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Sahamati's feedback on the Draft Omnibus Framework for recognising Self-Regulatory Organisations (SROs) for Regulated Entities (REs) of the Reserve Bank of India

The Draft Omnibus Framework for Recognising SROs for REs of the RBI is a laudable step in the right direction to build institutional self-regulatory capacity in the banking and finance sectors. Institutional capacity in the form of SROs is critical to expand the regulatory capacity and efficiencies in the implementation, monitoring, and audit of best practice codes of conduct built on top of existing regulatory guidelines and directives of the RBI for various RE-licensed classes. The institutionalisation of SROs will undoubtedly provide added impetus to AA Framework, which is crucial in achieving the nation's and the regulator's wider goal of financial inclusion by enabling ease of access to affordable financial services for the underserved, unserved individuals and MSMEs.

DigiSahamati¹ Foundation ('Sahamati'), a member-driven industry association for the Account Aggregator (AA) ecosystem, has a few submissions and clarifications on the Draft SRO Framework to ensure that it is suitable to the needs and characteristics of the AA Framework. We have divided our response into two parts:

- 1) Scope and composition suitable for a dedicated SRO entity for the AA Framework
- 2) Detailed response and inputs on the Draft SRO Framework for RBI's consideration

Contours and characteristics of a dedicated SRO entity for the AA Framework

The AA Framework is an advanced Digital Public Infrastructure built on a unique technical architecture of federated interoperability and also as a cross-sectoral framework with the participation of entities regulated across the 4 Financial Sector Regulators (FSRs) and the Department of Revenue, under the Ministry of Finance. Apart from being a highly dynamic framework given its technological intensity, it is also foundational to the country, given its ability to touch the life of every Indian by easing access to affordable financial services and achieving a sustainable state of financial well-being.

¹ A Section 8 not for profit company

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As of 31st December 2023, an estimated 1.94 billion financial accounts are AA-enabled across the four FSRs and GST accounts under the Department of Revenue, MoF. The AA Ecosystem now has **420 live participants, 38.96 million financial accounts linked to AA, and 40.09 million consents successfully fulfilled** for data shares via AA. During the first half of FY24, **more than Rs. 200 billion of loans were disbursed via AA, with lenders reporting improved efficiency, zero fraud rates,** and higher conversion rates.

As the AA Ecosystem is poised for a rapid scale-up, **there is a collective voice from the industry for the need for a dedicated SRO** to ensure that the implementation of the framework is in sync with its spirit and principles, which is explicit and informed consent by consumers for data sharing and usage limited by purpose, collection and storage as specified by the consumers.

Concerns around key areas such as ensuring fair usage of AAs, standard terms and conditions for the AA network, and the need for shared techno-legal services for efficient interoperability have already been raised and discussed by participants in various forums. A 2023 report released by Vidhi Centre for Legal Policy² highlights the need and significance of network-level governance entities to scale DPI such as Account Aggregators.

Sahamati has also initiated efforts to build codes of conduct and governance structures, design network rules, and build guidelines for the fair usage of AA. Sahamati has adopted a transparent, collaborative and neutral approach to acknowledging, managing, monitoring and correcting several of these critical issues via its Advisory Council, Governing Council, Committees, User Councils and Working Groups. Several of these areas that are unique to the AA Framework and are in addition to the traditionally expected scope of an SRO's responsibilities are as explained below:

- **Ensuring Fair Usage of AAs, cross-sectorally:** There is a need for detailed codes of conduct that ensure that the FIU's regulatory charter is aligned with its proposed usage,

² Report: 'Nurturing a User-Driven Governance Entity (N.U.D.G.E.) for the Account Aggregator Ecosystem', Vidhi Centre for Legal Policy, June 2023, available at <https://vidhilegalpolicy.in/research/nurturing-a-user-driven-governance-entity-n-u-d-g-e-for-the-account-aggregator-ecosystem/>

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frequency of data pulls is reasonable, appropriate UI/UX guidelines are implemented for ensuring explicit consent display to consumers, and provision of user friendly revocation interfaces, amongst other such issues. Further, there is a need to have adequate monitoring, auditing, and corrective mechanisms to ensure that the codes of conduct are being complied with.

The implementation of Fair Usage guidelines in the AA set up becomes intricate given its cross-sectoral nature, where every data-sharing transaction may involve participation from entities governed by different regulators and hence, necessitates a common code of conduct to be followed by each entity, irrespective of their regulator.

- **Ensuring interoperability to provide complete choice to consumers:** The approach to Interoperability in the AA Framework is federated – with 14 Operational AAs, each on standard protocols, as opposed to a central platform-based approach adopted in implementing previous DPIs such as UPI. Under this approach, every FIP and FIU needs to connect with all AAs, each of which is on a standard protocol. This means that if an FIP or an FIU connects with one AA, it doesn't need any further technical effort to connect with additional AAs.

However, there is a need to ensure that the terms and conditions under which every network participant can interact and transact with others are standardised, thus reducing the burden of bilateral arrangements and building a “Network-level Trust Model” as opposed to a “Bilateral-level Trust Model.”

Apart from standard terms and conditions, the success of the Network Trust Model also requires that certain techno-legal services such as a central registry, participation terms, grievance redressal mechanism, and online dispute resolution mechanism are built and operated as shared services at a central level by an entity with a formal charter to do so.

- **Technology-enabled approach:** Data usage and processes are pervasive across multiple licence types across charters and regulators. For any SRO to build necessary oversight, it will need to envision, invest in, and build technology-enabled infrastructure

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that relies on automation for executing several of these monitoring, auditing, and corrective mechanisms, as opposed to the manual processes deployed traditionally.

Sahamati's response and clarifications on the proposed Omnibus SRO framework

The proposed Omnibus SRO framework is broad yet encompassing, as is required to foster governance structures that are attuned to the unique governance needs and characteristics of large and critical ecosystems. The proposed framework is **well aligned with RBI's objectives and the industry's expectations for an effective self-regulatory body** to interface with the industry members and RBI, and vice versa. It also ensures that the SROs play a **responsible role in laying down codes of conduct** and guidelines to be implemented by the ecosystem participants while also **empowering them to ensure that breaches of such codes are adequately addressed** through the processes and mechanisms set by the SRO. Notably, the framework also incorporates a **built-in consultative approach**, which is essential to ensure that ecosystem **participants partake in self-regulation voluntarily**, a cornerstone for strong self-governance in any ecosystem.

As the Draft Framework takes final shape and moves towards operationalisation, there are certain areas where clarity/direction from RBI would be greatly useful for entities applying for SRO recognition to be better prepared at the time of their application. A few of these areas emanate from the unique complexities and characteristics of the AA Ecosystem, which are briefly discussed below:

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Sl. No.	Subject matter	Clause	Text of the Draft Framework	Clarification Requested	Rationale
1.	Clarity on the eligibility criteria	11(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 adequate net-worth and should possess or have the ability to create infrastructure to enable it to discharge the responsibilities of an SRO on a continuing basis.	Clarification regarding the threshold amount of net worth or the approach that would be considered to calculate the threshold amount of net worth deemed sufficient to meet the 'adequacy' standard.	Categorical threshold level of net worth has previously been specified by RBI in similar frameworks ³ – it would be helpful for applicants to be aware of such thresholds under the proposed framework as well.
2.		11(i)	Same as above	Clarification that applicants can provide documents such as commitment letters from investors/ donors re: raising capital in given time frames.	In case of a high threshold being considered by RBI, this would allow applicants to continue raising capital in a staged manner over specified timelines.
3.	Scope of membership	-	-	The scope and membership of an entity chosen for the role of the SRO should be cross-sectoral to ensure effective implementation of	The AA Framework is envisioned as intrinsically cross-sectoral, with entities registered and regulated across the four financial

³ [Draft Framework for authorisation of a pan-India New Umbrella Entity \(NUE\) for Retail Payment Systems](#)

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				<p>Fair Usage of AA across all network participants.</p>	<p>sector regulators and the Department of Revenue under the Ministry of Finance, now allowed to participate in the framework as per RBI Master Directives for AA.</p> <p>As an extension, the implementation of Fair Usage guidelines in the AA is also expected to be intrinsically intersecting across financial entities eligible to participate in the AA Framework as per RBI Master guidelines, as every data-sharing transaction may involve participation from entities governed by different regulators.</p>
4.	Membership fee structure	8(ii)	The SRO should develop a uniform, reasonable and non-discriminatory membership fee structure .	Clarification that the SRO can offer a tiered membership fee structure based on objective criteria.	It would ensure continuity in industry practice, apart from allowing the SRO to be more inclusive by offering lower rates to smaller players.

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5.	Scope of services provided by SRO	11(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 adequate net-worth and should possess or have the ability to create infrastructure to enable it to discharge the responsibilities of an SRO on a continuing basis.	Clarification that the infrastructure provided by the SRO must include shared technological infrastructure and legal services such as Central Registry, Tokenization, Certification, Monitoring and Audit, Grievance Redressal mechanisms etc. and any additional shared services that the ecosystem needs to operate with efficiency, reliability and interoperability.	This would enable efficient interoperability, implementation of certification audit and monitoring mechanism as well as ensure seamless consumer experiences of the AA network is multi-partite, cross sectoral in nature, operates with federated interoperability and is highly technology intensive.
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A. Clarity on the eligibility criteria

- a. Clause 11(i) requires an applicant to have ‘adequate’ net worth to discharge the responsibilities of an SRO on a continuing basis. While the requirement of adequate net worth is based on sound logic, it would be useful to know the threshold amount of net worth or the approach that would be considered to calculate the threshold amount of net worth which would be deemed sufficient to meet such ‘adequacy’ standard. For reference, RBI had previously referred to specific amounts for capital requirements in the [Draft Framework for authorisation of a pan-India New Umbrella Entity \(NUE\) for Retail Payment Systems](#). Similar clarity in the proposed framework for SROs would be of great assistance to entities applying for recognition as SROs.

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- b. Further, in case the threshold prescribed is high, it would be useful to get confirmation from the RBI on whether applicants can provide documents such as commitment letters from investors/ donors re: raising capital for such applicants in a given timeframe. There is a likelihood that investors would prefer a two-stage approach to investments, such that they may wish to make a smaller ticket investment in the first tranche during the pre-SRO recognition stage, with commitment letters/ undertakings to disburse further tranches post-SRO recognition.

B. Scope of membership

The current framework would benefit from clarity on whether cross-sectoral entities within the financial sector i.e. entities regulated by SEBI, IRDA, PFRDA and DoR under MoF. can be part of/members of such SROs, even though there doesn't currently appear to be a bar on such membership.

The AA Framework has been borne out of the FSDC (Financial Stability and Development Council) decision taken together by all four financial sector regulators. RBI Master Directives for NBFC-AAs inherently envision the AA Framework as cross-sectoral (within the financial sector), with entities registered and regulated by any of the four financial sector regulators allowed to participate in the framework. As an extension, the implementation of Fair Usage guidelines in the AA is also expected to be intrinsically intersecting across financial entities, as every data-sharing transaction may involve participation from entities governed by different regulators. Hence, it is critical that the scope and membership of an entity chosen for the role of the SRO be across the entities within the financial sector to ensure effective implementation of Fair Usage of AA.

C. Membership fee structure

Currently, clause 8(ii) requires the SRO to develop a uniform, reasonable and non-discriminatory membership fee structure. While the guidance to have fair and reasonable fee structures is rooted in the right spirit, it would be crucial to permit the SRO to offer a tiered membership structure, based on objective criteria – this would be in

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line with existing industry practices⁴ and also allow the SRO to be inclusive for smaller players. The fees can also be structured for participants based on the specific services such entities avail from the SRO, which may offer a wide array of services for participants to choose from, based on their business needs. In fact, allowing tiered membership fee structures would be pivotal in ensuring that the fees are non-discriminatory, ensuring that larger players pay higher while ensuring that smaller players can equally afford to become members of the SRO. Such tiered fee structures would also be key in ensuring the financial sustainability of the SRO itself.

D. SRO to offer tech infrastructure for allied services

While the current language of Clause 11(i) suggests that an applicant for SRO recognition should possess 'infrastructure' to enable it to discharge the responsibilities of an SRO, it would be helpful to get clarity that such infrastructure must include the provision of shared technological infrastructure and legal services for the AA ecosystem (Network participants, Service Providers, Customers) to enable efficient interoperability, implementation of certification audit and monitoring mechanism as well as ensuring seamless consumer experiences. Such products and services are typically borne out of a response to community feedback on impediments to the scalability and utility of the AA network.

The shared services provided by the SRO must include those such as Central Registry, Tokenization, Certification, Monitoring and Audit, Grievance Redressal mechanisms, and Online Dispute Resolution which are designed with the ecosystem's inputs and should be made available in an easily accessible, scalable and secure environment to all ecosystem participants. The need, type, scope and implementation of shared services can also be defined via collaboration and collective decision-making along with the ecosystem participants.

⁴ [Microfinance Industry Network \(MFIN\) India](#), an RBI certified SRO, offers a tiered membership fee structure.

A similar tiered membership fee structure offered by [Sa-dhan](#), another RBI certified SRO, is available at <https://www.sa-dhan.net/wp-content/uploads/2023/06/Fee-Structure.pdf>

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Consequently, direction from the RBI that such allied technical services must be included as a necessary part of the required infrastructure that the SRO must offer to its ecosystem participants.

We hope our feedback is relevant and useful. We remain available for any further inputs or clarifications as may be required. BG Mahesh, Co-Founder and CEO of Sahamati may be contacted at mahesh@sahamati.org.in in case of any queries.
