role in overseeing fintech operations. These regulatory bodies lay down rules for licensing, data protection, KYC/AML norms, consumer protection, cybersecurity, grievance redressal, and cross-border transactions, among others.

The compliance obligations are not merely procedural; they are designed to ensure financial stability, prevent misuse of technology for illicit purposes, and protect consumers from fraud and exploitation. With the emergence of the Data Protection regime, especially under the Digital Personal Data Protection (DPDP) Act, 2023, fintech startups must also adopt stringent data privacy and processing norms. Ensuring data minimization, securing informed consent, safeguarding financial data, and responding to data breaches are no longer optional—they are enforceable legal duties.

Over time, startups that treat compliance as a proactive strategy rather than a reactive response distinguish themselves in the industry. Integrating legal compliance into the business model early on not only reduces the risk of regulatory intervention but also builds investor confidence and customer loyalty.



Regulatory compliance, when embedded into a startup's culture, fosters transparency, accountability, and ethical governance. It allows the company to innovate within defined parameters, ensuring its services are both legally sound and socially responsible.

The legal landscape is also constantly evolving to keep pace with innovations in fintech. From sandbox regulations and alternative credit scoring models to the oversight of digital asset platforms and AI-based lending algorithms, regulators are actively engaging with fintech players to strike a balance between innovation and regulation. This collaborative regulatory approach offers startups an opportunity to shape policy while aligning their products with compliance goals.

Startups must therefore view compliance as a continuous journey rather than a one-time task. Establishing a robust legal and compliance framework requires a combination of internal policies, expert legal counsel, advanced technological tools, and continuous training. Internal compliance teams should work closely with product developers to anticipate legal issues and build safeguards into the architecture. Periodic audits, risk assessments, and real-time compliance monitoring are essential for early detection and correction of potential issues.



Furthermore, fintech startups dealing with cross-border services face additional challenges in complying with international regulations such as the General Data Protection Regulation (GDPR), anti-money laundering standards prescribed by the Financial Action Task Force (FATF), and foreign exchange regulations. This necessitates a multidimensional approach to compliance—one that respects both local and global regulatory standards.

The importance of compliance is also reinforced by the actions taken by regulators in recent times. Several high-profile enforcement cases have demonstrated the consequences of non-compliance, including fines, license suspensions, and regulatory blacklisting. These actions serve as a cautionary tale and underline the message that compliance is not optional. The stakes are high, especially in an industry that handles sensitive financial and personal data.

CONCLUSION

The role of compliance in fintech startups is not merely a regulatory checkbox—it is the backbone of sustainable innovation and responsible growth. In a sector defined by rapid technological shifts and evolving consumer expectations, legal and regulatory adherence offers a crucial anchor. It shields startups from legal vulnerabilities, builds investor and customer trust, and fosters a culture of integrity from the ground up. Fintechs that embed compliance into their core operations are not only more resilient in the face of scrutiny but are also better positioned to scale with confidence. In a landscape where disruption is the norm, those who balance bold innovation with thoughtful compliance will lead the charge. Ultimately, legal compliance is not a constraint—it is the catalyst that drives fintech towards lasting impact and credibility.

INDIA'S FINTECH HUB: GIFT CITY

GIFT CITY AS INDIA'S FINANCIAL HUB

India's first International Financial Services Centre (IFSC), GIFT City (Gujarat International Finance Tec-City) in Gandhinagar, was perceived as a "dual objective" jurisdiction: to onshore India-centric international financial activity and serve as a gateway for global capital flows. Established in phases from 2015 and overseen by the International Financial Services Centres Authority (IFSCA, set up by Parliament in 2020), GIFT City offers a unified regulatory regime for banking, securities, insurance and fintech. By end-2024 it already housed 740+ registered entities (across banking, markets, etc.) and ~\$78 billion in banking assets. Recent government analyses confirm that GIFT City is "sending a clear signal" of India's intent to play a larger role in global finance.

ENABLING LEGAL AND REGULATORY REFORMS

The IFSCA Act (2020) has streamlined GIFT City's fintech ecosystem by creating a single regulator for the IFSC, replacing the oversight of RBI/SEBI/IRDAI. The Regulatory Sandbox, established in October 2020, provides a live-test environment for fintech innovations, allowing eligible firms to experiment with new products under limited regulatory relief. The FinTech Incentive Scheme (2022), via gazette notification introduced grants for fintech startups, including Start-up Grants, Proof-of-Concept Grants, Sandbox Grants, and other support up to INR 75 lakhs, demonstrating the authorities' commitment to seeding GIFT City's fintech ecosystem.

The IFSCA (Payment Services) Regulations, 2024, have outlined detailed rules for Indian fintechs, covering cross-border money transfers, e-money issuance, escrow, and merchant acquisition. These regulations require payment service providers in Gift IFSC to obtain a separate IFSCA license, aligning with Singapore, UK, and EU standards. The FinTech Entity framework allows innovators to register under specific fintech categories and access specialized sandboxes, such as an Innovation Sandbox with no regulatory forbearance.

The "inter-operable regulatory sandbox" (IORS) enables simultaneous testing across different regulators' domains, enabling cross-border pilots. These initiatives have accelerated GIFT City's fintech batch, with approved FinTech/TechFin participants under the IFSC increasing from 12 as of end-2024 to 16 by March 2025. The government also launched a Direct Listing Scheme and a new IFSCA Listing Regulation for smooth listing of Indian firms on Gift exchanges. These reforms are supplemented by institutionalized public consultation and globalization measures. For instance, IFSCA mandates a public consultation for every significant rule and has utilized FinTech "bridges" and collaborative sandboxes (such as with the MAS in Singapore) to facilitate cross-border innovation.



RECENT FINTECH DEVELOPMENTS **(2023–MID 2025)**

FinTech Innovation Hub:

17 January 2025 witnessed IFSCA opening GIFT International FinTech Institute (IFI) and GIFT International FinTech Innovation Hub (IFIH) with support of Asian Development Bank. The IFI is for skill training, and IFIH offers incubation facilities and accelerator services to start-ups. These institutions give muscle to GIFT City's innovation eco-system.

Hackathons & Fintech Cohort:

IFSCA has also organized a series of international hackathons to find fintech solutions. Economic Survey (2024–25) states that 13 hackathons organized in 14 nations saw 152 applications and 60 companies were finally chosen as GIFT IFSC fintechs. This batch consists of payments, regtech, blockchain and AI businesses serving cross-border business.

Regulatory Sandbox Graduations:

IFSCA bulletins indicate that 27 players (5 in the Regulatory Sandbox and 22 in the Innovation Sandbox) were testing products as of March 2025, while 17 had graduated to full authorization successfully. In essence, the sandbox pipeline is outputting new fintech units into GIFT City at a consistent pace. Major Policy Approvals (Jun 2025)

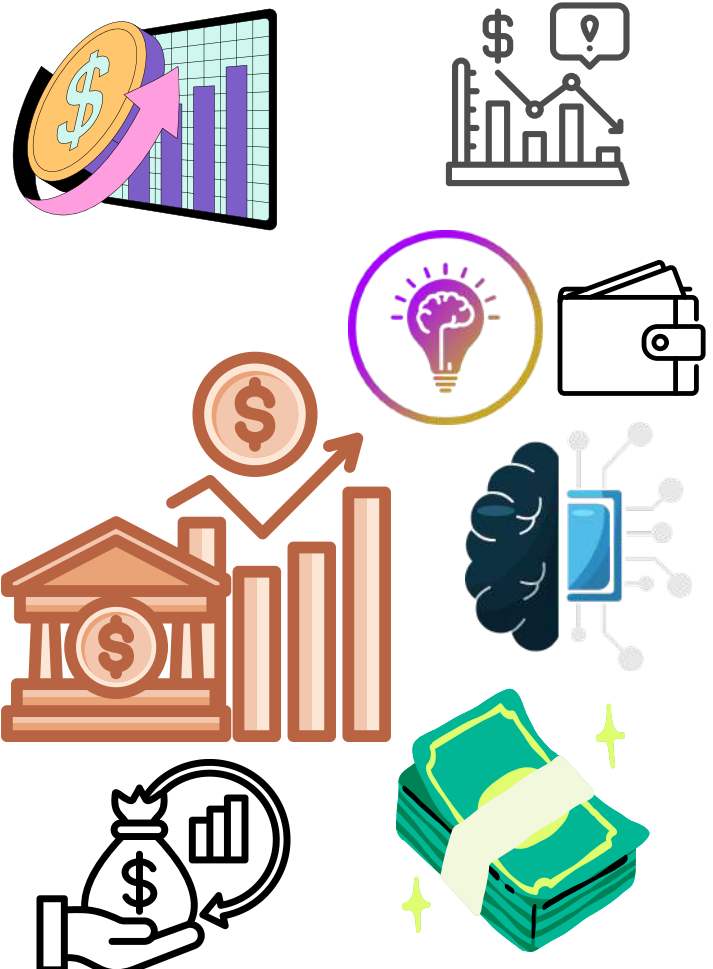
At its 24th meeting (24 June 2025) the IFSCA approved a number of strategic frameworks, among which a "Transition Bonds" taxonomy of green capital and new regulations for TechFin/Ancillary services to include tech-enabled financial service providers. It also approved a Third-Party Fund Management platform regulation in order to enable global asset managers to market schemes from GIFT with minimum presence.

These measures — though wider than for fintech on standalone basis — make GIFT an even more appealing globally-aligned financial centre.

TAX AND INCENTIVE ADVANCES

To Clients should have recourse to human intervention when they face problems arising from automated advice. This ensures that technology does not alienate investors but rather serves them effectively and ethically.

Most importantly, Union Budget 2024–25 provided GIFT City with special tax holidays and fund exemption until March 2030, indicating long-term commitment. Non-bank mutual funds, ETFs and FPIs are now allowed to establish in GIFT City equivalent to taxation, and comfort (e.g. on Section 9A conditions) facilitates easier repatriation of funds by offshore fund managers through India. Analysts observe these budget proposals "improve the competitiveness and appeal of GIFT City as an international financial centre".



Conclusion

GIFT City is emerging as India's premier international financial hub, driven by a progressive regulatory framework, strategic policy initiatives, and robust government support. With unified oversight by IFSCA, innovative regulatory sandboxes, and targeted incentives, GIFT City fosters fintech innovation and boosts India's global financial footprint. The establishment of institutional anchors like the IFI and IFIH, alongside international collaborations and favourable tax regimes, underscores a strong national intent to position GIFT City as a globally competitive, future-ready financial centre.

