



**Framework for Recognition of
Self-Regulatory Organisations
in
Financial Markets regulated by the
Reserve Bank**

**Reserve Bank of India
August 19, 2024**

Chapter I – Preliminary

Introduction

The Reserve Bank has a legislative mandate to regulate the interest rate and foreign exchange markets which are critical for the resilient functioning of the financial system and the broader economy, and for ensuring financial stability. As part of this mandate, the Reserve Bank is tasked with the regulation, development and oversight of the interest rate markets, including the Government securities market; money markets, including the market for repo in Government securities and corporate bonds; foreign exchange markets; derivatives on interest rates / prices, foreign exchange rates and credit. The Reserve Bank is also responsible for the regulation of financial market infrastructure, including financial market benchmarks, for these markets. The Reserve Bank regulates financial markets within the overarching statutory framework of the Reserve Bank of India Act, 1934, the Government Securities Act, 2006, Foreign Exchange Management Act, 1999, the Bilateral Netting of Qualified Financial Contracts Act, 2020 and the Payment and Settlement Systems Act, 2007.

2. Financial markets play an important role in the growth and development of an economy by facilitating efficient allocation of resources and sharing of risks. Given its significance, the development of financial markets has always remained one of the key priorities of the Reserve Bank. Accordingly, the Reserve Bank has been undertaking policy reforms and regulatory policies in active coordination with Government and other stakeholders to develop safe and stable financial markets which facilitate efficient price discovery through increasing the depth and width of financial markets and provide appropriate products for trading and risk management. As part of this approach, it seeks to broaden base markets by easing access, enhancing participation, facilitating innovation, protecting users and promoting fair conduct. With the growth of the Regulated Entities (REs), in terms of number as well as scale of operations, increase in adoption of innovative technologies and enhanced customer outreach, a need is felt to develop better industry standards for self-regulation.

3. Self-Regulatory Organisations (SROs) can play a vital role in this direction by proactively developing and ensuring adoption and adherence to industry standards

and best practices by its members in the financial markets. The self-regulation shall complement the extant legislative / regulatory framework and help further develop the financial markets in terms of enhanced integrity, professionalism, compliance, innovation, and ethical conduct. In deliverance of this role, the SRO shall frame necessary best practices / standards / codes within the regulatory framework prescribed by the Reserve Bank of India for voluntary adoption by its members and these shall not be a substitute to the prescribed regulatory framework. The promotion of compliance culture established through high levels of internal governance can help reduce the compliance burden on market participants and promote an ecosystem conducive to the development of the financial markets.

4. The Framework for recognition of SROs in financial markets regulated by the Reserve Bank (hereinafter “the Framework”) is based on the [Omnibus Framework for recognising SROs for Regulated Entities, issued by the Reserve Bank on March 21, 2024](#), with necessary amendments to reflect the specificities and characteristics of SROs for financial markets. In line with the Omnibus Framework, the Framework prescribes the broad objectives, functions, eligibility criteria, governance standards, membership criteria and other terms and conditions to be followed by the SROs for grant of recognition by the Reserve Bank. The guidelines contained in the Framework are the minimum requirements and recognised SROs will be encouraged to develop their best practices going beyond what has been set out in the Framework.

Characteristics of an SRO

5. An SRO is expected to operate with credibility, objectivity and responsibility under the oversight of the regulator, to maintain integrity, ensure professionalism, promote ethical conduct and improve regulatory compliance for healthy and sustainable development of the financial markets. An SRO should have the following characteristics:

- i. Sufficient authority which is derived from membership agreements or Articles of Association to set ethical, professional and governance standards and enforce these standards on its members. It should have strong governance mechanisms, including focus on independent Board, transparency, and adherence to well-defined processes.

Note: The term 'members' used in this Framework refers to the market



participants and authorised market infrastructure providers which accept the membership of the SRO.

- ii. Objective, well-defined and consultative processes to frame rules relating to conduct of its members. SROs should also put in place well-defined processes for overseeing activities of its members. It should establish clear standards of conduct and specify consequences such as counselling, cautioning, reprimanding and expelling members, for violation of agreed rules / codes. Such consequences shall not entail monetary penalties in any manner.
- iii. Ability to operate independently and with impartiality, free from the influence of any single member or group of members.
- iv. Develop standards for improving compliance culture and adherence by its members to the circulars, directions, guidelines, rules and regulations framed by the Reserve Bank.
- v. Devise and implement standardised procedures for handling disputes among members or as directed by RBI, including processes to resolve these disputes through a transparent and consistent dispute resolution / arbitration mechanism {further detailed in paragraph 8(v) below}.
- vi. Effective monitoring of developments in the financial markets.
- vii. Strive to develop the sector and ensure the standards / best practices prescribed are in compliance with, and within the applicable statutory and regulatory instructions. The standards / best practices set for adoption by its members shall not be a substitute to any applicable statute, or regulatory circulars, directions, guidelines, rules and regulations.

Chapter II – Objectives and responsibilities of the SRO

Objectives of the SRO

6. In general, an SRO is expected to adhere to a set of overarching objectives for betterment of the sector it represents, foster advancement and address critical industry concerns within the broader financial system. These objectives would collectively define the expected role and responsibilities of the SRO in steering the sector towards enhanced integrity, professionalism, compliance, innovation, and ethical conduct. This includes a strong emphasis on the development and adherence to robust self-regulatory principles and practices and conventions that are conducive to the furtherance of the financial markets. Upholding the principles of good faith and avoiding conflicts of interest should be the cornerstones of its operations.

7. An SRO is expected to achieve the following objectives:

- i. Promote a culture of compliance among its members by encouraging progressive practices and conventions. Special attention must be given on extending guidance and support, particularly to the smaller entities in the sector, and sharing best practices aligned with statutory and regulatory policies. For this purpose, the SRO should frame and implement a comprehensive code of conduct for its members.
- ii. Act as the collective voice of its members in engagements with the Reserve Bank, government authorities and other statutory and regulatory bodies. It should aim to represent and address broader industry concerns and play a pivotal role in the functioning of the financial system. It is expected that the SRO functions above self-interests and addresses the larger concerns of the sector and financial system as a whole. While acting as the industry representative, the SRO is expected to ensure equitable and transparent treatment for all its members.
- iii. Examine guidance and best practices prescribed by international standard setting bodies and market practices prevalent in other jurisdictions, as may be applicable, to identify opportunities for enhancing the functioning of the financial markets.
- iv. Collect and share relevant sectoral information with the Reserve Bank to aid in policymaking.

- v. Foster innovation and facilitate introduction of new products within the regulatory framework set by the Reserve Bank.
- vi. Promote a culture of research and development to encourage innovation while ensuring highest standards of compliance and self-governance.
- vii. Promote adoption of best practices to ensure transparency and fair pricing for retail and smaller participants while accessing financial markets.

Responsibilities of the SRO towards members

8. The primary responsibility of the SRO towards its members would be to promote best business practices. The SRO shall establish minimum benchmarks and conventions for professional market conduct amongst its members. The SRO should aim to safeguard the interests of all stakeholders in the ecosystem. In particular, the SRO should discharge the following responsibilities towards its members:

- i. Frame a code of conduct to be followed by its members and monitor adherence to the code as well as compliance with the regulatory instructions by its members.
- ii. Develop a reasonable and non-discriminatory membership fee structure. While membership fees may vary or be differentiated, based on size, intent, capability, etc., it should be ensured that the membership character remains non-discriminatory, *i.e.*, all members, irrespective of membership fees, enjoy equal rights and representation.
- iii. Act in utmost good faith and avoid conflict of interest in the conduct of its functions.
- iv. Disseminate sector-specific information through periodicals, bulletins, pamphlets, magazines, etc., based on publicly available data / information, for creating awareness on matters of interest to members.
- v. Establish a grievance redressal and dispute resolution / arbitration framework for its members and offer counselling on restrictive, unhealthy and such other practices which may be detrimental to growth of the financial markets / system. The dispute resolution process should consistently use efficient, fair and transparent policies and procedures that are in line with the regulatory and statutory requirements.
- vi. Promote knowledge of statutory and regulatory provisions and provide necessary resources for exchange of expertise and experience among

members. It may also arrange for training programmes for skill development and awareness programs on contemporary issues for its members.

- vii. Educate public about the operations of its members, grievance redressal mechanisms available to them and spread awareness in general about the sector.

Responsibilities of the SRO towards the Regulator

9. In general, the SRO is expected to be an ally of the Reserve Bank in ensuring better compliance with regulatory guidelines, development of the financial markets, protection of stakeholder interests, foster innovation and detection of early warning signals. It should strive to achieve the objectives set forth for SRO under paragraph 7 above. The SRO is also expected to act as a bridge between its members and the Reserve Bank.

10. In particular, the SRO shall discharge the following responsibilities towards the Regulator:

- i. Inform the Reserve Bank about the developments in the sector on a regular basis. Promptly inform the Reserve Bank about any act of misconduct or violation, by its member, of the provision of the Acts or the circulars, directions, guidelines, rules and regulations issued by the Reserve Bank, that comes to its notice.
- ii. Carry out any work assigned to it by the Reserve Bank and examine the proposal or suggestion referred to it. Provide data / information, sought by the Reserve Bank periodically or as advised.
- iii. Submit an Annual Report to the Reserve Bank, within six months of completion of the financial year. Submit periodic / *ad hoc* returns as may be prescribed by the Reserve Bank.
- iv. Engage in periodic interactions with the Reserve Bank. It is expected that SRO would look at the larger picture of the industry / sector in offering its views / inputs / suggestions.
- v. Provide comprehensive stakeholder feedback on consultations, draft circulars, etc., shared by the Reserve Bank, in a timely manner.
- vi. Discharge such other functions and abide by such other directions as specified by the Reserve Bank, from time to time.



11. Reserve Bank may, if it deems necessary, inspect the books of the SRO or arrange to have an independent inspection of the books of the SRO. The SRO shall be obligated to provide the required information to the inspection team for the purpose of conduct of inspection. The expenses related to such inspection shall be borne by the SRO.

Chapter III – Eligibility criteria, Governance, and Application for Recognition

Eligibility criteria for the applicant

12. In order to ensure that the SRO delivers on its objectives and responsibilities, it is important to ensure that its independence and integrity is enshrined in its establishment and composition. The entities intending to function as an SRO shall, therefore, fulfil the following eligibility criteria:

- i. The applicant shall be set up as a not-for-profit company registered under Section 8 of the Companies Act, 2013. The applicant must have minimum net-worth of INR 10 crore and should possess or have the ability to create infrastructure to enable it to discharge responsibilities of an SRO on a continuing basis. Where applicable, the shareholding of the SRO should be sufficiently diversified, and no entity shall hold 10 per cent or more of its paid-up share capital, either singly or acting in concert.
- ii. The applicant must ensure that the membership of the SRO is voluntary.
- iii. The applicant must adequately represent the sector / market with a good mix of members across different types and sizes of entities. If representation is inadequate at the time of application, a roadmap, not exceeding two years, should be included for achieving adequate representation within a reasonable timeline. Failure to demonstrate or attain comprehensive membership would result in refusal or revocation of recognition.
- iv. The applicant and its Directors must demonstrate professional competence and a general reputation for fairness and integrity, as assessed to the satisfaction of the Reserve Bank. Neither the applicant nor any of its Directors should have been convicted of any offence including moral turpitude / economic offence in the past. Further, neither the applicant nor any of its Directors should be involved in any legal proceedings that may adversely impact the interests of the financial system.
- v. The applicant must be fit and proper for the grant of recognition as an SRO, in all other respects. The applicant shall undertake to function as per the objectives and responsibilities prescribed under this Framework.
- vi. While granting recognition as an SRO, the Reserve Bank may, if deemed

necessary, prescribe such other conditions as may be necessary to ensure that functioning of the SRO is not prejudicial to the public interest.

Governance framework of the SRO

13. An SRO is expected to operate with transparency, professionalism and independence, in order to foster greater confidence in the integrity of the sector. Compliance with the highest standards of governance is a pre-requisite for an effective SRO. Accordingly, the SRO shall abide by the following guidelines:

- i. The SRO shall be professionally managed and have a suitable provision in its Articles of Association / bye-laws to ensure this. The Articles of Association / bye-laws shall clearly provide for the manner in which the Board of Directors / governing body would function, duly addressing issues of conflict of interest.
- ii. The Articles of Association / bye-laws of the SRO shall specify the functions it will discharge, as one of its main objects. The Articles of Association / bye-laws shall also clearly lay down the criteria for admission, expulsion, suspension, re-admission, etc. of members. The SRO shall ensure that any other activity undertaken by it shall not, in any manner, compromise or pose any conflict of interest *vis-à-vis* its standing / role / activities as an SRO.
- iii. The Directors shall fulfil the fit and proper criteria, as framed by the Board of the SRO on an ongoing basis or as may be prescribed by the Reserve Bank, have relevant expertise / experience and be persons of high integrity. At least one-third of members in the Board shall be an Independent Director and without any active association with the category / class of entities for which the SRO is established. The Board shall, among others, frame a policy on rotation of Directors for important positions in the Board. Any change in the composition of the Board or any adverse information about any Director, shall be immediately reported to the Reserve Bank.
- iv. The Board shall ensure that the Key Managerial Personnel of the SRO possess adequate professional competence and a reputation for fairness and integrity.
- v. The Board shall ensure that the SRO has adequately skilled human resources and robust technical capability to monitor the sector. The Board shall follow transparent practices for establishing its governance processes.
- vi. The SRO shall ensure to comply with the provisions of relevant Acts as well as circulars, directions, guidelines, rules and regulations issued by the Reserve



Bank from time to time.

Application for recognition

14. An entity, aspiring to function as an SRO under this Framework and meeting the eligibility criteria set out in paragraph 12 above, can make an application for recognition signed by a signatory duly authorized by its Board. The application shall be accompanied by:

- i. A copy of the Memorandum of Association relating to the constitution of the SRO;
- ii. A copy of the Articles of Association / bye-laws of SRO;
- iii. Details of the constitution of its Board and the Directors, roles / responsibilities of management and the manner in which its operations would be undertaken;
- iv. The details of Key Managerial Personnel of SRO and their powers and duties;
- v. Roadmap to achieve the adequate representation of the sector / market within the prescribed timeline, if applicable;
- vi. Details of activities, other than activities pertaining to the SRO, that the applicant undertakes / seeks to undertake, if any; and
- vii. A declaration that any members of the Board or any Key Managerial Personnel has not been convicted of any offence including moral turpitude / economic offence in the past.

15. Reserve Bank may require the entity to submit (i) any further information or clarification as may be deemed relevant or necessary to satisfy itself regarding the representativeness of the SRO in the sector / market it seeks to represent and (ii) the fit and proper status of the entity applying to be an SRO and / or its Board of Directors before granting it recognition as an SRO. The Reserve Bank may also obtain any additional information from Government departments / agencies, other regulators or any other authority which, in the opinion of the Reserve Bank, is relevant for disposal of the application.

16. Any application, which is not complete in all aspects or does not fulfil the requisite criteria, shall be liable to be rejected by the Reserve Bank. However, before rejecting any such application, Reserve Bank shall give an opportunity to the applicant to address such objections, within 30 days from the date of dispatch of intimation by



Reserve Bank.

17. Where the applicant is deemed suitable, the Reserve Bank would issue a “Letter of Recognition” to function as an SRO. Reserve Bank reserves the right to not grant recognition to any SRO. The decision of Reserve Bank in this regard shall be final.

Conditions for grant of recognition

18. The recognition granted to SRO shall be valid subject to the following conditions:

- i. Information or particulars furnished by the recognised SRO shall be true and not misleading in any material aspects.
- ii. The requirements prescribed in this Framework, including that of membership as prescribed, shall be adhered to on a continuing basis.
- iii. The SRO shall ensure adherence to the terms and conditions governing its recognition or any other condition which may be subsequently prescribed by the Reserve Bank. The recognition granted to the SRO shall be subject to periodic review by the Reserve Bank, as considered necessary.

19. Reserve Bank may revoke the recognition granted to the SRO, if it deems the functioning of the SRO to be detrimental to public interest or the SRO is found to be conducting activities which are not in conformity with the objectives of the SRO, after giving due opportunity of being heard.