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**FRAMEWORK FOR SELF-REGULATORY ORGANIZATION
IN
FINTECH SECTOR**



The Reserve Bank of India (RBI) has issued a framework for Self-Regulatory Organisation(s) in the FinTech¹ Sector ("SRO-FT") on May 30, 2024 ("Framework")². Given the dynamic needs of the FinTech industry where majority of the players operate in an unregulated space, the idea of SRO-FT has been christened to promote self-regulation within the industry participants. The objective is to create a balance between the technological innovations and ethical business practices – aimed to address the rising concerns of customer protection, data privacy, cyber security, grievance handling etc. The Framework *inter alia* outlines the broad functions, governance standards, eligibility criteria and expectations for grant of recognition as an SRO-FT, which have been summarized briefly in this alert.

Eligibility for SRO-FT's recognition: In order to be recognised as SRO-FT, an application would need to be submitted with RBI. The applicant entity would need to be registered as a 'not-for-profit company' under section 8 of the [Indian] Companies Act, 2013. The shareholding of the applicant should be sufficiently diversified, and no entity can hold 10% or more of its paid-up share capital, either singly or acting in concert. Further, within 1 (one) year of recognition as SRO-FT or before commencement of operations, whichever is earlier, the applicant should have minimum net worth of INR 20 million. Fintech(s) domiciled outside India are allowed to become members of SRO-FT. However, the SRO-FT would need prior approval of RBI for setting up entity / offices overseas.

Besides, applicants would need to put in place systems for managing 'user harm' instances (such as fraud, mis-selling, unfair practices, unauthorized transactions or any misconduct causing harm to consumers of the financial services). The applicant should also have adequate infrastructure and IT system and tools in place to fulfil the responsibilities of SRO-FT effectively.

Membership of SRO-FT: Amongst other key eligibility criterion to be recognised as SRO-FT, the applicant would need to demonstrate that it 'represents' the FinTech sector with membership across entities of all size, stage and activities. Such diversification is expected to foster inclusivity and would enable SRO-FT to draw upon the collective expertise and experience of its members resulting in development of pragmatic standards that are widely accepted by the FinTech community.

The 'representative' character would need to be demonstrated at the stage of application by way of 'actual' membership. The 'intended' membership can also be indicated by the applicant by listing out Fintech(s) who have explicitly conveyed their intention to become member(s) in future. Further, the members of SRO-FT should primarily be Fintech(s) that are currently not regulated by any financial sector regulator. However, membership of SRO-FT may also be open to regulated entities (other than banks).

¹ The Framework defines FinTech(s) as 'Entities which provide technological solutions for delivery of financial products and services to businesses and consumers or encompass regulatory and supervisory compliance in partnership with traditional financial institutions or otherwise'. The definition is to be taken as broad guidance for determining eligibility of members.

² A draft version of the framework was released on January 15, 2024, by RBI for public comments.



Governance: The SRO-FT should adopt highest standards of governance, maintain impartiality in decision making and promote culture of compliance. The standards set by SRO for members should not be a substitute to the direct prescribed regulatory framework for FinTech(s), if any. The SRO-FT should be professionally managed and in this context its Articles of Association should clearly lay down the criteria for admission, expulsion, suspension, and re-admission of its members.

The composition of Board of Directors of SRO-FT should comprise of at least 1/3rd independent directors (without any active association with Fintech entity) whereas the majority of non-independent directors should represent unregulated FinTech(s). RBI may nominate an observer on the Board of SRO-FT.

Key characteristics and functions of SRO-FT: The Framework describes key characteristics and functions of SRO-FT as under:

Independence	<p>The SRO-FT should operate independently free from influence of any single member or group of members. Such independence is critical to:</p> <ul style="list-style-type: none"> • ensure that decision making is not swayed by interests of a dominant few • enhance confidence of both industry participants and regulator in the credibility of the SRO-FT.
Standard-setting	<ul style="list-style-type: none"> • Have well-defined consultative processes to make rules and standards. • Frame code(s) of conduct customised to the nature of activities of its members. • Frame standardised documents (such as agreement between lending service providers and regulated entities). • Set industry benchmark, baseline governance standards and baseline technology standards for its members (for transparency, disclosure, data privacy etc.) • Set up a mechanism for accreditation in the FinTech ecosystem to foster professionalism and improve compliance culture. • Have code of conduct for responsible advertisements and market standards. • Specify consequences for violation of rules and misconduct by its members.
Oversight and enforcement	<ul style="list-style-type: none"> • Deploy suitable surveillance mechanisms for effective monitoring. • Specify consequences for violation of agreed rules/ codes. • SRO should be empowered to remove any member, if required.
Dispute Redressal	<ul style="list-style-type: none"> • Have a transparent and fair mechanism for grievance redressal and resolution of disputes arising amongst members.
Responsibilities towards RBI	<ul style="list-style-type: none"> • Regularly update RBI on developments in the sector. • Notify RBI of any 'major' violation by its members for RBI to initiate timely action. • Submit annual report and periodic returns, as may be prescribed, to the RBI.



Concluding thoughts: Few associations are already in existence with Fintech players as their members and which work as self-regulatory industry body. It is expected that these associations would likely apply for SRO-FT recognition. However, these associations mostly represent Fintech which focus on selected activity (say digital lending). Thus, such association may have to work to include Fintech players from other segments and activities for RBI to allow them with SRO recognition. The Framework also indicates that more than one organization can be considered for SRO-FT recognition and FinTech(s) would be encouraged to obtain membership from at least one SRO. It would have to be seen as to how multiple SROs (if allowed) would be able to co-exist and if respective SROs would be allowed to frame different standards / codes for the same Fintech business.

The concept of self-regulation has been promoted by the regulators in the past as well, for emerging and evolving sectors with an aim to create a balance between promoting innovation and protecting customers' interest. However, in certain spaces like that of gaming, the SROs system never operationalised as the applicant organizations were dominated by industry players³. Thus, one would have to wait to see if the extant Framework would prove to be successful for the Fintech industry.

³ [online gaming: States, Trai jump into the fray to regulate online gaming - The Economic Times \(indiatimes.com\)](#)



This alert is only for general informational purposes, and nothing in this edition could possibly constitute legal advice, which can only be given after being formally engaged and familiarizing ourselves with all the relevant facts.

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