CUTS International
Since 1983

Pilot Regulatory Impact Assessments and Familiarisation Training for the Financial Sector

Background

The Securities and Exchange Board of India (SEBI), as the regulator of the securities market in India, continuously seeks to strengthen evidence-based policymaking and improve the effectiveness of financial regulations. It has been actively advocating for periodic Regulatory Impact Assessments (RIAs) to strengthen regulatory design and decision-making. In this context, SEBI has established a High-Level Committee (HLC) to review and enhance regulatory frameworks, with a focus on improving transparency, efficiency and reducing compliance burdens.

RIA is a globally recognised tool that enables policymakers to systematically assess the likely or actual economic, social, and market impacts of regulatory interventions.[1] By providing a structured framework for evaluating regulatory outcomes, RIA supports informed decision-making and helps ensure that regulations effectively achieve their intended objectives.

A key component of RIA is Cost-Benefit Analysis (CBA), which assesses the costs and benefits of regulatory interventions across stakeholders. This enables regulators to design measures that are proportionate, transparent, and grounded in evidence, while maximising overall welfare and market efficiency.

Many jurisdictions, including Australia, Canada, United Kingdom, and United States, have institutionalised RIA as a core element of regulatory governance to improve regulatory quality and accountability. As one of the first regulators in India to actively adopt and promote RIA, SEBI has the opportunity to set a leading example for institutionalising evidence-based regulatory decision-making in the country.

To support this objective, SEBI has commissioned CUTS International to undertake pilot ex-post RIAs of the Margin Pledge–Repledge Mechanism[2] and the T+1 Settlement Cycle. The project seeks to assess the effectiveness of these reforms, develop a practical RIA framework for the financial sector, and build stakeholder capacity through targeted training programmes, thereby strengthening regulatory decision-making and transparency.

Project Objective

The primary objective of this project is to generate empirical, data-driven insights into the actual impacts of the Margin Pledge-Repledge and T+1 settlement reforms. By conducting an ex-post RIA, the project seeks to:

- Evaluate whether the intended benefits of these two mechanisms have been adequately realised. Identify any unintended consequences, implementation issues, or operational challenges encountered by stakeholders.
- Institutionalise RIA practices within SEBI to support future evidence-based regulatory design.
- Familiarisation Training of SEBI Officials on RIA.

Project Methodology

1. Define the Regulatory Context
- Understand the background and rationale for the T+1 Settlement Cycle and Margin Pledge-Repledge Mechanism.
- Identify the market failures, risks, and regulatory objectives that led to the interventions.

2. Establish the Baseline Scenario
- Assess the pre-reform market structure, processes, and outcomes.
- Examine conditions during the pre-reform, transition, and post-reform periods.

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3. **Review Literature and Regulatory Documents**
   - Analyse SEBI circulars, consultation papers, discussion papers, reports, and industry submissions.
   - Review expert commentaries, academic literature, and market analyses relating to the reforms.

4. **Benchmark International Practices**
   - Examine comparable regulatory frameworks and experiences in jurisdictions such as the United States, United Kingdom, and European Union.
   - Identify global best practices, implementation challenges, costs, and benefits.

5. **Map and Identify Stakeholders**
   - Identify all relevant stakeholder groups, including SEBI, stock exchanges, depositories, clearing corporations, brokers, custodians, DPs, investors, and industry associations.

6. **Identify Direct and Indirect Costs and Benefits**
   - Identify the type of direct and indirect costs and benefits impacting the different stakeholders group.

7. **Design Stakeholder Consultation Framework**
   - Develop questionnaires and interview schedules tailored to different stakeholder categories.
   - Conduct consultations to gather stakeholder perspectives on implementation, costs, benefits, and challenges.

8. **Assess Costs and Benefits**
   - Estimate the costs incurred under both the baseline and reform scenarios.
   - Estimate the benefits generated by the reforms across stakeholder groups.
   - Compare the net impacts of the baseline scenario and the reform i.e. compare cost and benefits.

9. **Draw Conclusions and Develop Recommendations**
   - Present evidence-based findings on the effectiveness of the reforms.
   - Recommend measures to strengthen existing frameworks and support future evidence-based policymaking within SEBI
   - Monitoring and Evaluation Framework

Output

The project will culminate in two primary streams of deliverables designed to provide both immediate regulatory insights and long-term institutional value:

1. Two ex-post RIA reports assessing the effectiveness and impact of the Margin Pledge–Repledge Mechanism and T+1 Settlement Cycle reforms.
2. A comprehensive RIA training curriculum for SEBI officials covering key concepts, methodologies, data collection approaches, stakeholder consultation techniques, and analytical frameworks.
3. Case-study-based learning modules developed from the findings and lessons emerging from the two pilot RIAs.
4. Inclusion of cross-sectoral regulatory use cases to demonstrate the broader applicability of RIA methodologies.

Endnotes

1 Organisation for Economic Co-operation and Development (OECD). (2020). *Regulatory impact assessment* (OECD Best Practice Principles for Regulatory Policy). OECD Publishing. https://doi.org/10.1787/7a9638cb-en

2 Margin obligations to be given by way of Pledge/ Re-pledge in the Depository System. (2020) https://tinyurl.com/mpcz7f8e

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