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Reserve Bank releases framework for Self-Regulatory Organisations(s) in the Fin-Tech sector.

While FinTech sector drive innovation, they also raise concerns about customer protection, data privacy, cybersecurity, and governance. Thus, Self-regulation in the FinTech sector can help by setting industry standards, fostering ethical practices, and enabling adaptability to technological changes.

Self-regulation requires a consensus-based structure. This gives rise to a framework for SRO-FT, responsible for setting and enforcing standards, promoting ethical conduct, ensuring market integrity, resolving disputes, and fostering transparency. The framework includes the functions, governance standards, eligibility criteria and expectations for SRO-FT recognition.

On May 30, 2024, the Reserve Bank of India ("**RBI**") released the final Framework for Recognizing Self-Regulatory Organizations for the FinTech Sector ("**SRO-FT**") based on inputs and examinations from stakeholders. This framework aims to initiate the recognition process for SROs. Entities seeking eligibility under the SRO-FT framework must submit an application form along with the required enclosures. Subsequently, applicants deemed eligible for the "Recognition" will be published on RBI website. Key features of the SRO-FT area as follows:

I. Characteristics and Operations:

The SRO-FT should operate objectively and responsibly under RBI oversight, aiming for healthy and sustainable FinTech sector development. Key characteristics include:

- a) SRO-FT must represent the FinTech sector, including those regulated by RBI (e.g., NBFC-Account Aggregators, NBFC-Peer to Peer Lending Platforms), but excluding banks. It should foster inclusivity and draw on members' expertise to set pragmatic and adaptive standards.
- b) SRO-FT should actively contribute to industry growth by setting eligibility criteria, providing guidance, offering training, and helping bridge skill gaps, fostering a robust and mature FinTech ecosystem.
- c) SRO-FT must operate independently, free from influence by any single member or group, ensuring impartial and unbiased oversight to maintain trust and credibility.
- d) SRO-FT should serve as a fair and transparent arbiter of disputes among members, contributing to a stable and harmonious FinTech environment.
- e) SRO-FT should encourage members to align with regulatory priorities, facilitate communication with RBI, advocate for necessary changes, and promote compliance. It should have the authority to investigate and discipline members for non-adherence.

ABOUT THE FIRM

AKS Partners (formerly known as A.K. Singh & Co) is a law firm based in New Delhi (India) that provides a comprehensive range of legal services and solutions to domestic and international clients. The Firm offers a unique blend of the local knowledge to apply the regulatory, economic, political and cultural context to legal issues and develop case strategies.

We regularly handle technically challenging and complex multi-jurisdictional matters. Our team is spearheaded by one of the highly recognised lawyers with extensive experience in international dispute resolution and strong government and diplomatic backgrounds. This experience gives us the deepest understanding of the key decision points that are critical in navigating complex & complicated matters and managing government regulations.

- f) SRO-FT should collect, analyze, and disseminate relevant data, serving as a valuable resource for research, trend analysis, and policy making, thus contributing to the sector's development and resilience.

II. Eligibility and Membership:

The applicant for SRO-FT must be a not-for-profit company registered under Section 8 of the Companies Act, 2013, with diversified shareholding, ensuring no entity holds 10% or more of the paid-up share capital, individually or in concert. The Memorandum of Association ("**MoA**") should clearly state that its primary objective is operating as an SRO-FT. The applicant must have a minimum net worth of Rupees 2 crores within 1 year of recognition by RBI or before commencing SRO-FT operations, whichever is earlier. The SRO-FT must demonstrate the ability to establish and maintain necessary infrastructure, including robust IT systems, to effectively fulfil its responsibilities. Additionally, it must have systems in place to manage instances of 'user harm,' such as fraud, mis-selling, unfair practices, and unauthorized transactions, as reported by the RBI or other stakeholders. The SRO-FT must not establish overseas entities or offices without prior RBI approval.

III. Criteria for Membership:

The applicant for SRO-FT should represent the FinTech sector with membership encompassing entities of all sizes, stages, and activities. If representation is inadequate at the time of application, a roadmap for achieving comprehensive membership within a reasonable timeline must be included, with failure to do so resulting in refusal or revocation of recognition. Membership should consist of FinTechs and be voluntary, with the SRO-FT being domiciled or registered in India, though it may include FinTechs domiciled outside India as members. The membership fee structure should be reasonable and non-discriminatory, ensuring equal rights and representation for all FinTechs regardless of fees. The SRO-FT should have the authority, derived from membership agreements, to set rules, standards, and codes of conduct for its members. Additionally, the RBI will encourage FinTechs to become members of a recognized SRO-FT.

IV. Criteria of Board of Directors ("**BOD**") and Key Managerial Personnel ("**KMP**"):

The Board of Directors and Key Managerial Personnel of the SRO-FT should demonstrate professional competence and a reputation for fairness and integrity. Any ongoing legal proceedings involving the SRO-FT, BOD, or KMP must be disclosed, showing they do not impede the SRO-FT's operations or reputation. Additionally, the applicant, BOD members, and KMP should not have prior convictions for any offenses, including those involving moral turpitude or economic crimes. The RBI's determination on the fitness and propriety of the SRO-FT, BOD and KMP will be final. When granting recognition, the RBI may impose additional conditions to ensure the SRO-FT's operations are not detrimental to the public interest.

V. Application Requirements:

Any representative organization for FinTechs can apply for recognition as an SRO-FT. Membership should primarily include FinTechs not regulated by any financial sector regulator, with potential inclusion of regulated entities other than banks. The number of SRO-FTs recognized will depend on the applications received. Applications must include the MoA, Articles of Association ("**AoA**"), Board details, operational plans, and a membership roadmap. The application must also include a detailed justification of how it meets or plans to meet the characteristics of an SRO-FT, as described in this framework. Applications need Board authorization and RBI may request further information, as it may deem necessary. Incomplete or ineligible applications will be returned or rejected, with an opportunity for applicants to be heard. If deemed suitable, RBI will issue a "Letter of Recognition," valid under

conditions such as truthful information, adherence to framework requirements, compliance with recognition terms, and relevant regulations. RBI can revoke recognition if the SRO-FT's operations are detrimental to public interest or stakeholders or found to be conducting activities that are not in conformity with the objectives of the SRO-FT, after giving the SRO-FT an opportunity to respond. However, the RBI reserves the right to deny recognition to any SRO-FT and its decision in this matter is final.

VI. Functions and Responsibilities of SRO-FT:

The SRO-FT's primary function is to guide its members' conduct, ensuring adherence to industry standards, compliance with relevant laws, and maintenance of high ethical standards. This involves establishing and enforcing guidelines for consumer protection, data security, and data privacy. The SRO-FT promotes responsible innovation through a framework encouraging responsible experimentation. It addresses grievances, conflicts of interest, and disputes among members, fostering a fair and competitive environment. As a steward of trust in the FinTech sector, the SRO-FT needs to balance innovation with integrity.

VII. Responsibilities towards the RBI:

The SRO-FT plays a vital role in ensuring compliance with regulatory frameworks, maintaining industry standards, and facilitating transparent communication with the RBI. Its responsibilities include providing sector-specific insights, addressing regulatory concerns, and collaborating on FinTech sector development. Acting as a bridge, the SRO-FT fosters cooperation and offers policy recommendations. It represents the collective voice of its members in engagements with the RBI, addressing broader sector concerns and ensuring fair treatment for all. Additionally, it regularly updates the RBI on sector developments and notifies it of significant violations by members to enable timely action. The SRO-FT collects and shares relevant sector information to aid policy making, developing scalable technology solutions for detailed insights into FinTech activities, and coordinates new product introductions within the RBI's regulatory framework. It also consults the RBI in developing and updating the taxonomy for FinTechs. The SRO-FT should perform tasks assigned by the Reserve Bank, review proposals or suggestions, and provide requested data or information as directed. It must submit its Annual Report and any other required information, as well as periodic returns prescribed by the Reserve Bank. The SRO-FT will engage in periodic interactions with the Reserve Bank, offering comprehensive perspectives on the FinTech sector. The Reserve Bank reserves the right to inspect or audit the SRO-FT's books, with the SRO-FT required to provide necessary information and bear the inspection costs. Additionally, the SRO-FT should comply with other functions and directions specified by the Reserve Bank, guide the RBI on regulatory matters in the FinTech sector, and facilitate the collection and periodic or urgent relay of market intelligence inputs to the RBI.

VIII. Governance and Management:

The SRO-FT is tasked with upholding rigorous governance standards, encompassing transparency, accountability, integrity, fairness, responsiveness and legal compliance. It is crucial for it to navigate conflicts of interest, ensure the competence of its leadership and promptly address grievances to foster trust and credibility within the FinTech community. To achieve these objectives, the SRO-FT must adhere to several guidelines: maintaining professional management outlined in its AoA, establishing clear protocols for member admission and expulsion, and upholding impartial decision-making to prevent external influence, as specified in its AoA or Bye-laws. Additionally, the Board of SRO-FT should establish a framework for ongoing monitoring of directors' suitability, promptly reporting any changes to the RBI. Furthermore, a significant portion of the Board of SRO-FT should comprise independent members, with non-independent directors representing unregulated FinTechs. Other measures include framing a policy on director rotation, promptly reporting changes in directorship to the RBI, ensuring the SRO-FT has skilled human resources and technical capabilities, and providing the RBI with the authority to remove board or management members if necessary, while also allowing for adequate explanation. Additionally, the RBI may appoint Observer(s) to the Board of SRO-FT if deemed necessary.

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AWARDS & RECOGNITIONS



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