



Tax alert: Draft framework for recognising Self-Regulatory Organisations for FinTech sector

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The Reserve Bank of India (RBI) released the draft framework for recognising Self-Regulatory Organisations for the fintech sector (SRO-FT) on 15 January 2024. The RBI envisages the SROs to promote a healthy balance between innovation and regulatory compliance in a manner that protects consumer interests.

In a nutshell



Framework to introduce **self-governance** in the fintech space to **adhere to industry standards**, demonstrate commitment to **innovation** while being **compliant** with applicable laws and regulations.



Key characteristics include being **truly representative** of the sector, having goals of **development**, **independence** from influence, **compliant** and **arbitrator** of member disputes.



The framework prescribes the membership criteria, **SRO-FT structure**, application requirements, functions, and **governance framework**.



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The RBI emphasizes in the framework¹ that the SRO-FT must be truly representative of the fintech sector, fostering inclusivity and drawing upon the collective experience of the members to develop standards. Most importantly, the SRO-FT must invest in continuous skill development and aspire to provide new entities with requisite handholding. The SRO-FT will be able to maintain credibility only if it is independent from influence of any single or group of members and it must be perceived rather as a legitimate arbiter of disputes among its members.

Key highlights:

- **Eligibility Requirements:** The framework proposes that the SRO-FT applicant should be a Section 8 company under the Companies Act, 2013. The SRO-FT applicant shall have a Memorandum of Association (MoA) which explicitly states the operation of the applicant company as an SRO-FT, as one of its primary objectives. The applicant should have sufficient net worth and required infrastructure including IT, to fulfil its role as an SRO-FT. They should put in place **systems for managing ‘user harm’ instances** that come to its notice by the RBI or otherwise. The SRO-FT cannot set up businesses overseas without the RBI’s prior approval. Additionally, any legal proceedings against the applicant company, Board of Directors, or Key Managerial Personnel, must be declared up front.
- **Membership Criteria:** The SRO-FT should represent fintech companies of all size, stage and activities. Overseas fintech companies are also allowed to be members. Membership should be voluntary, and its membership fee structure should be non-discriminatory.
- **Application Requirements:** Applications require the MoA accompanied by a detailed plan of achieving objectives. The number of SRO-FTs required for a sub-sector will be decided by the RBI as deemed fit. Final approval of the applications will be the RBI’s final decision. On approval, the RBI shall issue a ‘Letter of Recognition’ (LoR) subject to conditions such as accurate information, adherence to framework, terms, and conditions.

The RBI may revoke recognition of the SRO-FT if it deems that the functioning of the SRO-FT is detrimental to public interest or any other stakeholder and / or if the SRO-FT is found to be conducting activities that are not in conformity with the objectives of the SRO-FT.

- **Functions of the SRO-FT:** The following table summarises key functions proposed by the RBI.

Standard Setting	<ul style="list-style-type: none"> • Have a well-define consultative process to establish standards for its members • Frame a code of conduct for its members including advertisements • Set industry benchmarks and baseline technology standards • Frame standardized contracts/documents for its members • Develop baseline governance standards
Oversight and Enforcement	<ul style="list-style-type: none"> • Have structured frameworks that guide its oversight and enforcement functions • Deploy surveillance mechanisms for monitoring of non-compliance • Offer counselling on restrictive, unhealthy, and detrimental practices
Developmental	<ul style="list-style-type: none"> • Actively promote understanding of regulatory requirements, including knowledge transfer and training programs for its members • Encourage a culture of R&D and innovation
Grievance Redress	<ul style="list-style-type: none"> • Establish a grievance redress as well as dispute resolution framework for its members

¹ <https://rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1260>

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| | <ul style="list-style-type: none">• These frameworks should be efficient, fair, and transparent• Work towards consumer awareness on products and services |
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Beyond this, the SRO-FT is required to furnish any information/consultation to the RBI as and when required. They should consult the Reserve Bank in developing and updating the taxonomy for fintechs. They must submit an annual report to the RBI on its activities or periodic returns as may be prescribed.

- **Governance Framework:** The SRO-FT is obligated to maintain the highest standards of transparency, accountability, integrity, fairness, responsiveness, and compliance with all relevant laws and regulations. Additionally, it must implement robust conflict of interest management, ensure professional competence of its leadership, and promptly address grievances. The framework also highlights the governance structure to be followed by SROs – they are to be professionally managed, with its Articles of Association (AoA). **At least one-third of members in the Board, including the chairperson, should be independent, and without any active association with a fintech entity.**

Comments/feedback on the framework are invited till the end of February 2024 via e-mail :
fintechsro@rbi.org.in

Key takeaways:

This self-governance framework is a welcome move and sets a path forward for regulations in the Indian fintech space. However, it will be key to observe how SRO-FTs incentivize members to join and how many SROs the RBI will approve.



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