

Consultation Paper
on
Review of Regulatory Framework for
Investment Advisers and Research Analysts

Contents

1. Objective	4
2. Background.....	4
3. Need for review of regulatory framework for IAs and RAs	5
4. Relaxation in eligibility criteria for IAs and RAs – minimum qualification, certification, experience and net worth.....	6
5. Allowing registration as both Investment Adviser and Research analyst:.....	10
6. Registration as Part-time investment adviser/research analyst:	10
7. Relaxations in designation of ‘principal officer’:.....	12
8. Allowing appointment of independent professionals as Compliance Officer:.....	13
Changes in regulatory provisions specific for IAs:	14
9. Clarity in activities that can be undertaken by IAs - scope of investment advice	14
10. Use of Artificial Intelligence (‘AI’) tools in IA and RA services	16
11. Flexibility to IAs to change the modes of charging fee to clients	17
12. Relaxation in requirement for corporatisation by individual IAs	17
Changes in regulatory provisions specific for RAs:.....	18
13. Definitions of ‘research analyst’ and ‘research services’.....	18
14. Clarity in identification of ‘persons associated with research services’	19
15. Exemption to Proxy Advisers from RAASB framework.....	20
16. Eligibility of ‘partnership firm’ for registration as RA and certification requirement for its partners	20
17. Fees chargeable to clients by RAs	21
18. Client-level segregation of research and distribution services by RAs	22
19. Guidelines for recommendation of ‘model portfolio’ by RAs	23
20. Disclosure of terms and conditions of services to client.....	23
21. KYC Requirements and maintenance of record.....	24

Other regulatory changes concerning both IAs and RAs:	25
22. Circumstances under which a person is required to obtain registration as IA/RA.....	25
23. Compliance audit requirements for IAs and RAs.....	27
24. Clarity in applicability of IA Regulations/RA Regulations to trading call providers	28
25. Public Comments.....	29
Annexure A	30
Client-level segregation of research and distribution services by RAs	30
Annexure B	32
Guidelines for recommendation of ‘model portfolio’ by Research Analysts	32
Annexure C	34
Disclosure of minimum mandatory terms and conditions to clients	34

1. Objective

1.1. The objective of this consultation paper is to seek comments from public on proposals intended to put in place a conducive regulatory framework for Investment Advisers registered with SEBI ('IAs') and Research Analysts registered with SEBI ('RAs') by simplifying, easing and reducing the registration requirements and cost of compliance for IAs and RAs and bringing in regulatory changes commensurate with the continually evolving nature of their businesses, through amendments/ clarifications to the Securities and Exchange Board of India (Investment Advisers) Regulations, 2013 ('IA Regulations') and Securities and Exchange Board of India (Research Analysts) Regulations, 2014 ('RA Regulations').

2. Background

2.1. The IA Regulations were notified on January 21, 2013. Certain amendments to the IA Regulations were notified on July 03, 2020 with respect to qualifications, net worth, limit on fees to be charged by IAs, etc. The RA Regulations were notified on September 01, 2014.

2.2. As per the extant IA Regulations, an IA can provide investment advice to clients relating to investing in, purchasing, selling or otherwise dealing in securities or investment products and on investment portfolio containing securities or investment products, based on risk profiling of clients and after ensuring suitability of advice for each client. A RA can provide security-specific buy/sell/hold recommendations or give price targets to its clients/subscribers. The research report or recommendation provided by a RA is, however, not customized to the needs of any investor/ client. Despite the distinct nature of their activities, there is perceived similarity in the skills and knowledge required by IAs and RAs to discharge their respective roles.

2.3. In order to review the regulatory framework for RAs, SEBI had formed a Working Group to review the regulatory provisions for RAs.

2.4. Subsequently, in the Union Budget for financial year 2023-24, one of the budget announcements was made as under:

“To simplify, ease and reduce cost of compliance, financial sector regulators will be requested to carry out a comprehensive review of existing regulations.

For this, they will consider suggestions from public and regulated entities.....”

2.5. Pursuant to the above-mentioned budget announcement, SEBI constituted 16 Working Groups to recommend simplification of various SEBI Regulations and to look into the compliance requirements to enhance ease of compliance and reduction in cost of compliance. Accordingly, SEBI invited suggestions from public and regulated entities through a press release dated October 04, 2023. The Working Group for review of compliance requirements for IAs and RAs, after considering the suggestions received from public, submitted its recommendations, which were placed before the Intermediaries Advisory Committee (‘IAC’) of SEBI for consideration. The recommendations of the IAC thereon have been incorporated in this consultation paper.

3. Need for review of regulatory framework for IAs and RAs

3.1. Over the last few years, owing to the growth of securities market and technical advancements therein, Indian securities market has seen considerable increase in domestic investor base. However, the number of IAs/RAs today is not commensurate with the large investor base and the ratio of investment adviser per million populations is very low as compared to a jurisdiction such as United States of America. This is leading to proliferation of the unregistered entities acting as IAs and RAs. It is necessary that the services of IAs and RAs are available to wider number of investors in order to enable them to take informed investment decision. Hence, in order to cater to the needs of large number of investors in the country and the potential for growth in wealth creation for investors, a much larger number of IAs/RAs is required.

3.2. In view of the above, it is felt necessary to align and put in place a regulatory landscape conducive and commensurate with the continually evolving nature of business of IAs and RAs that simplifies, eases and reduces cost of compliance for IAs and RAs as envisaged in the budget announcement and at the same time enhances investor confidence.

3.3. Accordingly, based on the recommendations of the working group on review of regulatory provisions for RAs and the working group for review of compliance requirements for IAs and RAs, the recommendations of IAC, representations from

industry associations and internal deliberations, the regulatory changes, as explained in detail in the following paragraphs, are proposed in the regulatory framework of IAs and RAs.

4. Relaxation in eligibility criteria for IAs and RAs – minimum qualification, certification, experience and net worth

Qualification-

4.1. In order to attract young minds towards the professions of IA and RA and to enable ease of entry for persons intending to provide investment advice/ research services within the regulatory ambit of SEBI, it is proposed to relax the existing minimum qualification requirements for registration as IA or RA from a post-graduation to a graduate degree.

Certification-

4.2. Currently, IAs and RAs are required to obtain the prescribed certifications from NISM (NISM-Series-XA and XB for IAs, and NISM-Series-XV for RAs) (base certifications) at the time of registration. They are required to obtain the same base certifications before expiry of validity of such certifications. IAs and RAs have been raising concerns that the requirement to obtain the same base certification afresh every time, to keep their registration in force, creates an uncertainty of business continuity.

4.3. In order to address these concerns of IAs and RAs and to simplify compliance requirements, while maintaining the standards of knowledge and skills commensurate with the requirements of IA and RA professions, it is proposed that IAs and RAs shall be required to obtain the base certifications only initially at the time of registration as IA/RA. Thereafter, they shall be required to obtain a certification that shall be based only on the incremental changes or developments during the previous three years or a period of time as may be specified, in the regulatory and professional space concerning IAs and RAs. Such certification on the incremental changes or developments shall be required to be obtained by IAs and RAs before expiry of previous certification.

Experience-

4.4. There shall be no requirement of experience for registration as IAs and RAs. It may be relevant here to draw a comparison between the experience requirements under the

SEBI (Mutual Funds) Regulations, 1996 and the SEBI (Alternative Investment Funds) Regulations, 2012 and the current experience requirements under the IA Regulations and RA Regulations. No specific experience requirements have been prescribed under the SEBI (Mutual Funds) Regulations, 1996 for directors and key personnel of a mutual fund/Asset Management Company even though there is retail investor participation. Likewise, experience requirements have been dispensed with for key investment team of Manager of Alternative Investment Fund under the SEBI (Alternative Investment Funds) Regulations, 2012 and have been replaced with comprehensive certification requirements.

4.5. Considering that the certification requirements for IAs and RAs shall ensure that IAs and RAs possess relevant knowledge and skills desired to provide their services, it is proposed to dispense with the experience requirements for registration as IA and RA.

Net-Worth-

4.6. IAs/RAs provide their investment advisory/research services broadly owing to their understanding and knowledge of the subject and their skills to arrive at a suitable advice/recommendation under a particular circumstance. The services provided by them are fee based and they do not manage the funds and securities of the client and there are no significant infrastructure requirements. Hence, it is proposed to do away with the requirement of maintaining minimum net worth at all times by IAs and RAs. Instead, it is proposed that IAs/RAs shall maintain a deposit for such a sum as may be specified by SEBI from time to time. Such deposit shall be lien marked to stock exchange as IAASB/RAASB for utilisation towards dues emanating out of arbitration and conciliation proceedings, if any, under the Online Dispute Resolution (ODR) Mechanism or any other mechanism as may be specified, if the IA/RA fails to pay such dues. Deposit requirements shall be calculated based on the parameters such as number of clients, revenue etc.

4.7. The existing net-worth requirements were due for the revision. The net-worth requirement for IAs was previously revised in 2020 and have not been revised for RAs since the inception of the RA Regulations. The deposit requirements may also be reviewed by SEBI from time to time based on relevant data.

Proposals-

4.8. The existing and proposed qualification, certification, experience and net worth requirements for IAs and RAs are summarised in the table given below:

4.8.1. Qualification and experience Requirements:

Existing regulatory provisions for IAs	Existing regulatory provisions for RAs	Proposed regulatory changes for IAs and RAs
<ul style="list-style-type: none"> • Professional qualification/ Post Graduate (PG) degree/PG diploma in specified field or CFA or a PG program from NISM, and • Experience of at least five years for individual IA and principal officer of non-individual IA • Experience of at least two years for persons associated with investment advice 	<ul style="list-style-type: none"> • Professional qualification/ PG degree/PG diploma in specified field, or • Graduate with experience of at least five years in specified field • For employees of proxy adviser: Graduate in any discipline 	<p>Qualifications:</p> <ul style="list-style-type: none"> • <u>For an individual IA/RA, partner, principal officer of non-individual IA/RA:</u> a graduate degree or a PG degree/ PG diploma or professional qualification in specified field or a PG program from NISM or a professional qualification by obtaining a CFA Charter from the CFA Institute. Specified field shall include finance, accountancy, business management, commerce, economics, capital market, banking, insurance, actuarial science or other financial services or markets. • <u>For persons associated with investment advice/ research services:</u> Graduate degree in any discipline • <u>For employees of proxy adviser:</u> Graduate degree in any discipline. <p>Experience:</p> <p>There shall be no requirement of experience for Individual IAs/RAs or the partners or the principal officer or persons associated in case of non-individual IAs/RAs.</p>

4.8.2. Certification requirements:

Existing regulatory provisions for IAs	Existing regulatory provisions for RAs	Proposed regulatory changes for IAs and RAs
<ul style="list-style-type: none"> • Certification from NISM or any other organization/ institution or any recognized stock exchange in India provided such certification is accredited by NISM • Fresh certification to be obtained before expiry of validity of existing certification 	<ul style="list-style-type: none"> • NISM certification or other certification recognized by SEBI • Fresh certification before expiry of validity of existing certification 	<ul style="list-style-type: none"> • Certification from NISM, or any other organization/ institution or any recognized stock exchange in India provided such certification is accredited by NISM • IAs/RA shall be required to have base certifications (NISM-Series-XA and XB for IAs, and NISM-Series-XV for RAs) only initially at the time of registration as IA and RA. There shall be no requirement of obtaining base certifications subsequently. Instead, they shall be required to obtain a certification which shall be based only on the incremental changes/ developments during the previous three years or a particular period of time as may be specified, in the regulatory and professional space concerning IAs/RAs. <p>Such certification on incremental changes/developments shall be required to be obtained before expiry of validity of previous certification.</p>

4.8.3. Minimum net worth requirements:

Existing regulatory provisions for IAs	Existing regulatory provisions for RAs	Proposed regulatory changes for IAs and RAs
<ul style="list-style-type: none"> • Individual: Min. ₹5 lakh 	<ul style="list-style-type: none"> • Individual/partnership firm: Min. ₹1 lakh 	<ul style="list-style-type: none"> • There shall be no requirement of any net worth for IAs and RAs.

<ul style="list-style-type: none"> • For non-individual IA: Min. ₹ 50 lakh 	<ul style="list-style-type: none"> • Body corporate/Limited Liability Partnership: Min. ₹ 25 lakh 	<ul style="list-style-type: none"> • Instead, IAs and RAs to maintain a deposit lien marked to stock exchange recognized as IAASB/RAASB for such a sum as may be specified by SEBI from time to time. • The amount of deposit to be maintained by IAs/RAs: <ul style="list-style-type: none"> ▪ Up to 150 clients: ₹ 1 lakh ▪ 150 to 300 clients: ₹ 2 lakh ▪ 300 to 1,000 clients: ₹ 5 lakhs ▪ 1,000 and above clients: ₹ 10 lakhs
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5. Allowing registration as both Investment Adviser and Research analyst:

- 5.1. There has been a demand from the IAs/RAs to allow them to provide both IA and RA services to their clients as the activities under these services are overlapping in nature. Considering this, it is proposed that individuals or partnership firms may be allowed to seek registration as both IA and RA provided that they shall comply with the rules/regulations/reporting requirements under each of these regulations separately.
- 5.2. These IAs/RAs shall be required to provide an undertaking stating that they shall maintain arms-length relationship between their activity as IA and RA and shall ensure that its investment advisory services and research services are clearly segregated from each other.

6. Registration as Part-time investment adviser/research analyst:

- 6.1. In terms of Regulation 15(3) of the IA Regulations and Regulation 24(1) of the RA Regulations, an investment adviser/research analyst is required to maintain an arms-length relationship between its activities as an investment adviser/research analyst and other activities. Accordingly, individuals or a partnership firms who are engaged in other activities are considered not eligible for registration as IA/RA.
- 6.2. There has been feedback that individuals or partnership firms who are engaged in the business not related to securities may also be allowed to seek registration as IA/RA.

- 6.3. Considering this, it is proposed that applicants who are individuals or partnership firms may be considered eligible for registration as Part-time IA/RA if they are engaged in other business activity /employment (other than related to securities) provided that such other business activity/employment -
- does not involve handling or managing of money or funds of client/person, or
 - is not related to providing advice/recommendation to any client/person in respect of any products/assets for investment.
- 6.4. It may however be clarified that the applicant shall be considered eligible for registration as part-time IA/RA, if he is engaged in activity/business/employment permitted by any financial sector regulator or an activity under the purview of statutory self-regulatory organisations such as Institute of Chartered Accountants of India ('ICAI'). For example, tax planning by CA, insurance agent having license from IRDA.
- 6.5. Such IAs/RAs shall be categorized as part-time IA/RA in order to differentiate them from the IA/RA whose only business activity is as IA/RA.
- 6.6. An individual who is employed shall be required to provide a no objection certificate (NOC) from his/her employer.
- 6.7. There shall be a specified limit for number of clients to whom such part-time IA/RA provide service at one point of time. The number of clients of part-time IA/RA shall not exceed seventy-five clients.
- 6.8. Part-time IA/RA shall provide an undertaking stating that it will maintain arms-length relationship between its activity as IA/RA and other activities and shall ensure that its investment advisory services /research services are clearly segregated from all its other activities.
- 6.9. Part-time IA/RA shall provide disclaimer (in a font size as may be specified) while providing their other service/raising invoice related to other business/service that the activity/invoice is related to services not under purview of SEBI and no complaint can be raised to SEBI for the services rendered therein.
- 6.10. Examples/illustrations:
- In order to have further clarity, reference may be made to the following examples/illustrations of the business activities/employments that the applicant may or may not have engaged in, to consider it eligible for registration as part-time IA/RA.

- a. Who shall be considered eligible for registration as part-time IA/RA?
 - i. Person is employed as professor, teacher etc. provided that his employer provides no objection certificate to take up the activity as part-time IA/RA.
 - ii. Persons engaged in education related business/activities etc.
 - iii. Person is professional such as an architect, lawyer, doctor etc.
- b. Who shall not be considered eligible for registration as part-time IA/RA?
 - i. Person providing advice/recommendations on assets such as gold, real estate, cryptocurrency etc.
- c. Who is required to register as part-time IA/RA?
 - i. If a CA for the purpose of tax planning/tax filing provides advice/recommendation on securities as asset class, he is not required to get registered as a part-time IA/RA. However, if a CA is providing security-specific advice/recommendation to its client even though as part of tax planning/tax filing, he is required to seek registration as part-time IA/RA.
 - ii. If a person is engaged in education activity or is employed as a professor and as part of employment/business, is providing a security-specific information/recommendation, he is required to seek registration as IA/RA.

7. Relaxations in designation of 'principal officer':

- 7.1. As per the existing requirements, non-individual IAs are required to appoint a Principle Officer who is required to be the managing director or designated director or managing partner or executive chairman of the board or equivalent management body who is responsible for the overall function of the business and operations of non-individual investment adviser.
- 7.2. There have been representations from the IA industry that for a body corporate engaged in carrying out multiple line of business, the managing director, designated director or executive chairperson of such body corporate may not be involved directly in the day to day functioning of the specific division/department providing investment advisory services and hence the business head/unit head of such

division/department providing investment advisory services may be allowed to be appointed as Principal Officer.

- 7.3. Considering the above, it is proposed to allow a non-individual IA which is engaged in multiple line of businesses through separate departments/divisions, to appoint the business head or unit head of its investment advisory activities, who is responsible for the overall function of the business and operations of the investment advisory services, as its Principal Officer. Entities engaged in mono-line business as IA must appoint the managing director or designated director or managing partner or executive chairperson of the board or equivalent management body as Principal Officer. A non-individual entity who is engaged in both activities i.e. IA and RA but has no other business/activity, shall be treated as a mono-line business.
- 7.4. For a partnership firm, one of the partners must be designated as Principal Officer and shall be required to comply with the necessary requirements including the qualification and certification requirements. Partner-ship firms which do not have the eligible partner shall be provided a timeline within which they shall be able to convert their legal structure to Limited Liability Partnership (LLP).
- 7.5. The RA Regulations, currently, do not have a specific provision for non-individual RAs or research entity to have a Principal Officer. It is necessary that the overall function of business and operations of non-individual RAs should be looked into by a responsible person. Accordingly, it is proposed to bring in the requirement of designating a Principal Officer for non-individual RAs and research entities in the RA Regulations on similar lines as IAs.

8. Allowing appointment of independent professionals as Compliance Officer:

- 8.1 In terms of Regulation 20 of the IA Regulations, a non-individual investment adviser is required to appoint a compliance officer who shall be responsible for monitoring the compliance by the investment adviser in respect of the requirements of the SEBI Act, 1992 (the Act) and regulations, notifications, guidelines, instructions issued by the Board.
- 8.2 Similarly, in terms of Regulation 26 of the RA Regulations, Research analyst or research entity which is a body corporate or limited liability partnership firm is required to appoint a compliance officer who shall be responsible for monitoring the

compliance of the provisions of the Act and regulations and circulars issued by the Board.

- 8.3 In terms of SEBI circular on outsourcing dated December 15, 2011, the intermediaries desirous of outsourcing their activities shall not outsource their core business activities and compliance functions.
- 8.4 There have been representations from the industry associations for considering appointment of independent professionals such as CA/CS/CMA as compliance officer in place of a full-time compliance officer. Having such independent professionals as compliance officer shall reduce the cost of compliance for IAs/RAs. It is submitted that in terms of the existing provisions in IA Regulations and proposed provisions in RA Regulations, Principal Officer is responsible for overall functioning of the non-individual IA/RA including compliance.
- 8.5 In view of the above submissions, it is proposed that IAs and RAs may appoint an independent professional who is CA or CS or CMA or any other professional/person as may be specified by SEBI as compliance officer. However, in such cases, the principal officer shall be required to submit an undertaking to SEBI/IAASB/RAASB to the effect that Principal Officer shall be responsible for monitoring the compliance by the IA/RA in respect of the requirements of the Act, regulations, notifications, guidelines, instructions issued by the SEBI/IAASB/RAASB.
- 8.6 It is also proposed that independent professionals must have obtained the relevant certifications from NISM, as may be specified by SEBI, for being considered for appointment as a compliance officer.

Changes in regulatory provisions specific for IAs:

9. Clarity in activities that can be undertaken by IAs - scope of investment advice

- 9.1 In terms of regulation 2(1) (ac) of the IA Regulations, “investment advice” includes advice relating to securities or investment products and includes financial planning.
- 9.2 It has been observed that IAs are also providing investment advice on various assets including real estate, gold, etc. which are not regulated by financial sector regulators. It is also observed that IAs are also providing other/ ancillary services such as estate planning, tax planning, etc.

- 9.3 These unregulated products and services may have complex and non-transparent structures, hidden fees and may not be subject to same level of scrutiny as regulated products. There may not be clear disclosure of the risks while investing in these products/availing such services. The relationship of investment adviser has a fiduciary duty towards its client and it would be difficult to ascertain the potential conflict of interest in case of unregulated products and services. Further, there shall be limited or no recourse to the investors in case of any grievances. Potential legal action in case of unregulated products and services may have implications for an investment adviser that may not be dealt with within the securities laws.
- 9.4 Considering the above, the scope of the investment advice under the IA Regulations shall be as follows:
- 9.4.1. For clients availing financial planning services of IAs, IAs may provide financial planning on broad allocation of different asset classes including asset classes under financial sector regulators and other legally permitted asset classes such as real estate, gold, etc.
- 9.4.2. IAs can give investment advice in respect of a specific instrument/ product only if it belongs to an asset class pertaining to-
- i. securities under purview of SEBI or
 - ii. investment products that are under the regulatory purview of other financial sector regulators, in accordance with the regulations under such financial sector regulator. Any grievances related to such products shall come under the jurisdiction of the concerned financial regulator.
- 9.4.3. If a non-individual IA intends to provide advice in respect of an instrument/ product or provide service related to an asset class other than as mentioned above, it shall do so only through a separate legal entity having a different legal and different brand name. Such non-individual IA shall maintain arms-length relationship between its activities as an IA under the IA Regulations and the activities under such separate legal entity.
- 9.4.4. An IA who is an individual shall not provide advice in respect of instruments/products or provide service related to an asset class other than as mentioned above.

9.4.5. Any advice in respect of instruments/products or services other than securities under purview of SEBI or investment products under the regulatory purview of other financial sector regulators shall not come under the purview of the IA Regulations.

10. Use of Artificial Intelligence ('AI') tools in IA and RA services

- 10.1 With the technological innovations and advancements, many AI tools are currently available in chatbot form such as OpenAI's ChatGPT, Google's Gemini, etc. AI based tools allow one to have human-like conversations and receive human like responses with the chatbot. These tools assist various tasks such as summarising and analysing data and may help in improving efficiency and productivity.
- 10.2 AI Chatbots rely on algorithms. It must be noted that the algorithm for the purpose of finding out relevant pieces of information, method of analysis of information and method of drawing inferences needs to be provided to these AI tools. These AI tools, however, may not adequately safeguard sensitive data shared during conversations, potentially leading to unintended data exposure and concerns related to data security.
- 10.3 IAs provide personalised services according to client-specific requirements based on risk profiling and suitability. Similarly, RAs provide recommendations based on certain parameters and methodology adopted and are required to keep records of the research report, research recommendations and rationale for arriving at research recommendations.
- 10.4 While AI tools can provide significant assistance in the work of IAs and RAs, they may not always give meaningful outputs that are expected to be based on the understanding of complex security-specific or client-specific scenarios/ requirements (i.e., personal/ financial conditions or goals). Further, they may not always provide all the information based on which output/ recommendation has been generated. For example, AI tools may not bring out whether the requirements of risk profiling and suitability have been complied with by IA.
- 10.5 An IA/RA who uses AI tool for servicing its clients must provide complete disclosure of the extent of use of such tools to its prospective clients, to enable them to take informed decision of continuance or otherwise with the IA/RA.
- 10.6 Considering that the investment advice/ research services provided by IA/RA based on AI tools would affect the investment decision of clients, it is emphasised that the

responsibility of data security, compliance with the regulatory provisions governing investment advisory services/research services lies solely with the IA/ RA, irrespective of the scale and scenario of IA/ RA using AI tools.

11. Flexibility to IAs to change the modes of charging fee to clients

- 11.1 Presently, IAs can charge fees under two modes, namely, (i) Assets under Advice ('AUA') mode, which is subject to a limit of 2.5 per cent of AUA per annum per family of client across all services offered by IA, and (ii) Fixed fee mode, which is subject to a limit of ₹1,25,000 per annum per family of client across all services offered by IA.
- 11.2 It is proposed to clarify that the limits on fee chargeable to clients by IAs shall be applicable only in respect of investment advice related to securities under purview of SEBI.
- 11.3 Presently, IA can charge fees from a client under any one mode, i.e., AUA mode or fixed fee mode on an annual basis. Change of mode, if any, can be effected only after twelve months of on-boarding/last change of mode.
- 11.4 In order to offer more flexibility in charging of fees, it is proposed to allow IAs to change the fee mode for a client at any time, without restriction on the minimum period between two fee mode changes. The maximum fee that can be charged by the IA shall, however, not exceed higher of ₹1,25,000 per annum per family or 2.5 per cent of AUA per annum per family.
- 11.5 For the purpose of charging fee under AUA mode, AUA shall mean the aggregate net asset value of securities under the purview of SEBI.
- 11.6 As already applicable, in case of accredited investors, the limits and modes of fees payable to the IA shall be governed through bilaterally negotiated contractual terms.

12. Relaxation in requirement for corporatisation by individual IAs

- 12.1 As per Regulation 13(e) of the IA Regulations, an individual IA is required to apply for registration as non-individual IA on or before reaching 150 clients.
- 12.2 It is noted that due to the evolving nature of business of IAs and the technological advancements therein such as availability of risk profiling tools, etc., IAs are in a position to service more number of clients. Based on the inputs of the IA community,

it is proposed to broaden the condition/requirement for compulsory corporatisation of an individual IA.

12.3 Accordingly, it is proposed that Individual IAs shall now be required to apply for registration as a non-individual IA on having:

- (i) 300 number of clients; or
- (ii) fee collection of INR 3 crore during the financial year,

whichever is earlier.

12.4 For removal of doubts, it is also proposed to clarify that “number of clients” shall mean number of client agreements in force at any point of time i.e. limit of 300 clients not to be exceeded on any day.

12.5 In order to ease the process of transition from individual IA to non-individual IA, it is proposed that an individual IA shall initially be required to apply for grant of in-principle registration as non-individual IA. A period of up to three months shall be available to the IA to complete the transition process. On completion of transition within the time limit, IA shall surrender his individual IA registration certificate and will be granted final registration as non-individual IA subject to compliance with all the requisite requirements of registration.

Changes in regulatory provisions specific for RAs:

13. Definitions of ‘research analyst’ and ‘research services’

13.1 The IA Regulations recognise the aspect that there shall be payment of consideration for the services rendered by an IA. However, the term ‘research analyst’ as defined under regulation 2(1)(u) of the RA Regulations, does not particularly mention the aspect of payment of consideration for the services provided by RA and thus is open to arbitrary interpretation of the scope of research services.

13.2 Therefore, it is proposed to modify the definition of ‘research analyst’ to provide that, as in the case of IAs, persons providing research services ‘for consideration’ shall only fall within the definition of research analyst. For this purpose, the term ‘consideration’ shall mean any form of economic benefit including non-cash benefit, received or receivable, directly or indirectly, in any form, whether from client or otherwise, for providing any research services.

13.3 Additionally, it is noted that currently few RAs are also providing recommendations on basket of securities commonly called as ‘model portfolio’ and are giving recommendation on stop loss target. However, these research services are not explicitly provided for in the definition of research analyst. In view of the evolving industry practices, it shall be clarified that the research services being provided by RA shall also include ‘recommendation of model portfolio by RAs’, ‘stop loss target’ and ‘any other service of similar nature or character’. (The term ‘model portfolio’ is defined separately in Annexure B on ‘Guidelines for ‘model portfolio’ by Research Analysts’).

13.4 The term ‘research services’ shall be defined separately to specify the services that research analyst may provide.

Research services to be corroborated by research report containing relevant data and analysis:

13.5 It has been argued that RA Regulations do not explicitly mention that every research service should be supported by research report that provide the necessary data and analysis. In this regard, in order to ensure the credibility of research services provided by a RA, it is proposed to also clarify that any research service by a RA shall be corroborated by research report containing the relevant data and analysis forming the basis for such research service. RA shall maintain record of such research report.

14. Clarity in identification of ‘persons associated with research services’

14.1 In the IA Regulations, ‘persons associated with investment advice’ are separately recognised and defined; however, the same is not the case for RAs. Any associated person who reports directly or indirectly to a research analyst in connection with research activities is also currently identified as ‘research analyst’ under RA Regulations. In order to bring in consistency in approach and to provide further clarity on the identification of a person associated with research services, it is proposed to define the term ‘persons associated with research services’ in the RA Regulations on similar lines as in the IA Regulations, wherein –

- a) persons associated with research services shall mean any member, partner, officer, director or employee or any other staff of such research analyst or research

entity, including any person occupying a similar status or performing a similar function irrespective of the nature of association with the research analyst or research entity, who is engaged in providing research services to the clients or other persons or group of persons or general public.

- b) All client and public facing persons such as analysts, sales staff, service relationship managers, client relationship managers, etc., by whatever name called, shall be deemed to be persons associated with research services.
- c) They shall not include persons who discharge clerical or office administrative functions where there is no connection with research services and they have no client contact.

15. Exemption to Proxy Advisers from RAASB framework

15.1 SEBI has issued a framework for RAASB for administration and supervision of RAs.

The RAASB framework has also become applicable to proxy advisers (PAs) as they are also governed under RA Regulations. RAASB framework has been put in place considering the potential growth in the number of RAs and their effective administration and supervision. Currently, there are only four registered PAs.

15.2 SEBI has received a representation from proxy advisers that proxy advisers may be exempted from the RAASB framework considering the nature of their services, which is different from the security-specific services/recommendations being given by RA, and potential conflict of interest in the administration of proxy advisers by the exchange being the RAASB.

15.3 Considering the above, it is proposed that proxy advisers may be exempted from the RAASB framework and their administration and supervision shall lie entirely with SEBI.

16. Eligibility of ‘partnership firm’ for registration as RA and certification requirement for its partners

16.1 Regulation 6(i) of RA Regulations *inter alia* states that for the grant of certificate for registration as RA, it shall take into account as to whether the applicant is individual or a body corporate or LLP. However, it does not mention ‘partnership firm’. Hence, Regulation 6(i) of RA Regulations is proposed to be amended to include the words ‘or partnership firm’.

16.2 Regulation 7(2) of RA Regulations *inter alia* states that “.... and partners of a research analyst, if any, shall have, at all times, a NISM certification....” It is proposed to clarify by an amendment to the regulation that, similar to the qualification requirement under Regulation 7 (1), partners of a research analyst are required to have NISM certifications only if they are engaged in providing research services.

17. Fees chargeable to clients by RAs

17.1 In view of their overlapping role, in order to create a level playing field regarding the maximum fee that can be charged by IAs and RAs, it is proposed that RAs shall also be subject to a maximum fee limit as in the case of IAs. Accordingly, the following fee structure is proposed for RAs:

17.1.1. RAs may charge fees, subject to ceiling as may be specified by SEBI and shall ensure that fee charged to clients is fair and reasonable.

17.1.2. RAs shall charge a maximum of ₹1,25,000 per annum per family in case of their clients who are individuals. The limit on fee chargeable to clients by RAs shall not be applicable in case of non-individual clients including clients who are QIBs, accredited investors, and to institutional investors seeking recommendation of proxy adviser.

17.1.3. If agreed by the client, RA may charge fees in advance. However, such advance shall not exceed fees for more than one month.

17.1.4. In the event of pre-mature termination of RA services in terms of the agreed terms and conditions, the client shall be refunded proportionate fees for unexpired period.

17.1.5. An IA can charge breakage/ separation/ alienation fees if the client terminates the agreement prematurely, as the IA is required to expend for on-boarding of client, perform risk profiling and suitability assessment, which involve fixed costs that IA may need to recover. However, since such activities are not required for RAs, there shall not be any breakage/ separation/ alienation fee to be retained by RAs in the event of pre-mature termination of RA services in terms of the agreed terms and conditions.

18. Client-level segregation of research and distribution services by RAs

18.1 Presently, an individual IA is not allowed to provide distribution services. Additionally, family of an individual IA cannot provide distribution services to the client advised by the individual IA and no individual IA can provide advice to a client who is receiving distribution services from other family members. A non-individual IA shall have client level segregation at group level for investment advisory and distribution services and shall also maintain an arm's length relationship between its activities as IA and distributor by providing investment advisory services through a separately identifiable department or division. Further, the same client cannot be offered both investment advisory and distribution services within the group of the non-individual entity.

18.2 The rationale behind the above provisions is that an IA is expected to provide unbiased and independent advice based on risk profiling and suitability of the client. The client is further expected to provide consideration to the IA for the unbiased advice provided by him. However, under distribution model, IAs are paid by the producers/issuers of the security and investment product, thereby creating a conflict of interest and compromising on the unbiased and independent advice provided by them. Since such client level segregation for investment advisory and distribution services and arm's length relationship is not possible at an individual level, therefore an individual IA is restricted from providing distribution services.

18.3 A RA is expected to provide an independent, unbiased and objective research in relation to securities. It is important to ensure that there is no conflict of interest between the research activity and other activities of RA. In terms of the RA Regulations, research entities are required to have segregation of research services and other activities. Thus, in order to avoid conflict of interest with the distribution services provided by the research entity, if any, it is proposed that, similar to IAs, distribution services and research services may be segregated in case of RAs.

18.4 Accordingly, it is proposed to have a clear segregation at client level of research services and distribution services of a RA or research entity and shall have regulatory provisions similar to IAs in this regard. The proposed regulatory provisions that shall be applicable to RAs are mentioned at Annexure A.

18.5 It is further proposed that IAs/RAs providing investment advisory/research services exclusively to institutional clients and accredited investors may not be subject to compliance with the aforesaid requirements of segregation of investment advisory/research services and distribution services. The investor needs to sign a standard waiver stating the above.

19. Guidelines for recommendation of ‘model portfolio’ by RAs

19.1 In terms of Regulation 2(1)(u) of the RA Regulations, a RA can provide ‘buy/sell/hold’ recommendation or give price target with respect to securities that are listed or to be listed on a stock exchange. It is observed that RAs are issuing ‘model portfolios’ which set out recommendations for multiple securities based on certain parameters.

19.2 Regulation 20 of the RA Regulations specifies, with respect to the contents of the research report, that RA or research entity shall take steps to ensure that facts in its research reports are based on reliable information and shall define the terms used in making recommendations, and these terms shall be consistently used. However, there are no guidelines currently in place on the recommendations of ‘model portfolio’ such as minimum disclosures, rationale for recommendations, nomenclature and performance of such recommendations.

19.3 In order to provide clarity on recommendation in respect of model portfolios by RAs and to provide for safeguards for model portfolios and other similar products from RAs, it is proposed to issue guidelines for ‘model portfolios’ by RAs. The proposed model portfolio framework including definition of model portfolio is given in Annexure B. The reporting and disclosure requirements related to model portfolio shall be standardised by Industry Standards Forum (ISF) in consultation with the RAASB and SEBI.

20. Disclosure of terms and conditions of services to client

20.1 Disclosure of terms and conditions and rights of the clients is not mandatory under the extant RA Regulations. The clients of RA may thus be unaware of their rights and terms and conditions of the research services of RA availed by them in case of any grievance. In order to have transparency, explicit client consent and a document

available with the client for his record regarding the terms and conditions of services availed, the following is proposed:

20.1.1. RAs shall disclose to the client, the terms and conditions of the research services offered such as consideration, conflict of interest, risk factors, mechanism for grievance redressal and dispute resolution etc., including their rights and obligations. RAs shall ensure that neither any research service is rendered nor any fee is charged until consent is received from the client on the terms and conditions.

20.1.2. It is proposed that the minimum mandatory terms and conditions as placed at Annexure C shall be included in the aforesaid disclosure.

20.2 Most Important Terms and Conditions (MITC) to be disclosed by IAs and RAs shall be standardised by industry associations/experts in consultation with IAASB/RAASB and SEBI.

20.3 IA shall include the following terms and conditions in their MITC:

“This agreement is for the investment advisory services provided by the IA and IA cannot execute/ carry out any trade (purchase/ sell transaction) on behalf of the client without his specific and positive consent on every trade. Thus, you are advised not to permit IA to execute any trade on your behalf without your explicit consent.”

IAs shall maintain call recording of every consent for implementation/execution obtained from the client.

20.4 IAs/RAs shall also provide guidance to their clients in the agreement/ disclosure of terms and condition on the centralised fee collection mechanism for IAs and RAs.

20.5 Consent of client to terms and conditions disclosed by RA (in case of the RAs) and consent of client to agreement between IA and client (in case of the IAs) shall be signed by the client in person or through Digilocker enabled Aadhaar based e-signature.

21. KYC Requirements and maintenance of record

21.1 Under the existing provisions, IAs are required to follow Know Your Client (‘KYC’) procedure as specified by SEBI and maintain KYC records and are required to enter into investment advisory agreement with client containing the mandatory terms and

conditions of the services. There is no specific provision for RAs specifying disclosure of terms and conditions of services and maintenance of record of client identification and services provided to them.

- 21.2 As in the case of IAs, since the RA services shall be considered to be for ‘consideration’ and since they are also required to comply with the PMLA guidelines, it is proposed to clarify that RAs shall follow the KYC procedure for their fee paying clients and maintain KYC records for their clients as specified by SEBI from time to time.
- 21.3 KYC records shall be uploaded by IAs and RAs on KRA system as per the procedure specified by SEBI.
- 21.4 In addition to the existing requirements, IA/RA shall maintain record of clients such as list of clients, their PAN, date of investment advisory/research service provided, nature of investment advisory/research service, details of the securities /and investment products for which investment advisory/research service was provided and fee/consideration charged for such service.
- 21.5 RA shall maintain record of disclosures of the terms and conditions of services offered to clients of RA as may be specified by SEBI.
- 21.6 Similar to IAs, RAs shall also maintain records of communication with the client/prospective client, where any conversation related to its services has taken place, including communication through physical documents (signed by client), e-mails, messages etc.
- 21.7 IAs providing implementation/execution services shall maintain call recording of every consent for implementation/execution obtained from the client.

Other regulatory changes concerning both IAs and RAs:

22. Circumstances under which a person is required to obtain registration as IA/RA

- 22.1 It is proposed to clarify the circumstances under which a person shall be required to obtain registration from SEBI as IA/ RA under the IA Regulations/ RA Regulations, i.e., whether investment advisory services/ research services provided are related to Indian securities or global securities/assets and whether these services are provided to

Indian investors or investors located outside India. Accordingly, the following matrix is provided for clarity:

Sr. No.	Domicile of client/ investor	Securities/ asset class (Indian/ Global) on which IA/ RA services are provided	Whether a person providing IA/ RA services for consideration (irrespective of whether he is located in or outside India) is required to obtain registration as IA/ RA from SEBI
1	Person resident in India /NRI/PIO	Indian	Yes
2	Person resident in India /NRI/PIO	Global (indices containing Indian securities as underlying) / Global (exclusively foreign securities)	No
3	Other than Person resident in India /NRI/PIO	Indian / Global (indices containing Indian securities as underlying) / Global (exclusively foreign securities)	No

22.2 As per regulation 4(i) of the IA Regulations, persons providing investment advice to a Non-Resident Indian ('NRI') or Person of Indian Origin ('PIO') shall also fall within the purview of the IA Regulations.

22.3 Thus, as observed from the above matrix, persons providing investment advisory services/ research services are required to obtain certificate of registration as IA/ RA from SEBI if they intend to provide investment advisory services/ research services in relation to Indian securities to investors based in India or NRI or PIO.

- 22.4 For more clarity, as an example, if the person is giving advisory services/ research services exclusively to persons located outside India on Indian securities, it is not required to seek registration as IA/RA. If the person is giving advisory services/ research services to client resident in India exclusively on overseas securities, it is not required to seek registration as IA/RA.
- 22.5 Further, presently, in terms of regulation 4 of the RA Regulations, a person located outside India is allowed to issue research report or do research analysis in respect of securities listed or proposed to be listed on a stock exchange in India by entering into an agreement with a RA or research entity registered with SEBI, without obtaining a certificate of registration under the RA Regulations.
- 22.6 Such an agreement between a person located outside India and a SEBI registered RA or research entity does not cast any responsibility under the RA Regulations on the person located outside India and SEBI may not have any recourse to take any regulatory action against such person if so required.
- 22.7 Hence, similar to the provisions in IA Regulations, it is proposed to specify that persons located outside India who propose to engage in providing research services to clients located in India with respect to securities listed or to be listed on stock exchange in India shall be required to obtain certificate of registration as RA under the RA Regulations through a subsidiary or office set up in India in order to provide such research services.

23. Compliance audit requirements for IAs and RAs

- 23.1 Under the existing regulatory provisions, IA/RA and research entity is required to conduct annual audit in respect of compliance with the IA Regulations/RA Regulations and circulars issued thereunder from a member of Institute of Chartered Accountants of India ('ICAI')/ Institute of Company Secretaries of India ('ICSI'). It is understood that members of Institute of Cost Accountants of India ('ICMAI') also have the necessary competence to conduct such audit. Hence, IA/RA and research entity can also conduct yearly audit in respect of compliance of the IA Regulations/RA Regulations and the circulars and guidelines issued thereunder also from a member of ICMAI.
- 23.2 It is also noted that many a times audit in respect of the compliance of regulations is in the nature of providing general compliance with the regulations without specifying

each provision for which compliance audit is conducted and hence provide little understanding of the specifics of the audit conducted. Accordingly, Annual compliance audit report for IA/ RA and research entity shall specify each of the provisions of the IA Regulations/ RA Regulations and the circulars and guidelines issued thereunder upon which compliance is reported.

23.3 An IA, a RA or research entity shall -

- (i) complete the annual compliance audit within sixty days from the end of each financial year and submit a compliance audit report to SEBI/IAASB/RAASB within such time as may be specified;
- (ii) submit adverse findings of audit, if any, along with action taken thereof duly approved by the individual IA/RA/ or management of non-individual IA/RA or research entity to SEBI/IAASB/RAASB within a period of one month from the date of the audit report; and
- (iii) maintain on record an annual certificate from a member of ICAI/ ICSI/ ICMAI confirming compliance with client level segregation requirements. Thus, the requirement of obtaining certificate from statutory auditor is proposed to be eased. Such annual certificate shall form part of the compliance audit.

23.4 IA, RA and research entity shall mandatorily have their own website and publish compliance audit report on their website.

24. Clarity in applicability of IA Regulations/RA Regulations to trading call providers

24.1 Trading calls are being provided by IAs and RAs.

24.2 With respect to trading call providers, it is proposed to clarify that-

24.2.1. If the trading call is provided after the risk profiling of the client and product suitability assessment, such trading calls are on “one to one” basis and shall come under the purview of IA Regulations.

24.2.2. If the trading call is provided without any risk profiling of the client and product suitability assessment, such trading calls are on “one to many” basis and shall come under the purview of RA Regulations

25. Public Comments

25.1 Comments are invited on the proposals mentioned in the consultation paper. The comments/ suggestions should be submitted latest by August 26, 2024, through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

25.2 In case of any technical issue in submitting your comment through web based public comments form, you may write to consultationMIRSD@sebi.gov.in with the subject: "*Comments on Review of Regulatory framework for Investment Advisers and Research Analysts.*"

General Manager

Division of Policy

Market Intermediaries Regulations and Supervision Department

Securities and Exchange Board of India

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Annexure A

Client-level segregation of research and distribution services by RAs

RA shall comply with the following regulatory provisions:

1. An individual RA shall not provide distribution services.
2. The family of an individual RA shall not provide distribution services to the client of the individual RA and consequently individual RA shall not provide research services to a client who is receiving distribution services from other family members.
3. A non-individual RA or research entity shall have client-level segregation at group level for research services and distribution services.

Explanation. —

- (i) The same client shall not be offered both research services and distribution services within the group of the non-individual RA;
- (ii) A client can either be a research services client where no distributor consideration is received at the group level or distribution services client where no fee for research services is collected from the client at group level;
- (iii) ‘Group’ for this purpose shall mean an entity which is a holding, subsidiary, associate, subsidiary of a holding company to which it is also a subsidiary or an investing company or the venture of the company as per the provisions of the Companies Act, 2013 for non-individual RA or research entity which is a company under the said Act and in any other case, an entity which has a controlling interest or is subject to the controlling interest of a non-individual RA;
- (iv) A non-individual RA or research entity shall maintain an arm’s length relationship between its activities as RA and distributor by providing research services through a separately identifiable department or division;
- (v) Compliance and monitoring process for client segregation at group or family level shall be in accordance with the guidelines specified by SEBI;
- (vi) “Family of an individual research analyst” shall include individual RA, spouse, children and parents;

- (vii) “Family of client” shall include individual client, dependent spouse, dependent children and dependent parents.
4. To ensure client-level segregation at RA’s group/ family level, following compliance and monitoring process shall be adopted:
- (i) Existing clients, who wish to avail services of the RA, will not be eligible for availing distribution services within the group/family of the RA. Similarly, existing clients who wish to take distribution services will not be eligible for availing research services within the group/family of the RA.
 - (ii) A new client will be eligible to avail either research services or distribution services within the group/family of RA. However, the option to avail either research services or distribution services shall be made available to such client at the time of on-boarding.
 - (iii) “Client” shall include individual client or non-individual client.
 - (iv) A client shall have discretion to continue holding assets prior to the applicability of this segregation under the existing research/ distribution arrangement. However, the client shall not be forced to liquidate/ switch such existing holdings.
 - (v) PAN of each client shall be the control record for identification and client-level segregation.
 - (vi) In case of an individual client, “family of client” shall be reckoned as a single client and PAN of all members in “family of client” would jointly and severally be the control record. However, the same shall not be applicable for non-individual clients.
 - (vii) The dependent family members shall be those members whose assets originate from income of a single entity, i.e., the earning client (individual) in the family. The client shall provide an annual declaration or periodic updation, as the case maybe, in respect of such dependent family members.
 - (viii) RA shall maintain on record an annual certificate from an auditor (in case of individual RA) and its statutory auditor (in case of a non-individual RA) confirming compliance with the client-level segregation requirements as

proposed. Such annual certificate shall be obtained within six months from the end of the financial year and the same shall form part of compliance audit, in terms of regulation 25(3) of the RA Regulations.

Annexure B

Guidelines for recommendation of ‘model portfolio’ by Research Analysts

RA shall ensure compliance with the following guidelines on ‘model portfolio’:

1. Definitions

The following terms used in the guidelines on the ‘model portfolio’ shall have the meaning as mentioned below.

- i. **Model Portfolio:** A ‘model portfolio’ shall mean a basket of securities for which a research report is issued by a RA recommending the relevant weightages for one or more securities mentioned therein.

Explanation: If the research report does not ascribe weightages to the components of basket of securities, then merely a summary or consolidated presentation of securities recommended shall not be regarded as a “model portfolio”.

- ii. **Disclosures:** Means the minimum set of disclosures as specified in the model portfolio framework to be mandatorily included in a model portfolio report, in order to ensure that all the relevant facts and information which could impact the investment decision of a potential investor are adequately made known to the investors.
- iii. **Launch Date:** Means the date on which model portfolio report was issued by the RA.
- iv. **Update Date:** Each model portfolio should clearly list the dates and/or intervals at which model portfolio shall be reviewed and updated by RA and the launch date of each such updated model portfolio shall be deemed to be the “Update Date”.

2. Model Portfolio Framework

- i. **Model portfolio report:** Model portfolio shall be issued through a research report with all constituent securities being recommended to be covered in the research report and rebalancing to be done at such intervals as the RA deems appropriate. The opinion of

the RA on any constituent securities forming part of the model portfolio shall not be contrary to its opinion on each of such securities individually.

Model portfolio report shall include a ‘factsheet’ setting out the basic information on the model portfolio. A model portfolio report must contain disclosures, rationale, methodology, launch date, update date and type of model portfolio contained therein.

- ii. **Methodology:** Model portfolio report shall define and discuss the framework including underlying universe for stock selection and shall be labelled to indicate the type of underlying universe of securities (such as large caps, mid-caps, multi caps, etc.) or an underlying theme (such as Make in India, Defence, etc.) or a sector (such as Auto, Textile, etc.). Model portfolio report shall define and discuss in detail the methodology for selection of constituent securities in the model portfolio such as fundamental analysis, technical analysis etc. and the parameters therein.
- iii. **Labelling:** Model portfolio should be ‘true to label’ and should be named in a manner which clearly states the type of portfolio being created along with a one-line description of the theme or investment objective of the model portfolio for ease of understanding for all clients.
- iv. **Investment Horizon:** Model portfolio report should specify the investment horizon of the model portfolio so that the investor can match that to their investment period.
- v. **Frequency of portfolio review and update:** Whether the model portfolio would be updated and at what intervals must be predefined in the report. The rebalancing, if any, of the constituent securities in the model portfolio shall be done within the overall framework of the model portfolio and shall be communicated to the clients along with the underlying rationale.
- vi. **Risk disclosures:** Model portfolio risk should be clearly mentioned in model portfolio report.
- vii. **Benchmarking:** Each model portfolio shall disclose performance duly validated by Performance Validation Agency (PVA) over different time periods and should be benchmarked with appropriate and relevant index.

For example, Model portfolio for auto stocks can be benchmarked with Nifty Auto Index, Mid cap model portfolio can be benchmarked with BSE Midcap Index, thematic portfolios with thematic indices, etc.

Every model portfolio report shall contain disclosure on the benchmark index which should be clearly defined and should be used consistently.

- viii. **Audit Requirements:** Compliance with audit requirement under regulation 25(3) of the RA Regulations shall also cover compliance with obligations set out under the model portfolio framework.

Annexure C

Disclosure of minimum mandatory terms and conditions to clients

RAs shall disclose to the client the terms and conditions of the research services offered including rights and obligations. RAs shall ensure that neither any research service is rendered nor any fee is charged until consent is received from the client on the terms and conditions.

1. **Availing the research services:** By accepting delivery of the research service, the client confirms that he/she/it has elected to subscribe the research service of the RA at his/her/its sole discretion. RA confirms that research services shall be rendered in accordance with the applicable provisions of the RA Regulations.
2. **Obligations on RA:** RA and client shall be bound by SEBI Act and all the applicable rules and regulations of SEBI, including the RA Regulations and relevant notifications of Government, as may be in force, from time to time.
3. **Client Information and KYC:** The client shall furnish all such details in full as may be required by the RA in its standard form with supporting details, if required, as may be made mandatory by SEBI from time to time.

RA shall collect, store, upload and check KYC records of the clients with KYC Registration Agency (KRA) as specified by SEBI from time to time.

4. **Standard Terms of Service:** The consent of client shall be taken on the following understanding:

“I / We have read and understood the terms and conditions applicable to a research analyst as defined under regulation 2(u) of the SEBI (Research Analyst) Regulations, 2014, including the fee structure.

I/We are subscribing to the research services for our own benefits and consumption, and any reliance placed on the research report provided by research analyst shall be as per our own judgement and assessment of the conclusions contained in the research report.

I/We understand that –

- i. Any investment made based on the recommendations in the research report are subject to market risk.*
- ii. Recommendations in the research report do not provide any assurance of returns.*
- iii. There is no recourse to claim any losses incurred on the investments made based on the recommendations in the research report.”*

Declaration of the RA that:

- i. It is duly registered with SEBI as an RA pursuant to the SEBI (Research Analysts) Regulations, 2014 and its registration details are: (registration number, registration date);*
- ii. It has registration and qualifications required to render the services contemplated under the RA Regulations, and the same are valid and subsisting;*
- iii. Research analyst services provided by it do not conflict with or violate any provision of law, rule or regulation, contract, or other instrument to which it is a party or to which any of its property is or may be subject;*
- iv. The maximum fee that may be charged by RA is ₹1.25 lacs per annum per family of client.*
- v. The recommendations provided by RA do not provide any assurance of returns.*

Additionally, if RA is an individual, declaration that:

i. It is not engaged in any additional professional or business activities, on a whole-time basis or in an executive capacity, which interfere with/influence or have the potential to interfere with/influence the independence of research report and/or recommendations contained therein.

5. **Consideration and mode of payment:** The client shall duly pay to RA, the agreed fees for the services that RA renders to the client and statutory charges, as applicable. Such fees and statutory charges shall be payable through the specified manner and mode(s)/ mechanism(s).
6. **Risk factors:** (A statement covering the standard risks associated with investment in securities to be added under this clause by the RA)
7. **Conflict of interest:** The RA shall adhere to the applicable regulations/ circulars/ directions specified by SEBI from time to time in relation to disclosure and mitigation of any actual or potential conflict of interest. (A statement covering the mandatory disclosures to be added under this clause by the RA.)
8. **Termination of service and refund of fees:** Disclosure that the RA may suspend or terminate rendering of research services to client on account of suspension/ cancellation of registration of RA by SEBI and shall refund the residual amount to the client.

In case of suspension of certificate of registration of the RA for more than 60 (sixty) days or cancellation of the RA registration, RA shall refund the fees, on a pro rata basis for the period from the effective date of cancellation/ suspension to end of the subscription period.

9. **Grievance redressal and dispute resolution:** Any grievance related to (i) non-receipt of research report or (ii) missing pages or inability to download the entire report, shall be escalated promptly by the client to the person/employee designated by RA, in this behalf (RA to provide name and e-mail ID of the designated person/employee).

The RA shall be responsible to resolve grievances within 7 (seven) business working days or such timelines as may be specified by SEBI under the RA Regulations.

RA shall redress grievances of the client in a timely and transparent manner.

Any dispute between the RA and his client may be resolved through arbitration or through any other modes as specified by SEBI from time to time.

10. **Additional clauses:** All additional voluntary clauses added by the RA should not be in contravention with rules/ regulations/ circulars of SEBI. Any changes in such voluntary clauses/document(s) shall be preceded by a notice of 15 days.
11. **Mandatory notice:** Clients shall be requested to go through Do's and Don'ts while dealing with RA as specified in SEBI master circular no. SEBI/HO/MIRSD-POD-2/P/CIR/2023/90 dated June 15, 2023 or as may be specified by SEBI from time to time.
12. **Most Important Terms and Conditions (MITC):** RA shall also disclose MITC to their clients which shall be standardised by Industry Standards Forum (ISF) in consultation with SEBI and RAASB.
13. **Optional Centralised Fee collection mechanism:** RA Shall provide the guidance on an optional centralised mechanism for fee collection available to their client for payment of fees to RA.