

Industry Standards Recognition Manual

Background:

1. SEBI issues regulatory directions (by way of regulations, circulars or otherwise) for regulated entities like Market Infrastructure Institutions (MIIs), Intermediaries, listed companies, Mutual Funds, etc. For effective implementation of such regulatory directions and to facilitate ease of compliance, a need is felt to facilitate Industry Standards Forums (ISFs) for setting Standards for implementation of the regulatory directions.
2. Given the unique needs of each type of regulated entities (e.g. MIIs, Mutual Funds, listed companies, stock brokers, Investment Advisors, etc.) and the domain expertise available with the actual practitioners, a pilot project of various ISFs was initiated during the year FY 2023-24.
3. These guidelines are now framed to guide SEBI in formally recognizing industry standards. This shall be published on the SEBI website. SEBI would be guided by certain principles/ criteria for recognition of industry standards, as detailed below.
4. To meet the needs of exceptional circumstances, SEBI may modify these guidelines or may exempt particular ISF(s) from one or more of the guidelines based on their unique circumstances.
5. Regulations and circulars shall take effect as per the dates notified by SEBI. The Implementation standards are meant to facilitate uniformity and ease of compliance and shall not be a necessary pre-condition for regulatory directions to become effective.

6. Scope of ISF:

- 6.1. To formulate standards for implementation of the various regulatory directions, in consultation with SEBI.
- 6.2. The standards formulated by ISF must be aligned with the regulatory intent. Standards published by ISF should articulate specifics/ checklists/ Standard Operating Procedures (SOPs) to assist the industry in compliance.

- 6.3. The scope of ISF does not extend to draft Regulations or Circulars, or to suggest changes to existing Regulations or Circulars. In exceptional cases, where it is observed that there are significant challenges to the implementation of a regulatory direction, the ISF may bring the same to the knowledge of SEBI suggesting changes, if any, to regulatory directions as required.
- 6.4. ISF shall not be a Self-Regulatory Organization (SRO) and should be organized as a Committee. ISF shall not be empowered to take regulatory action against any industry participant for failure to adopt or comply with the standards published by the ISF.
- 6.5. This Manual of SEBI does not create any enforceable rights in favour of the ISF against SEBI.
- 6.6. SEBI would get confirmation from ISF that the ISF satisfies the principles/ criteria for recognition of standards as set out in Clause 7 below, prior to the initial consultation with SEBI for identification of the area for implementation standards.

7. General process for adoption of Industry Standards:

- 7.1. The standards for implementation should meet the following tests:

- 7.1.1. The standards are in line with the regulatory intent.
 - 7.1.2. The standards are specific in nature, with no room for ambiguity/ interpretation.
 - 7.1.3. There is a step-by-step procedure for implementation of the standards, which if adopted/ executed, will result in effective compliance with the regulatory direction.
 - 7.1.4. The regulatory directions pertaining to the standards are reportable in a standardized format. ISF shall also provide the reporting formats along with the standards.
- 7.1.5. The Implementation standards are finalized in consultation with SEBI.

8. Specific parameters for Recognition: SEBI may recognize the Industry standards if such standards are prepared by an Industry Standards Forum fulfilling the following:

8.1. Constitution of the ISF

- 8.1.1. The ISF shall be a Committee comprising members of the concerned industry or regulated entities, with adequate representation from all segments of the entities required to comply with the regulatory directions. The members of ISF are drawn not only from the large stakeholders, but also from the small and medium sized players in the industry.
- 8.1.2. In addition to the representatives of MIIs (if any), there shall be seven (7) to fifteen (15) members in each ISF.
- 8.1.3. If the industry/ regulated entities already have Industry Associations, every such Association whose membership is more than one third of the total regulated entities of that type are to be represented in the ISF. If the stipulated condition is not met, till such time, the top three (3) associations with the largest number of members, shall be considered as representative associations.
- 8.1.4. A regulated entity can be a member of multiple industry associations for the purpose of recognition of Industry Association(s) as mentioned at Clause 8.1.3.

8.2. Chairperson of ISF:

- 8.2.1. ISF is to be chaired by a person of at least ten (10) years' of relevant industry experience, of good standing in the industry.
- 8.2.2. The Chairperson shall be nominated by the industry and shall be selected by consensus/ majority/ maximum votes of the ISF members. Each member shall have one vote.
- 8.2.3. Where an industry has multiple Industry Associations, each Association shall have only one vote towards selection of the Chairperson.
- 8.2.4. The term of the Chairperson of the ISF shall normally be for a period of 3 years. However, where there is no consensus or majority on the selection of Chairperson, the position of Chairperson may be rotated on a yearly basis amongst representatives of relevant stakeholders.

8.2.5. There is no bar on the re-appointment of any person as the Chairperson of the ISF, provided the overall tenure of the person as the Chairperson of ISF does not exceed 10 years.

8.2.6. The ISF shall be based out of Mumbai, India and function duly anchored by MIIs, wherever relevant. It shall have its own Secretariat, and be staffed with suitably qualified persons/persons deputed by participating entities. In case of ISF anchored by the MIIs, the secretariat for such ISF would be at the MIIs.

8.2.7. In case of vacancy of the Chairperson arising out of any reason including expiry of the term, resignation, demise, etc. the ISF shall endeavor to appoint another Chairperson within one month from the date of cessation of chair. In case of expiry of the term, the existing Chairperson may continue till another Chairperson is appointed or till the next subsequent meeting of the Forum, whichever is earlier.

8.3. Vice-Chair of ISF:

8.3.1. Each ISF may appoint a maximum of three (3) vice-chairpersons.

8.3.2. The Vice-Chairperson(s) shall be selected by consensus/ majority/ maximum votes of the ISF members. Each member shall have one vote.

8.4. Members of ISF:

8.4.1. Members of ISF shall be drawn from the following segments (as applicable).

8.4.1.1. Members who are currently practitioners (as referred in Clause 8.4.4) nominated by the Industry Association mentioned in Clause 8.1.3.

8.4.1.2. Concerned MIIs.

8.4.1.3. Any entity/person who is required to comply with the regulatory directions but who is currently not part of the Industry Association referred to in Clause 8.1.3 may become the member of the Industry Association. Such person after becoming member of the Industry Association, if nominated by the Industry Association, can be Member of ISF.

8.4.1.4. Any industry consultant, legal adviser or regulatory advisor if nominated by the Industry Association mentioned in Clause 8.1.3.

8.4.2. No person against whom major adverse actions are underway, or against whom major adverse action(s) was/ were concluded should be a member of ISF for at least two (2) years after the matter is concluded.

8.4.3. The term of members of ISF shall be normally for a period of 2-3 years. The members may be re-appointed for a further period of up to 2 years, post which it is desirable to adopt a cooling off period. ISF shall consult with the relevant Department of SEBI to decide whether to adopt a cooling off period and if so, what the appropriate cooling off period should be.

8.4.4. Atleast 75% of the members of the ISF shall be practitioners i.e., persons who have to implement the regulatory directions in their respective organizations. The remaining, if required, can be industry consultants, legal advisers or regulatory advisors.

8.4.5. The reconstitution of the ISF should be planned in such a way that, enough number of members overlap between the two constitutions, to ensure the continuity of perspective while the new members are appointed. To avoid a situation where the term of all the members of ISF expires simultaneously, ISF may reconstitute at least one-third of its composition every year, starting from the third year of its functioning.

8.4.6. SEBI officers shall not be members of ISF.

8.4.7. For any purpose, depending on the agenda items, if there is a special perspective to be taken into consideration with the help of any expert, such expert person may be invited at the option of the ISF, for the meeting for discussion on the particular topic.

8.5. Sherpa of ISF:

To facilitate timely and seamless interaction and discussions with SEBI, the ISF in consultation with SEBI, shall designate a member as its ‘point of contact’. The ‘point

of contact' (informally referred to "Sherpa") of ISF shall be responsible for the interactions of the ISF with SEBI.

8.6. Functioning of the ISF:

- 8.6.1. ISF shall consult SEBI for identification of the regulatory directive for preparing Implementation standards. SEBI may consent for the identified regulatory directive and/ or suggest additional directives for framing of standards.
- 8.6.2. The ISF shall meet as many times as is required to ensure that formulation of Standards in the agreed area are completed in a timely manner. ISF may hold the meetings in physical, virtual or hybrid mode as deemed appropriate by the members.
- 8.6.3. While obtaining industry inputs for formulating implementation standards, the ISF shall seek comments/ views from all members of the Associations. ISF may take assistance of the representatives of the Industry Associations to obtain comments from the members of these Associations.
- 8.6.4. At every important milestone during the formulation of Standards, there shall be discussions between SEBI and the ISF to ensure alignment with regulatory intent.
- 8.6.5. Extant Regulations and/ or Circulars are to be taken up by the ISF for formulation of Implementation Standards, based on the priorities of the industry or as requested by SEBI.
- 8.6.6. During the public consultation phase of any policy formulation, (which would continue to be done in consultation with SEBI's various standing committee/Ad hoc Committees) ISF may provide their inputs on the proposal, like any other market participant or stakeholder.
- 8.6.7. ISF may set up separate Working Groups, chaired by ISF members, to work on specific projects/ regulatory directions for which implementation standards have to be developed. Industry experts/ practitioners who are not members of ISF may be invited as members of the Working Group. Recommendations of the Working Groups shall be placed before the ISF for approval.

8.6.8. In the ordinary course, implementation standards shall be formulated by consensus. However, there may be matters where a proposal for implementation standards is framed through consensus of ISF members, but consensus with SEBI is not arrived at. In these matters, SEBI at its option, may choose to independently issue or not to issue relevant circulars. It is in the discretion of SEBI to accept or not to accept the proposals of the ISF. SEBI may also request ISF to rework its proposals.

8.6.9. In matters where the ISF members themselves are unable to reach a consensus, in part or in whole, ISF shall submit their various proposals to SEBI along with the respective pros and cons. In these matters, SEBI at its option, may choose to independently issue or not to issue relevant circulars, in part or in whole.

8.6.10. Implementation standards are to be initiated and formulated within a reasonable period of time, preferably not more than three (3) months from the date of taking up the task of formulating industry standards. In case the ISF is unable to formulate the standards for any particular regulatory directive within the stipulated time, the ISF shall seek from SEBI, additional time for the formulation of such Standards.

8.6.11. The records pertaining to the ISF including meetings are to be maintained under the supervision of the ISF Secretariat, preferably in digital form so that trail for evolution of standards is available if required. Generally, such records should be available for eight years.

8.6.12. ISF shall submit periodic reports to SEBI, in such format(s) as specified by SEBI from time to time, evidencing that they fulfill the principles/criteria for recognition of industry standards.

9. **Anchor MII:**

9.1. ISF in consultation with SEBI, may designate one MII as its 'Anchor MII'.

9.2. SEBI may at its discretion reassign the anchor MII of the ISF from time to time, either *suo motu* or based on request(s) received from the ISF/ other MIIs.

9.3. Anchor MII along with the ISF Secretariat shall ensure that the functioning of the ISF is in line with these Guidelines.

10. Publishing of Implementation standards

- 10.1. ISF shall issue Implementation Standards only after the Standards are recognized for implementation by SEBI.
- 10.2. The Implementation Standards, which are recognized for implementation by SEBI, shall be displayed prominently on the websites of the concerned Industry Associations and/ or MIIs. Any Industry Association or other MIIs may also display a copy of the standards on their individual websites at their own discretion. The ISF may choose to have its own website and publish the Standards on it.
- 10.3. The standards shall take effect from the date of recognition of such standards by SEBI or any future date expressly mentioned by SEBI.
- 10.4. Intermediaries and/ or regulated entities that are required to adopt the implementation standards shall display the Implementation Standards prominently on their respective websites and communicate the same to their clients/ investors, if applicable.
- 10.5. To address genuine difficulties or to provide clarification, the standards forum may amend the standards in consultation with SEBI. If the relevant regulatory directions are amended or if SEBI issues any clarifications, then the standards would also be amended to reflect the revised position, as considered necessary, in due course.

11. Effect of recognition of Implementation Standards:

- 11.1. Where Implementation Standards are in operation for any regulatory directive, it shall be mandatory for the concerned industry participants/ regulated entities to comply with such standards.
- 11.2. Any particular regulatory directive, for whose compliance there are industry standards in force, will ordinarily stand complied with if the industry standards are followed.
- 11.3. However, compliance with a regulatory directive in terms of Clause 11.2. does not preclude SEBI from taking cognizance of suspected fraudulent conduct and examining the same which in turn may lead to consequent enforcement actions.

12. Status of pilot ISFs and Implementation Standards issued by them:

- 12.1. For the pilot ISFs in operation as on the date of publication of the Industry Standards Recognition Manual, the self-guiding principles laid down in the Manual shall become applicable to the implementation standards proposed by them, on the expiry of six (6) months from the date of publication of the Manual. Accordingly, these Pilot ISFs shall undertake such necessary measures as is required to ensure compliance with the principles/ criteria laid down in this Manual, within six (6) months from the date of publication of this Manual.
- 12.2. The Pilot ISFs after fulfilling the compliance requirements shall inform the same to the concerned Department(s) of SEBI.
- 12.3. The Implementation Standards formulated by the Pilot ISFs and recognized by SEBI for adoption by the concerned industry shall continue to be valid, unless and until SEBI specifically states otherwise.

13. Effective date

The provisions of this Manual shall come into effect from the date of its publication on the SEBI Website.
