

Consultation Paper on Advance Fee to be charged by Investment Advisers and Research Analysts

1. Objective of the consultation

- 1.1. The objective is to seek comments from public on proposal to reconsider the period for advance fees, which the Investment Advisers (IAs) and Research Analysts (RAs) are currently able to charge their clients, and to consider advance fee period up to one year.

2. Background

- 2.1. In terms of the existing provisions, if agreed by the client, IA may charge fees in advance for not more than two quarters. The provision was made effective from April 01, 2021 pursuant to amendments to the SEBI (Investment Advisers) Regulations, 2013 ('IA Regulations') that came into force in September 2020.
- 2.2. Pursuant to amendment to SEBI (Research Analysts) Regulations, 2014 ('RA Regulations') in December 2024, RAs may charge fees in advance not more than one quarter.
- 2.3. SEBI is in receipt of representations from RAs to consider relaxation in advance fee provision. It has been submitted that the provision on advance fee would inter alia disincentivize RAs from offering long term recommendations and shall disrupt the existing practices related to charging of fee and that even the mandate facility to charge fee periodically shall cause inconvenience and shall entail cost to both client and RA.
- 2.4. The objective of the provision of the advance fee was to protect the interests of the investors, so that investors do not get stuck with an IA/RA just because they have paid the money in advance to the IA/RA. Thus the provision was made to limit the period for which IA/RA could charge in advance for.
- 2.5. RAs have represented that they may be allowed to charge advance fee a 12-month period. The overall annual fee limit on RA fees provides the necessary protection to investors and sufficient recourse is provided to investors to redress their grievances through the provision on refund of fees in case of deficiency in services of RAs. This shall also incentivise RAs to provide long-term recommendations. Similar representation has also been received from IAs to reconsider the advance fee related provision applicable to IAs.

3. Consideration of the proposal

- 3.1. As already elucidated, the provisions related to limiting period of advance fees were in place to protect the interests of the investors to ensure that investors are not stuck by paying the entire amount in advance.
- 3.2. The primary objective of the amendments to IA Regulations and RA Regulations carried out in December 2024 has been to facilitate ease of doing measures for the IAs and RAs while protecting the interest of investors.
- 3.3. Based on the representation of the RAs it is seen that the issue of advance fee may require reconsideration. It has been represented that since the fees now could be charged for only three months, it was likely that the clients would not stay with them for more than three months unless they were to see value in the recommendations within that period. As per them, this invariably would force them to make short term recommendations to show results to retain clients. Thus they would have no motive to provide recommendations for longer term. This may not work in favour of the investors as well.
- 3.4. However, allowing fee to be charged for one year may work against investors' interest as investor may find it difficult to get refund on account of an early termination of the agreement. Against this risk, Association of Registered Research Analysts (ARRAI) has submitted the data to show that the requests for refunds are attended promptly within five to seven days.
- 3.5. In order to protect the investor interest, the provisions for refund of fees and breakage fees are provided under IA Regulations and RA Regulations as follows-
- i. In the event of pre-mature termination of the IA services in terms of agreement, the client shall be refunded the fees for unexpired period. However, considering the client on-boarding costs for IAs, IA may retain a maximum breakage fee of not greater than one quarter fee.
 - ii. 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. RA shall not charge any breakage fee.

3.6. In view of representation of IAs and RAs and considering that other fee related provisions viz. fee cap and the refund related provision shall broadly address fee related concerns/complaints, it is proposed to revise the provision related to period of advance fee and make it not more than a year.

3.7. It is also proposed to clarify that the compliance by IAs and RAs to the fee related provisions viz. fee limit, modes of payment of fees, refund of fees, advance fee, breakage fees shall only be applicable in case of their individual and HUF clients.

4. Proposal

4.1. It is proposed to revise the provisions related to advance fees as follows –

- (i) If agreed by the client, IAs and RAs may charge fees in advance, however, such advance shall not exceed fees for a period of one year.

It is also proposed to clarify that-

- (ii) The compliance by IAs and RAs to the fee related provisions viz. fee limit, modes of payment of fees, refund of fees, advance fee, breakage fees shall only be applicable in case of their individual and HUF clients. In case of non-individual clients, accredited investors, and in case of institutional investors seeking recommendation of proxy adviser, fee related terms and conditions shall be governed through bilaterally negotiated contractual terms.

5. Public Comments

5.1 Comments are invited on the proposals mentioned in the consultation paper. The comments/ suggestions should be submitted latest by February 27, 2025, through the following link:

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

5.2 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: "*Consultation paper on advance fee to be charged by Investment Advisers and Research Analysts.*"

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