



## CONSULTATION PAPER ON DRAFT IFSCA (CAPITAL MARKET INTERMEDIARIES) REGULATIONS, 2024

### Objective

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1. The objective of this consultation paper is to seek comments and suggestions from the public and stakeholders on the draft IFSCA (Capital Market Intermediaries) Regulations, 2024.

### Statement of Object and Reasons

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2. The purpose of the proposed IFSCA (Capital Market Intermediaries) Regulations, 2024 (“New CMI Regulations”) is to provide the revised regulatory framework for registration, regulation and supervision of capital market intermediaries set up in the IFSC.
3. The objective of the New CMI Regulations is to facilitate intermediation of financial services in the capital market ecosystem focusing on protection the interests of investors and maintaining the integrity of the markets.

### Background

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4. The capital markets ecosystem in the IFSC consists of:
  - a) Market Infrastructure Institutions (MIIs) which comprise the Stock Exchanges, Clearing Corporations and Depository; and
  - b) Capital Market Intermediaries (CMIs) such as broker dealers, clearing members, depository participants, investment advisors, custodians, Investment Bankers, debenture trustees, credit rating agencies etc.
5. The regulatory framework for the MIIs operating in the IFSC has been specified under the IFSCA (Market Infrastructure Institutions) Regulations, 2021 (“MII Regulations”). The MII Regulations have been amended recently vide IFSCA (Market Infrastructure Institutions) (Amendment) Regulations, 2024 notified on October 29, 2024.
6. The regulatory framework for CMIs in the IFSC have been issued under the IFSCA (Capital Market Intermediaries) Regulations, 2021 (“CMI Regulations 2021”)



providing the regulatory framework for various categories of intermediaries operating in the IFSC.

7. As on September 30, 2024, the number of capital market intermediaries registered / authorized by the Authority under various categories is as follows:

<b>Type of Entity</b>	<b>No. of entities</b>
Broker Dealers	82
Clearing Members	22
Custodians	5
Depository Participants	10
Investment Advisers	3
Investment Bankers	4
Debenture Trustees	4
Distributors	10
Credit Rating Agencies	1

8. During the last few years, several new activities have been enabled in the IFSC including the ecosystem for distributors, debenture trustees and global credit rating agency. The credit rating agency set up in the IFSC provided sovereign rating of 39 countries becoming the first rating agency from India to provide such services.
9. In terms of regulation 7 of the IFSCA (Procedure for making regulations) Regulations, 2021, IFSCA is required to review each regulation every three years unless a review is warranted earlier and amend or repeal any regulation, keeping in view-
- (a) its objectives;
  - (b) its outcome;
  - (c) experience of its implementation;
  - (d) experience of its enforcement and the related litigation;
  - (e) global best practices, if any;
  - (f) its relevance in the changed environment; and



(g) any other factor considered relevant by the Authority.

10. Accordingly, IFSCA issued a press release on July 18, 2024 inviting suggestions from the public and stakeholders to review the CMI Regulations 2021. Several comments have been received from the stakeholders.
11. Pursuant to analysis of the comments received and based on the factors mentioned at paragraph 8 above, it has been decided that the extant CMI Regulations 2021 may be replaced with the New CMI Regulations.

### **Benchmarking with international best practices**

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12. IOSCO in its Methodology for assessing the implementation of “*IOSCO Objectives and Principles of Securities Regulation*” (“IOSCO Principles”) *inter alia* mentions that –

*The Principles relating to Market Intermediaries seek to support the IOSCO objectives by setting requirements related to entry criteria, capital and prudential requirements, conduct of business, ongoing supervision, and discipline of market intermediaries, and the consequences of default and financial failure.*

*Market intermediaries should conduct themselves in a way that protects the interests of their clients and helps to preserve the integrity of the market. Fundamental principles include:*

- a) A firm should observe high standards of integrity and fair dealing.*
- b) A firm should act with due care and diligence in the best interests of its clients and the integrity of the market.*
- c) A firm should observe high standards of market conduct.*
- d) A firm should not place its interests above those of its clients and should give similarly situated treatment to similarly situated clients.*
- e) A firm should comply with any law, code or standard relevant to securities regulation as it applies to the firm.*

13. IOSCO Principles relating to Market Intermediaries (Principles 29 to 32) are:

*Principle 29 - Regulation should provide for minimum entry standards for market intermediaries.*

*Principle 30 - There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.*



*Principle 31 - Market intermediaries should be required to establish an internal function that delivers compliance with standards for internal organization and operational conduct, with the aim of protecting the interests of clients and their assets and ensuring proper management of risk, through which management of the intermediary accepts primary responsibility for these matters.*

*Principle 32 - There should be procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.*

14. The IOSCO Principles have been considered while preparing the New CMI Regulations, to the extent applicable, relating to regulation of intermediaries.

## **New CMI Regulations**

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15. The salient features of the proposed IFSCA (Listing) Regulations, 2024, include:

### **A. Research Entity as new Category of Intermediaries**

The New CMI Regulations provide the regulatory framework for “Research Entity” as a new category of Intermediary. The research entities publish or provide research reports with respect to securities or financial products including making 'buy/sell/hold' recommendation on particular stocks, giving price targets etc. The research entities are regulated activities by securities market regulators in several jurisdictions including SEBI. The New CMI Regulations provide the regulatory framework for research entities providing research reports with respect to securities or financial products in the IFSC or any Foreign Jurisdiction<sup>1</sup>.

### **B. Key Changes in existing categories**

The New CMI Regulations also provide for new regulatory approach for the following categories of intermediaries:

#### **i. Distributors**

While the category “distributors” has been inserted in the CMI Regulations 2021 by way of amendment (w.e.f. July 04, 2023), the regulatory requirements are currently governed by way of [circular](#)

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<sup>1</sup> As defined in the New CMI Regulations



[dated December 21, 2022](#). The said circular provides the regulatory framework for distribution services of the Capital Markets Services and Products including registration requirements, net worth, qualification and experience requirements of the Principal Officer, permissible activities for the Distributors, obligations and responsibilities, Code of Conduct etc.

The key regulatory requirements relating to distributors have been proposed in the New CMI Regulations.

## **ii. ESG Ratings and Data Products Provider (ERDPP)**

Similarly, IFSCA has come out with the regulatory framework for ESG Rating and Data Product Providers by way of [circular dated October 30, 2024](#). The said circular provides the regulatory framework for registration, net worth, fit and proper requirements, appointment of principal officer and compliance officer, Code of Conduct, Continuous Disclosures etc.

The key regulatory requirements relating to ERDPPs have been proposed in the New CMI Regulations.

## **iii. Broker Dealers desirous of accessing global markets only**

As on Sept. 30, 2024, there are 82 broker dealers registered with the Authority. IFSCA has also permitted broker dealers to access global markets. However, in terms of the extant regulatory framework, a registration of broker dealer is permitted only through a recognized stock exchange. Accordingly, a broker dealer is first required to become a trading member and then seek approval of the exchange for accessing global markets.

Several representations have been received in the past from broker dealers that are interested only in accessing (directly / clients) global markets to permit registration as a “broker dealer” directly with the Authority without necessarily becoming a trading member of a recognised stock exchange in the IFSC.



Accordingly, the New CMI Regulations now permit ‘broker dealer’ interested in having its own cross-border arrangement for accessing global markets to directly obtain registration from the Authority.

Further, a subsidiary of a recognised stock exchange providing such access to global markets shall also be required to register as “broker dealer” with the Authority.

### C. Rationalisation of Net Worth requirements

Based on the feedback and suggestions received from stakeholders from time to time, the minimum net worth requirements for various categories of intermediaries have been rationalized. The revised net worth requirement for various categories of intermediaries proposed in the New CMI Regulations are as under:

S. No.	Category	Net worth
1	Broker dealer (Trading member)	As specified by recognised stock exchange
2	Broker dealer (Global Access only)	USD 100,000
3	Clearing Member	As specified by recognised clearing corporation
4	Credit Rating Agency	USD 500,000
5	Debenture Trustee	USD 500,000
6	Depository Participant	As specified by depository
7	Distributor	USD 50,000
8	ESG Ratings and Data Products Provider	USD 25,000
9	Investment Adviser	USD 25,000
10	Investment Banker	USD 100,000
11	Research Entity	USD 25,000

### D. Principal Officer, Compliance Officer and Other Human Resources

Based on the feedback and suggestions received from stakeholders, the New CMI Regulations provide more clarity on appointment of Principal Officer, Compliance Officer and other human resources in the IFSC. The proposed requirements are as under:



### **A. Principal Officer**

The Principal Officer of every capital market intermediary shall be based out of the IFSC and shall have the following minimum qualification and experience:

- (a) A professional qualification or post-graduate degree or post graduate diploma (minimum one year in duration) in finance, law, accountancy, business management, commerce, economics, capital market, banking, insurance or actuarial science from a university or an institution recognised by the Central Government or any State Government or a recognised foreign university or institution or association or a CFA or a FRM from Global Association of Risk Professionals; and
- (b) An experience of at least five years in related activities for which the entity has applied for or taken registration with the Authority:

*Provided that* the experience requirement for a principal officer for ESG Ratings and Data Products Provider shall be at least one year in related activities.

*Explanation:* Requirement of experience as mentioned in this clause shall apply to all the prospective appointments by a registered capital market intermediary after the date of notification of these regulations.

### **B. Compliance Officer**

A registered capital market intermediary shall designate a person, based out of IFSC, as its Compliance Officer for ensuring compliance with the regulatory requirements:

### **C. Other human resources**

A registered capital market intermediary shall have adequate manpower commensurate with its business activities in an IFSC.

### **E. Other changes**

There are several other changes in the New CMI Regulations, including alignment of definitions of “key managerial personnel”, “control”, “fit and proper” criteria with other regulations notified by the Authority.



## Regulatory Objective and expected Impact

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16. The regulatory objective of the New CMI Regulations is to specify the regulatory framework for registration, supervision and regulation of various types of capital market intermediaries operating in the IFSC with the objective to protect the interest of investors and maintain the integrity of the capital markets in the IFSC.
17. The New CMI Regulations also aim to promote ease of doing business for the entities participating in the capital markets by simplifying and rationalizing requirements based on feedback and suggestions received from the stakeholders.
18. The New CMI Regulations also provide the regulatory framework for new services in the capital markets in the IFSC.

## Public Comments

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19. In view of the above, comments and suggestions from public are invited on the proposed IFSCA (Capital Market Intermediaries) Regulations, 2024 contained in **Annexure-I**. The comments may be sent by email to [consultation-cfd@ifsc.gov.in](mailto:consultation-cfd@ifsc.gov.in) with a copy to Shri Arjun Prasad, General Manager at [arjun.pd@ifsc.gov.in](mailto:arjun.pd@ifsc.gov.in) with subject line “**Comments on draft IFSCA (Capital Market Intermediaries) Regulations, 2024**” latest by December 12, 2024.
20. The comments should be provided in the following format:

Name and Designation				
Contact No. and Email address				
Name of Organisation				
S. No.	Regulation no./Sub regulation no.	Text of the Regulation/ Sub-Regulation	Comments/ Suggestions/ Suggested modifications	Detailed Rationale

**November 21, 2024**  
**Gandhinagar**

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**INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY (CAPITAL  
MARKET INTERMEDIARIES) REGULATIONS, 2024**

*In exercise of the powers conferred by sub-section (1) of Section 28 read with sub-section (1) of Section 12 and sub-section (1) of Section 13 of the International Financial Services Centres Authority Act, 2019; Section 30 read with Section 28C of the Securities and Exchange Board of India Act, 1992; and Section 25 read with Section 23G of the Depositories Act, 1996, the International Financial Services Centres Authority hereby makes the following regulations, namely: -*

**CHAPTER I**

**PRELIMINARY**

**1. Short title and commencement**

(1) These regulations may be called the International Financial Services Centres Authority (Capital Market Intermediaries) Regulations, 2024.

(2) They shall come into force on the date of their publication in the Official Gazette.

**2. Objective**

These regulations provide the regulatory framework for registration, regulation and supervision of capital market intermediaries operating in the international financial services centres in India with the objectives to protect the interests of investors and maintaining integrity of the capital market.

**3. Definitions**

(1) In these regulations, unless the context otherwise requires, the terms defined herein shall bear the meanings as assigned to them below, and their cognate expressions shall be construed accordingly-

- (a) “Act” means the International Financial Services Centres Authority Act, 2019 (50 of 2019);
- (b) “associate” shall have the same meaning as assigned to it under clause (a) of sub-regulation (1) of regulation 2 of the International Financial Services Centres Authority (Market Infrastructure Institutions) Regulations, 2021;
- (c) “Authority” or “IFSCA” means the International Financial Services Centres Authority established under sub-section (1) of section 4 of the Act;

- (d) “banker to an issue” means a bank carrying out banking related activities in an issue;
- (e) “Banking Unit” shall have the same meaning as assigned to it under clause (c) of sub-regulation (1) of regulation 2 of the International Financial Services Centres Authority (Banking) Regulations, 2020;
- (f) “broker dealer” means a person which is primarily in the business of buying and selling securities and other permitted financial products for its own account or on behalf of its customers and includes a trading member of a recognised stock exchange;
- (g) “capital market intermediary” means an intermediary registered with the Authority under these regulations;
- (h) “capital market products” shall mean “securities” as defined under sub-section (h) under section 2 of Securities Contracts (Regulation) Act, 1956, and includes similar instruments by whatever name called, issued or created by any issuer in IFSC, India or Foreign Jurisdictions, and such other instruments as may be specified by the Authority;
- (i) “capital market products and services” shall collectively mean and include capital market products and capital market services;
- (j) “capital market services” mean and include investment advisory services, portfolio management services, by whatever name called, provided by a service provider which is a regulated financial entity, and such other services as may be specified by the Authority;
- (k) “clearing member” means a person having clearing and settlement rights in any recognised clearing corporation;
- (l) “control” shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner;
- (m) “credit rating agency” means a person which is primarily engaged in rating of securities or financial products or issuers or sovereigns;
- (n) “custodial services” in relation to financial products means safekeeping of such financial products and providing services incidental thereto, and includes:
  - a. maintaining accounts of such financial products;
  - b. collecting the benefits or rights accruing to the client in respect of such financial products;
  - c. keeping the client informed of the actions taken or to be taken by the issuer, having a bearing on the benefits or rights accruing to the client;
  - d. maintaining and reconciling records of the services; and
  - e. undertaking activities relating to issuance of depository receipts in an IFSC;
- (o) “custodian” means a person who carries on or proposes to carry on the business of providing custodial services;
- (p) “debenture trustee” means a trustee appointed in respect of any issue of debentures;
- (q) “depository participant” means a participant of a recognised depository;
- (r) “distributor” means a person who for remuneration engages with clients to facilitate investment or subscription into “capital market products” or “capital market services”;
- (s) “ESG Data Products” shall include products and services relating to ESG-related information;
- (t) “ESG Ratings” shall include the broad spectrum of rating products relating to sustainable finance and include ESG scorings, ESG rankings, Sector ESG Ratings, and Thematic scores;

- (u) “ESG Ratings and Data Products Provider” or “ERDPP” shall mean an entity engaged in the activity (ies) of providing services relating to ESG Rating or ESG Data Product:

*Explanation:* The services relating to independent external review for ESG labelled bonds listed on the recognised stock exchanges in an IFSC are included as permitted services by ERDPPs;

- (v) “Foreign Jurisdiction” means a country, other than India, whose securities market regulator is a signatory to International Organization of Securities Commission’s Multilateral Memorandum of Understanding (Appendix A signatories) or a signatory to a bilateral Memorandum of Understanding with the Authority, and which is not identified in the public statement of Financial Action Task Force as:

- (i) a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
- (ii) a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies;

- (w) “inspecting authority” means one or more persons appointed by the Authority to undertake inspection of the books, accounts, records and documents of a capital market intermediary in terms of these regulations;

- (x) “International Financial Services Centre” or “IFSC” shall have the same meaning as assigned to it under clause (g) of sub-section (1) of section 3 of the Act;

- (y) “investment advice” means advice relating to investing in, purchasing, selling or otherwise dealing in securities or investment products, and advice on investment portfolio containing securities or investment products, whether written, oral or through any other means of communication for the benefit of the client and shall include financial planning:

Provided that investment advice given through newspaper, magazines, any electronic or broadcasting or telecommunications medium, which is widely available to the public shall not be considered as investment advice for the purpose of these regulations;

- (z) “investment adviser” means a person, who for consideration, is engaged in the business of providing investment advice to clients or other persons or group of persons and includes any person who holds out himself as an investment adviser, by whatever name called;

- (aa) “investment banker” means a person who is primarily engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management;

- (bb) “key managerial personnel” in relation to a company incorporated in India, shall have the same meaning as assigned to it under clause (51) of section 2 of the Companies Act, 2013, and in relation to a company incorporated outside India shall mean:

- a. the chief executive officer or the managing director or the manager;
- b. the company secretary or the corporate secretary;
- c. a whole-time director;
- d. the chief financial officer; and
- e. such other officer as may be designated as key managerial personnel by the Board of the company;

- (cc) “net worth” means the aggregate value of the paid-up share capital (or capital contribution) and all reserves created out of the profits, securities premium account and debit or credit balance of profit

and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;

(dd) “person associated with investment advice” shall mean any member, partner, designated partner, officer, director or employee or any sales staff of such investment adviser including any person occupying a similar status or performing a similar function irrespective of the nature of association with the investment adviser who is engaged in providing investment advisory services to the clients of the investment adviser:

*Explanation:* Individuals such as service relationship managers, client relationship managers, etc., by whatever name called shall be deemed to be persons associated with investment advice, but do not include persons who discharge clerical or office administrative functions where there is no client interface;

(ee) “principal officer” means a designated employee of the capital market intermediary responsible for overall activities of the intermediary;

(ff) “recognised clearing corporation” means a clearing corporation recognised by the Authority;

(gg) “recognised depository” means a depository recognised by the Authority;

(hh) “recognised stock exchange” means a stock exchange recognised by the Authority;

(ii) “registered distributor” means a distributor registered with the Authority under these regulations;

(jj) “registered broker dealer” means a broker dealer registered with the Authority under these regulations;

(kk) “registered clearing member” means a clearing member registered with the Authority under these regulations;

(ll) “registered credit rating agency” means a credit rating agency registered with the Authority under these regulations;

(mm) “registered custodian” means a custodian registered with the Authority under these regulations;

(nn) “registered debenture trustee” means a debenture trustee registered with the Authority under these regulations;

(oo) “registered depository participant” means a depository participant registered with the Authority under these regulations;

(pp) “registered ESG Ratings and Data Products Provider” means an ESG Ratings and Data Products Provider registered with the Authority under these regulations;

(qq) “registered investment adviser” means an investment adviser registered with the Authority under these regulations;

(rr) “registered investment banker” means an investment banker registered with the Authority under these regulations;

(ss) “registered research entity” means a research entity registered with the Authority under these regulations;

(tt) “regulations” means the International Financial Services Centres Authority (Capital Market Intermediaries) Regulations, 2024, as amended from time to time;

(uu) “research entity” means a person who is primarily responsible for publishing or providing research report with respect to securities or financial products in an IFSC or a Foreign Jurisdiction, and includes:

- a. preparation or publication of the content of the research report; or
- b. providing research report;
- c. making 'buy/sell/hold' recommendation; or
- d. giving price target; or
- e. offering an opinion concerning public offer;

(vv) “research report” means any written or electronic communication that includes research analysis or research recommendation or an opinion concerning securities or public offer, providing a basis for investment decision and does not include the following communications:

- a. comments on general trends in the securities market;
- b. discussions on the broad-based indices;
- c. commentaries on economic, political or market conditions;
- d. periodic reports or other communications prepared for unit holders of mutual fund or alternative investment fund or retail fund or non-retail fund or clients of portfolio managers and investment advisers;
- e. internal communications that are not given to current or prospective clients;
- f. communications that constitute offer documents or prospectus that are circulated as per regulations made by the Authority;
- g. statistical summaries of financial data of the companies;
- h. technical analysis relating to the demand and supply in a sector or the index;
- i. any other communication which the Authority may specify from time to time;

(ww) “SEBI” means the Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992;

(xx) “sophisticated investors” shall mean and include such investors from India, IFSC or Foreign Jurisdictions which on the strength of their financial capability or qualification or experience or such other quantitative or qualitative criteria, are deemed to understand the risks of their investments and who or which have a valid special status under financial regulation laws of their respective home jurisdiction. Generally, sophisticated investors include high-net-worth individuals, banks, financial institutions, and other large corporations. In different jurisdictions, these investors are also termed as accredited investors, expert investors, professional investors, qualified investors, etc. Alternatively, an investor who, irrespective of home jurisdiction, satisfies the eligibility criteria for accredited investors as specified by the Authority, shall also be considered sophisticated investor.

(2) Words and expressions used and not defined in these regulations but defined in the Act or Acts mentioned in the First Schedule to the Act, or the Companies Act, 2013, or any rules or regulations made thereunder shall have the same meanings respectively assigned to them in those Acts, rules or regulations or any statutory modification or re-enactment thereto, as the case may be.

## **CHAPTER II**

### **REGISTRATION**

#### **4. Obligation to seek registration**

(1) Any entity desirous of setting up operations in an IFSC for undertaking any of the below mentioned activities shall obtain a certificate of registration:

- (a) Broker dealer;
- (b) Clearing member;
- (c) Credit rating agency;
- (d) Custodian;
- (e) Debenture Trustee;
- (f) Depository participant;
- (g) Distributor;
- (h) ESG Ratings and Data Products Provider;
- (i) Investment adviser:

Provided that the requirement to seek registration as an investment adviser shall not apply to:

- (i) any person who gives general comments in good faith in regard to trends in the financial or securities market or the economic situation where such comments do not specify any particular securities or investment product;
- (ii) any insurance agent or insurance brokers recognised or registered or authorised by the Authority, who offers investment advice solely in insurance products;
- (iii) any pension adviser recognised or registered or authorised by the Authority, who offers investment advice solely in pension products;
- (iv) any distributor of mutual funds providing any investment advice to its clients incidental to its primary activity;
- (v) any advocate, solicitor or law firm, who offers investment advice to its clients, incidental to its legal practice;
- (vi) any member of the Institute of Chartered Accountants of India, the Institute of Company Secretaries of India, the Institute of Cost Accountants of India, the Institute of Actuaries of India or any other professional body as may be specified by the Authority, who provides investment advice (either in his individual capacity or as an employee of a firm) to his clients, incidental to his professional service;
- (vii) any broker dealer or investment banker registered by the Authority under these regulations, who offers investment advice to its clients, incidental to its primary activity;
- (viii) any fund manager, by whatever name called, providing advice to a mutual fund, alternative investment fund or any other fund registered or regulated by the Authority or any other securities market regulator;
- (ix) any person providing investment advice to investors such as:
  - a. central and state governments;
  - b. developmental agencies set up under the aegis of government(s);
  - c. multilateral agencies;
  - d. sovereign wealth funds;

- e. intermediaries registered with the Authority;
  - f. banks;
  - g. insurance companies;
  - h. pension funds;
  - i. provident funds;
  - j. public financial institutions; and
  - k. any other category of investors, as may be specified by the Authority from time to time.
- (x) any person who provides investment advice exclusively to its associates or group entities; and
- (xi) any other person as may be specified by the Authority;
- (j) Investment banker;
- (k) Research Entity; or
- (l) Any other intermediary as may be specified by the Authority from time to time.
- (2) A Banking Unit may function as a banker to an issue in an IFSC, without any additional registration requirement, subject to compliance with the regulatory provisions that may be specified by the Authority from time to time.
- (3) A Banking Unit may undertake investment banking services in accordance with the requirements as may be specified by the Authority from time to time.
- (4) A registered credit rating agency may act as an ESG Ratings and Data Products Provider, without a separate registration, in accordance with the requirements as specified by the Authority from time to time.
- (5) Notwithstanding anything contained in sub-regulations (1) to (4), the Authority may specify norms for authorisation or registration of capital market intermediaries for operating or providing services in an IFSC from time to time.

## **5. Application for registration**

- (1) An entity desirous of obtaining a certificate of registration as a capital market intermediary in IFSC shall submit, electronically or otherwise, an application form in the format, along with the application fees, as specified by the Authority:

*Provided* that the applicant seeking registration to act as a broker dealer or a clearing member or a depository participant shall make the application along with such additional information through the recognised stock exchange or recognised clearing corporation or recognised depository respectively:

*Provided further* that a broker dealer intending to have its own cross border arrangement for undertaking global access business may apply directly to the Authority:

*Provided further that* a subsidiary of a recognised stock exchange undertaking activities relating to global access shall also obtain registration as a 'broker dealer' with the Authority:

*Explanation:* A subsidiary of a recognised stock exchange already providing global access as on the date of notification of these regulations shall submit an application for obtaining registration as a 'broker dealer' within sixty days from such notification.

- (2) The recognised stock exchange, the recognised clearing corporation, the recognised depository, as the case may be, shall examine the eligibility of the applicant in terms of these regulations, relevant Acts, regulations and the rules, bye-laws of the concerned stock exchange, clearing corporation, depository and forward the application with the application fees to the Authority along with its recommendation as early as possible but not later than thirty days of receipt of the complete application with the specified application fees.

- (3) Subject to approval by the concerned recognised stock exchange, and without any requirement of a separate certificate of registration, -
  - (a) a registered clearing member may be permitted to act as a broker dealer in a recognised stock exchange; and
  - (b) a registered broker dealer may be permitted to operate in more than one recognised stock exchange.
- (4) Subject to approval by the concerned recognised clearing corporation, and without any requirement of a separate certificate of registration, -
  - (a) a registered broker dealer may be permitted to act as a clearing member in a recognised clearing corporation; and
  - (b) a registered clearing member may be permitted to operate in more than one recognised clearing corporation.
- (5) An entity filing an application for seeking registration as distributor shall comply with the additional requirements as specified by the Authority from time to time:
- (6) The provisions of these regulations, as applicable to the grant of registration shall also apply to an application for renewal of registration of a capital market intermediary, wherever applicable.

## **6. Legal form of the applicant**

A capital market intermediary seeking registration with the Authority shall be required to be present in an IFSC, by either establishing a branch or forming a company or an LLP or a body corporate or a partnership firm in an IFSC:

*Provided that where* the intermediary is set up in the form of branch:

- (a) it shall ensure that its core business transactions in an IFSC are segregated from its operations in other jurisdictions; and
- (b) the minimum net worth requirements specified in these regulations for its activities in an IFSC may be maintained at the parent level.

## **7. Net worth requirements**

An entity seeking registration as a capital market intermediary shall comply with the net worth requirements as specified in Schedule I of these regulations, and the same shall be maintained at all times:

*Provided that* an entity operating as a capital market intermediary in multiple categories shall maintain the highest of the applicable minimum net worth requirements.

## **8. Fit and proper requirements**

- (1) A capital market intermediary shall ensure that the entity and its principal officers, directors/ partners/ designated partners, key managerial personnel and controlling shareholders are fit and proper persons, at all times.
- (2) For the purpose of sub-regulation (1), a person shall be deemed to be a fit and proper person if, -
  - (a) such person has a record of fairness and integrity, including but not limited to-
    - (i) financial integrity;



- (ii) good reputation and character; and
  - (iii) honesty.
- (b) such person has not incurred any of the following disqualifications –
- (i) the person has been convicted by a court for any offence involving moral turpitude or any economic offence or any offence against securities laws;
  - (ii) a recovery proceeding has been initiated against the person by a financial regulatory authority and is pending;
  - (iii) an order for winding up has been passed against the person for malfeasance;
  - (iv) the person has been declared insolvent and not discharged;
  - (v) an order, restraining, prohibiting or debaring the person from accessing or dealing in financial products or financial services, has been passed by any regulatory authority, in any matter concerning securities laws or financial markets and such order is in force;

*Provided that* in case any person has been declared as not ‘fit and proper person’ by an order of a regulatory authority, such a person shall not be eligible to apply for registration during the period provided in the said order or for a period of five years from the date of effect of the order, if no such period is specified in the order.

- (vi) any other order against the person, which has a bearing on the securities market, has been passed by the Authority or any other regulatory authority and a period of three years from the date of the order has not elapsed;
- (vii) the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force;
- (viii) the person is financially not sound or has been categorized as a wilful defaulter;
- (ix) the person has been declared a fugitive economic offender; or
- (x) any other disqualification as may be specified by the Authority.

## **9. Appointment of Principal Officer, Compliance Officer and other human resources**

- (1) A capital market intermediary shall have at least one person designated as Principal Officer based out of IFSC, who shall have:
- (c) A professional qualification or post-graduate degree or post graduate diploma (minimum one year in duration) in finance, law, accountancy, business management, commerce, economics, capital market, banking, insurance or actuarial science from a university or an institution recognised by the Central Government or any State Government or a recognised foreign university or institution or association or a CFA or a FRM from Global Association of Risk Professionals; and
  - (d) An experience of at least five years in related activities for which the entity has applied for or taken registration with the Authority:

*Provided that* the experience requirement for a principal officer for ESG Ratings and Data Products Provider shall be at least one year in related activities.

*Explanation:* Requirement of experience as mentioned in this clause shall apply to all the prospective appointments by a registered capital market intermediary after the date of notification of these regulations.

- (2) A registered capital market intermediary shall designate a person, based out of IFSC, as its Compliance Officer for ensuring compliance with the regulatory requirements:
- (3) A registered capital market intermediary shall have adequate manpower commensurate with its business activities in an IFSC.
- (4) Each employee involved in the distribution activities or investment advisory or a research analyst, other than the Principal Officer, shall at least have a graduation degree from a university or an institution recognised by the Central Government or any State Government or a foreign university or qualification/ certification as mentioned in clause (a) of sub-regulation (1).
- (5) The Principal Officer shall be responsible for the overall operations undertaken by the registered capital market intermediary in an IFSC and shall also ensure that other employees of the registered capital market intermediary are aware of the obligations as applicable under these regulations.

## **10. Registration requirements**

The Authority shall take into account all matters which it deems relevant for grant of registration to a capital market intermediary and in particular the following, namely, whether:

- a) the applicant or its principal officer has adequate past experience in the activities for which it is desirous of obtaining a certificate of registration;
- b) the applicant has the necessary infrastructure like adequate office space, equipment, communication facilities and manpower to effectively discharge its activities;
- c) the applicant satisfies the eligibility criteria, net worth and fund allocation requirements, if applicable, as specified in these regulations;
- d) the applicant has satisfactory financial credit worthiness;
- e) the applicant and its principal officers, directors/ partners/ designated partners, key managerial personnel and controlling shareholders are fit and proper persons;
- f) the applicant or any of its associates have in the past been refused certificate by the Authority and if so, the ground for such refusal; and
- g) the applicant or its principal officer is subject to any proceeding for breach of law by the Authority.

## **11. Grant of registration**

- (1) The Authority may, after considering the application and on being satisfied that the applicant has complied with the conditions laid down in these regulations and is eligible to act as a capital market intermediary, and upon receipt of registration fees (as specified by the Authority), grant registration to the applicant subject to the conditions as the Authority may deem fit.
- (2) If the Authority is of the opinion that the registration cannot be granted, it shall communicate the deficiencies to the Applicant giving it thirty days' time to rectify them.
- (3) If the Applicant fails to rectify such deficiencies to the satisfaction of the Authority within the specified time, the Authority may refuse to grant registration and shall communicate the same to the Applicant, giving reasons for such refusal:

*Provided that* no such refusal shall be made by the Authority without giving the Applicant an opportunity to make written submissions on the grounds on which the registration is proposed to be refused.

- (4) The capital market intermediary shall comply with any other condition as may be imposed by the Authority as it deems fit in the interest of the investors or orderly development of the securities market or for regulating the working of the capital market intermediary, in an IFSC.
- (5) The registration granted to a capital market intermediary may be withdrawn by the Authority only after giving a reasonable opportunity of being heard.

## **12. Period of validity**

The certificate of registration of a capital market intermediary shall be perpetual unless it is suspended or cancelled by the Authority.

## **13. Surrender of registrations**

A registered capital market intermediary may file an application with the Authority for surrender of its registration:

*Provided* that a trading member or clearing member or depository participant shall make such application through the recognised stock exchange or recognised clearing corporation or recognised depository respectively.

# **CHAPTER III**

## **GENERAL OBLIGATIONS AND RESPONSIBILITIES**

## **14. Code of Conduct**

A registered capital market intermediary shall abide by the Code of Conduct as specified in Schedule II.

## **15. Maintenance of books of account, records and other documents**

(1) A registered capital market intermediary shall maintain and preserve the following books of accounts, records and documents, in electronic retrieval form for a minimum of eight years, namely: -

- (a) a copy of the balance sheet at the end of each accounting period;
- (b) a copy of profit and loss account for each accounting period;
- (c) a copy of the auditor's report on the accounts for each accounting period;
- (d) a statement of net worth for each quarter;
- (e) documentation relating to compliance with AML and CFT guidelines;
- (f) documents relating to account opening of each client and any power of attorney or signature authority forms of the clients;
- (g) relevant records and documents relating to its activities in capital markets; and
- (h) such other books of accounts, records and documents as may be specified by the Authority from time to time.

## **16. Information to the Authority**

- (1) A registered capital market intermediary shall furnish to the Authority any material change in the information or particulars previously furnished along with the application, which has a bearing on the certificate of registration granted to it.
- (2) A registered capital market intermediary shall furnish such reports, returns, statements and particulars, in such manner, interval and form, as may be specified by the Authority from time to time.

## **17. Redress of grievances**

- (1) A registered capital market intermediary shall take adequate steps for redress of grievances of the investors in accordance with the requirements as may be specified by the Authority.
- (2) The intermediary shall maintain records regarding investor grievances received by it and redress of such grievances.

## **18. Business Continuity Plan**

- (1) A registered capital market intermediary shall maintain a business continuity plan identifying procedures relating to an emergency or significant business disruption.
- (2) A registered capital market intermediary shall update its business continuity plan in the event of any material change to operations, structure, business, or location.
- (3) A registered capital market intermediary shall conduct an annual review of its business continuity plan.

## **19. Cyber Security and Cyber Resilience**

A registered capital market intermediary shall have robust cyber security and cyber resilience framework in accordance with the requirements as may be specified by the Authority from time to time.

## **20. Risk Management and Internal Controls**

- (1) A registered capital market intermediary shall have a sound risk management system for comprehensively managing risks.
- (2) A registered capital market intermediary shall have adequate internal procedures and controls, given the types of business in which it engages (including any activities which have been outsourced) with the aim of protecting the interests of clients and their assets and ensuring proper management of risk.

## **21. Change in control**

- (1) Where a registered capital market intermediary is operating in the form of branch in an IFSC, it shall intimate the Authority and the market infrastructure institution of which it is a member (if applicable), within fifteen days of any direct or indirect change in control of the intermediary.
- (2) Where a registered capital market intermediary is incorporated in an IFSC, it shall seek prior approval of the Authority in case of any direct or indirect change in control of the intermediary.

## **22. Payment of Fees**

A registered capital market intermediary shall pay the fees pertaining to annual fees, turnover based fees and any other fees as may be specified by the Authority or the market infrastructure institutions from time to time.

## **23. Annual Audit**

- (1) A registered capital market intermediary shall have an annual audit conducted in respect of compliance with these regulations by a member of the Institute of Chartered Accountants of India or a member of the Institute of Company Secretaries of India or a member of the Institute of Cost Accountants of India or any person authorised to conduct audit in a Foreign Jurisdiction.
- (2) A copy of such audit report for a financial year shall be furnished to the Authority by the 30<sup>th</sup> of September of such year.
- (3) A registered capital market intermediary shall have additional audits and submit such reports as may be specified by the Authority from time to time.

## **CHAPTER IV**

### **SPECIFIC OBLIGATIONS AND RESPONSIBILITIES**

#### **24. Broker dealers and Clearing members**

- (1) A registered broker dealer or a registered clearing member may have the following categories as clients:
  - (a) a person resident outside India;
  - (b) a non-resident Indian;
  - (c) a non-individual resident in India who is eligible under FEMA to invest funds offshore, to the extent of outward investment permitted; and
  - (d) an individual resident in India who is eligible under FEMA to invest funds offshore, to the extent allowed in the Liberalized Remittance Scheme of Reserve Bank of India.
- (2) A registered broker dealer shall ensure compliance with the applicable laws, including bye-laws, rules and regulations specified by the recognised stock exchange.
- (3) A registered clearing member shall ensure compliance with the applicable laws, including bye-laws, rules and regulations specified by the recognised clearing corporation.

#### **25. Global Access by Broker Dealers**

- (1) A registered broker dealer providing global access to its clients shall act as 'introducing broker' and shall have necessary cross-border arrangements with an international broker for providing access to global markets:

*Provided that* a registered Broker Dealer trading on its proprietary account may also choose to directly take membership of an international exchange.

- (2) Where a broker dealer is also a member of a recognised stock exchange, the broker dealer shall seek approval from such recognised stock exchange in an IFSC before availing global access:

*Explanation:* The recognised stock exchange(s) in an IFSC may refuse to grant approval if there are any regulatory concerns particularly with respect to risk management arising out of the activities of the broker dealer in the recognised stock exchange(s) in an IFSC. A recognised stock exchange may restrict global access to any broker dealer based on its risk assessment emerging out of such access.

- (3) A registered broker dealer undertaking global access shall be subject to following conditions:

- (a) The broker dealer shall ensure that its global access business activities are in compliance with the applicable regulatory requirements of the other jurisdiction;
  - (b) The broker dealer shall segregate its activities on the recognised stock exchanges in an IFSC with its cross-border operations;
  - (c) The broker dealer shall ensure that it has appropriate risk management and internal controls to ensure that the interests of its clients are adequately protected;
  - (d) The broker dealer shall ensure that true, correct and adequate disclosures (including risks) are made to its clients regarding its cross-border business;
  - (e) The broker dealer shall comply with the IFSCA (Anti Money Laundering, Counter Terrorist-Financing and Know Your Customer) Guidelines, 2022;
  - (f) The broker dealer shall maintain records (including details of client, KYC, details of transactions etc.) of its cross-border activities in electronic retrieval form for a period of at least eight years and the same shall be made available to the Authority as and when required;
  - (g) The broker dealer shall have policies and procedures pertaining to handling of complaints in respect of its cross-border operations; and
  - (h) The broker dealer shall immediately inform the Authority in case any action is taken against the intermediary for its cross-border activities by any financial sector regulator.
- (4) A registered broker dealer shall have adequate resources commensurate with its operations (including global access) within an IFSC.
  - (5) Where a registered broker dealer having global access is also a trading member of a recognised stock exchange, the broker dealer shall submit such additional report to the recognised stock exchange(s), on an annual basis, within 30 days from the end of financial year, as may be specified by the Authority from time to time.
  - (6) In the event that the cross-border activities of a registered broker dealer raise any supervisory concern, the Authority may require the broker dealer to put in place additional measures to address the supervisory concern or to discontinue the global access services.

## **26. Credit rating agencies**

- (1) A registered credit rating agency shall enter into a written agreement with each client whose securities it proposes to rate, and every such agreement shall include the right and liabilities of each party and fee to be charged by the credit rating agency.
- (2) The client shall provide all co-operation required for arriving at a true and accurate rating of the securities or financial products by a registered credit rating agency.
- (3) A registered credit rating agency shall inform to the client the rating assigned to the securities, irrespective of whether the client subsequently decides to accept the rating or not.
- (4) A registered credit rating agency shall continuously monitor the rating of securities and carry out periodic reviews of the rating, unless the rating is withdrawn.
- (5) A registered credit rating agency shall generally not withdraw a rating so long as the obligations under the security /instrument/ facility rated by it are outstanding:

*Provided that* a registered credit rating agency may withdraw a rating in the following situations:

- a) Where the entity whose security/instrument/facility is rated is wound up or merged or amalgamated with another entity, or

- b) In case of non-cooperation from the issuers, or non-payment of agreed fee, or
  - c) At the request of an issuer, except where such request might give rise to avoiding an imminent rating change.
- (6) A registered credit rating agency shall disseminate information regarding change in ratings promptly through press releases and simultaneously to the recognised stock exchanges (if the securities are listed on a recognised stock exchange in an IFSC).
  - (7) A registered credit rating agency shall make public the definitions of the concerned rating, along with the symbol and also state that the ratings do not constitute recommendations to buy, hold or sell any securities.
  - (8) A registered credit rating agency shall make available to the general public information relating to the rationale of the ratings, which shall cover an analysis of the various underlying factors.
  - (9) A registered credit rating agency shall specify the rating process and file a copy of the same to the Authority for record.
  - (10) A registered credit rating agency shall have professional rating committees, comprising members who are adequately qualified and knowledgeable to assign a rating, and all rating decisions shall be taken by the rating committee.
  - (11) A registered credit rating agency, shall, while rating a security or a financial product, exercise due diligence in order to ensure that the rating given by the credit rating agency is fair and appropriate.
  - (12) A registered credit rating agency shall not rate securities issued by it or any of its group company.
  - (13) A registered credit rating agency shall have appropriate procedures and systems for preventing trading on the basis of unpublished price sensitive information obtained by them in the course of any professional assignment.

## **27. Custodians**

- (1) A registered custodian shall separate and segregate its custodian activities from all other activities.
- (2) A registered custodian shall have adequate mechanisms for the purposes of reviewing, monitoring and evaluating the custodian's controls, systems, procedures and safeguards.
- (3) A registered custodian shall enter into an agreement with each client and the agreement shall provide details regarding the various circumstances relating to custody of the securities or financial products or funds.
- (4) A registered custodian shall have adequate internal controls to prevent any manipulation of records and documents and to protect the records from theft and natural hazard.

## **28. Debenture trustees**

- (1) A registered debenture trustee shall enter into an agreement with the issuer before the opening of the subscription list for issue of debentures, which shall have the understanding in relation to allocation of duties and responsibilities and other relevant details.
- (2) A person shall not be appointed as a debenture trustee, in cases where the debenture trustee is an associate of the issuer or is likely to have conflict of interest in any manner other than as remuneration to the debenture trustee.
- (3) A registered debenture trustee shall ensure that:

- (a) It accepts the trust deed which shall contain details on standard information pertaining to the debt issue and details specific to the particular debt issue and shall not contain covenants prejudicial to the interest of the debenture holders;
  - (b) The prospectus does not contain any matter which is inconsistent with the terms of the issue of debentures or with the trust deed;
  - (c) It calls for periodical reports/ performance report from the issuer company within seven days of the relevant board meeting or within forty five days of the respective quarter whichever is earlier;
  - (d) It calls for reports on the utilization of funds raised by the issue of debentures;
  - (e) It communicates to the debenture holder defaults, if any, in respect of the payment of interest or redemption of debentures and actions taken thereunder;
  - (f) It appoints a nominee director on the board of the issuer in the event of two consecutive defaults in payment of interest or default in creation of security or default in redemption of debentures. The issuer shall be obliged to provide all requisite support in this regard;
  - (g) The issuer does not breach the terms of the issue of debentures or covenants of the trust deed and take reasonable steps to remedy such breach and it informs the debenture holders immediately of any such breach;
  - (h) The issuer satisfies the conditions, if any, regarding creation of security for the debentures, debenture redemption reserve and recovery expense fund;
  - (i) The assets of the issuer and of the guarantors are sufficient to discharge the interest and principal amount at all times and such assets are free from any other encumbrances except those which are specifically agreed to by the debenture holders;
  - (j) It shall perform all acts necessary for the enforcement of the security and for protection of the interest of the debenture holders;
  - (k) It shall call for reports on the utilization of funds raised by the issue of debentures;
  - (l) It takes steps to convene a meeting of debenture holders as and when required;
  - (m) The debentures have been converted or redeemed in accordance with the terms of the issue of debentures;
  - (n) It takes possession of the trust property in accordance with the terms of the trust deed;
  - (o) The debentures have been credited in the demat accounts of the debenture holders;
  - (p) Debenture holders have been paid the interest due on the debentures and the monies due to them on the date of redemption of the debenture;
  - (q) It informs the Authority immediately of any breach of trust deed or provision of any applicable laws;
  - (r) It obtains reports from the lead bank regarding the progress of the project; and
  - (s) It may inspect books of account, record, registers of the issuer and trust property to the extent necessary for discharging its obligations.
- (4) Before creating a charge on the security for the debentures, the debenture trustee shall exercise independent due diligence to ensure that such security is free from any encumbrance or that it has obtained the necessary consent from other charge-holders if the security has an existing charge, in the manner as may be specified by the Authority from time to time.



- (5) No debenture trustee shall relinquish its assignment as debenture trustee in respect of the debenture issue of any issuer, unless and until another debenture trustee is appointed in its place by the issuer.

## **29. Depository Participants**

- (1) A registered depository participant may have the following categories as clients:
- (a) a person resident outside India;
  - (b) a non-resident Indian;
  - (c) a non-individual resident in India who is eligible under FEMA to invest funds offshore, to the extent of outward investment permitted; and
  - (d) an individual resident in India who is eligible under FEMA to invest funds offshore, to the extent allowed in the Liberalized Remittance Scheme of Reserve Bank of India.
- (2) A registered depository participant shall ensure compliance with the applicable laws, including bye-laws, rules and regulations specified by the recognised depository.
- (3) A registered depository participant shall ensure that separate accounts are opened in the name of each of the beneficial owners and the securities of each beneficial owner shall be segregated, and shall not be mixed up with the securities of other beneficial owners or with the participant's own securities.
- (4) A registered depository participant shall have adequate mechanisms for the purpose of reviewing, monitoring and evaluating its internal accounting controls and systems.
- (5) Where the records are maintained in electronic form, a registered depository participant shall ensure that the integrity of the data processing system is maintained at all times.
- (6) A registered depository participant shall reconcile its records with the depository, on a daily basis.

## **30. Distributors**

- (1) A registered distributor may undertake the following activities:
- (a) Distribution of capital market products and/or services to any client in IFSC or Foreign Jurisdiction - The capital market products and/or services offered by any regulated financial entity set up in India, IFSC, jurisdictions which are identified in the notification published in the Gazette of India vide no. G.S.R. 882(E) dated November 28, 2019, as may be revised from time to time, or any other jurisdiction as may be specified by the Authority, may be distributed to any client in IFSC or foreign jurisdictions;
  - (b) Distribution of capital market products and/or services to sophisticated investors in IFSC or Foreign Jurisdictions – The capital market products and/or services offered by any issuer or service provider, respectively, which is set up in India, IFSC or any foreign jurisdiction may be distributed to sophisticated investors in IFSC or foreign jurisdictions;
  - (c) Distribution of capital market products and/or services to any client in India - The capital market products and/or services offered by any regulated financial entity set up in IFSC, jurisdictions which are identified in the notification published in the Gazette of India vide no. G.S.R. 882(E) dated November 28, 2019, as may be revised from time to time, or any other jurisdiction as may be specified by the Authority, may be distributed to any client in India;
  - (d) Distribution of capital market products and/or services to sophisticated investors in India – The capital market products and/or services offered by any issuer or service provider, respectively, which is set up in IFSC or any foreign jurisdiction, may be distributed to sophisticated investors in India; and

- (e) Any other activities as may be specified by the Authority.
- (2) For distribution of capital market products and/or services offered by a regulated financial entity to all types of clients, the registered distributor shall ensure that such products or services have been authorised, vetted or approved for offering to all types of investors, by the relevant regulatory or supervisory authority of such regulated financial entity:

For the purpose of this regulation, “regulated financial entity” means an issuer or a service provider set up in India, an IFSC or any Foreign Jurisdiction, which is registered, authorised, licensed or regulated by any regulatory or supervisory authority of its home jurisdiction for carrying out activities related to asset management, funds management, investment advisory, portfolio management or any other similar activity, by whatever name called.

- (3) A registered distributor while undertaking various permissible activities shall ensure compliance with all applicable laws as prevalent in the jurisdictions of issuers, service providers and clients.
- (4) A registered distributor shall comply with the requirements as specified by the Authority from time to time

### **31. ESG Ratings and Data Products Providers**

- (1) A registered ERDPP may undertake services relating to ESG Ratings and ESG Data Products in an IFSC or a Foreign Jurisdiction.
- (2) A registered ERDPP shall not provide any other service without the prior approval of the Authority.
- (3) A registered ERDPP shall adhere to the following “Code of Conduct”, on a “comply” or “explain” basis:

#### ***a) Principle on Good Governance***

ERDPP shall ensure appropriate governance arrangements are in place that enable it to promote and uphold the principles and overall objectives of the Code of Conduct.

#### ***b) Principle on Securing Quality (Systems and Controls)***

ERDPP shall adopt and implement written policies and procedures designed to help ensure the issuance of high quality ESG Ratings and Data Products.

#### ***c) Principles on managing Conflicts of Interest***

- i. ERDPP shall adopt and implement written policies and procedures designed to help ensure that its decisions are independent, free from political or economic interference, and appropriately address actual or potential conflicts of interest that may arise from, among other things, ERDPP’s organisational structure, business or financial activities, or the financial interests of the ERDPP, its officers and employees.
- ii. ERDPP shall also identify, avoid or appropriately manage, mitigate and disclose actual or potential conflicts of interest that may compromise the independence and integrity of the ERDPP’s operations.

#### ***d) Principle on Transparency***

ERDPP shall make adequate levels of public disclosure and transparency a priority for its ESG Ratings and Data Products, including its methodologies and processes to enable the users of the product to understand what the product is and how it is produced, including any potential conflicts

of interest, while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

*e) Principle on Confidentiality (Systems and Controls)*

ERDPP shall adopt and implement written policies and procedures designed to address and protect all non-public information received from or communicated to it by any entity, or its agents, related to their ESG Ratings and ESG Data Products, in a manner appropriate in the circumstances.

*f) Principles on Engagement (Systems and Controls)*

i. ERDPP shall regularly consider whether its information gathering processes with entities covered by its products lead to efficient information procurement for both the providers and these entities. Where potential improvements to information gathering processes are identified, the ERDPP shall consider what measures can be taken to implement them.

ii. Where feasible and appropriate, the ERDPP shall respond to and address issues flagged by entities covered by its ESG Ratings and Data Products and by users while maintaining the independence and integrity of these products.

(4) A registered ERDPP shall disclose compliance of the “Code of Conduct” provided above on a “comply” or “explain” basis on its website.

(5) A registered ERDPP providing ESG Ratings shall have guidelines / criteria / methodology on the rating process and the same shall be disclosed on its website.

(6) A registered ERDPP shall disclose all ESG Ratings provided by it on its website.

(7) A registered ERDPP shall segregate its activities relating to ESG Ratings and ESG Data Products from its other activities to ensure that there is no conflict of interest between these activities.

**32. Investment advisers**

(1) A registered investment adviser may have the following categories as clients:

(a) a person resident outside India;

(b) a non-resident Indian;

(c) a non-individual resident in India who is eligible under FEMA to invest funds offshore, to the extent of outward investment permitted; and

(d) an individual resident in India who is eligible under FEMA to invest funds offshore, to the extent allowed in the Liberalized Remittance Scheme of Reserve Bank of India.

(2) A registered investment adviser shall disclose to a prospective client, all material information about itself including its business, disciplinary history, the terms and conditions on which it offers advisory services, affiliations with other intermediaries and such other information so as to enable the client to take an informed decision on whether or not to avail its advisory services.

(3) A registered investment adviser shall make the following disclosures to its clients: -

(a) its holding or position, if any, in the financial products or securities which are subject matter of advice;

(b) any potential or actual conflict of interest arising from any connection to or association with any issuer of products/securities;

- (c) all material facts relating to the key features of the products or securities, particularly performance track record; and
  - (d) warnings, disclaimers in documents and advertising materials relating to an investment product which it is recommending to the client.
- (4) A registered investment adviser shall act in a fiduciary capacity towards its clients and shall disclose all conflicts of interest as and when they arise.
- (5) A registered investment adviser shall not receive any consideration by way of remuneration or compensation or in any other form from any person other than the client being advised, in respect of the underlying products or securities for which advice is provided.
- (6) A registered investment adviser shall maintain an arm's-length relationship between its activities as an investment adviser and its other activities.
- (7) A registered investment adviser shall not enter into transactions on its own account which is contrary to the advice given to its clients for a period of 15 days from the day of such advice:
- Provided that during the period of 15 days, if the investment adviser is of the opinion that the situation has changed, then it may enter into such a transaction on its own account after giving such revised assessment to the client at least 24 hours in advance of entering into such transaction.*
- (8) A registered investment adviser shall not act on its own account, knowingly to sell securities or investment products to or purchase securities or investment products from a client.
- (9) A registered investment adviser shall ensure that, for the purposes of risk profiling, -
- (a) it obtains such information from the client as is necessary for the purpose of giving investment advice;
  - (b) it has a process for assessing the risk a client is willing and able to take;
  - (c) risk profile of the client is communicated to the client after completion of risk assessment; and
  - (d) the information provided by clients and their risk assessment is updated periodically.
- (10) A registered investment adviser shall ensure that all investments on which investment advice is provided is suitable to the risk profile of the client and is consistent with the client's investment objectives and financial position.
- (11) A registered investment adviser shall have client level segregation for investment advisory and distribution services.
- (12) A registered investment adviser shall maintain an arm's length relationship between its activities as investment adviser and distributor by providing advisory services through a separately identifiable department or division.
- (13) A registered investment adviser may provide implementation services to its advisory clients in securities market:
- Provided that the investment adviser shall ensure the following:*
- (a) the potential conflicts of interest, if any, are adequately disclosed to its clients; and
  - (b) the fee charged, if any, for the implementation services is pursuant to an agreement with its clients and disclosed in a transparent manner.

- (14) The client shall not be under any obligation to avail implementation services offered by the investment adviser.

### **33. Investment bankers**

- (1) A registered investment banker shall enter into an agreement with the issuer of securities specifying the roles and responsibilities of the investment banker in the issue.
- (2) Where there are more than one lead investment bankers to the issue, the responsibilities of each of such lead investment bankers shall be clearly demarcated.
- (2) A registered investment banker shall not undertake any activity, except for marketing of the issue or offer, if the investment banker is a promoter or an associate of the issuer of securities or of any person making an offer to sell or purchase securities in terms of any regulations made by the Authority.
- (3) No registered investment banker or any of its principal officer, directors, partner or manager shall either on their respective accounts or through their associates or relatives enter into any transaction in securities of issuer on the basis of unpublished price sensitive information obtained by them in the course of any professional assignment.
- (4) A registered investment banker shall submit to the Authority complete particulars of any transaction for acquisition of securities of any body corporate whose issue is being managed by that investment banker within fifteen days from the date of entering into such transaction.
- (5) A registered investment banker may act as an underwriter of an issue in an IFSC, subject to the following conditions:
  - a) An investment banker acting as an underwriter, shall enter into an agreement with the issuer of securities, on whose behalf it is acting as an underwriter, which shall have the understanding in relation to amount of underwriting obligations and commission, allocation of duties and responsibilities, timelines and other relevant details.
  - b) An underwriter shall not derive any direct or indirect benefit from underwriting the issue except commission or brokerage payable under the agreement for underwriting.
  - c) At any point of time, the total underwriting obligations under all the agreements shall not exceed twenty times the net worth of the investment banker.

### **34. Research Entities**

- (1) A registered research entity shall have written internal policies and control procedures governing the dealing and trading by any research analyst for:
  - a) addressing actual or potential conflict of interest arising from such dealings or trading of securities of subject company;
  - b) promoting objective and reliable research that reflects unbiased view of research analyst; and
  - c) preventing the use of research report or research analysis to manipulate the financial market.
- (2) A registered research entity shall ensure that the procedures or controls designed to manage actual or potential conflicts of interest are based on the nature, scale and complexity of the business.
- (3) The internal policy should ensure that the conflicts of interest are identified and adequately addressed so that the quality of the research report is not compromised.
- (4) A registered research entity shall have in place appropriate mechanisms to ensure independence of its research activities from its other business activities.

- (5) A registered research entity shall establish, implement and enforce policies and procedures for personal trading by its analysts and their associates.
- (6) Personal trading activities of the individuals employed as research analyst by research entity shall be monitored, recorded and wherever necessary, shall be subject to a formal approval process.
- (7) The policy shall ensure that an analyst does not trade for himself in a manner that is contrary to his outstanding research recommendations, except in special circumstances, where the analyst shall be required to obtain prior written approval for each trade.
- (8) A registered research entity shall ensure that the remuneration of analysts is structured in a way to avoid any bias in his research analyses and recommendations.
- (9) A registered research entity shall ensure that there are robust and effective barriers between the entity and other business dealings of the entity or its group entity to ensure independence and objectivity of the research reports.
- (10) A registered research entity shall not provide any promise or assurance of favourable review in its research report to a company or industry or sector or group of companies or business group as consideration to commence or influence a business relationship or for the receipt of compensation or other benefits.
- (11) A registered research entity shall ensure that the information provided in the report are complete, concise and specific such that investors can understand the actual or potential conflicts of interest and their likely impact on the quality of the research report published.
- (12) A registered research entity shall disclose any material interest in the report that may create a potential conflict of interest and thereby affect the ability of the entity to maintain independence and objectivity:  
  
*Explanation:* The research entity shall disclose in the report if the research entity or the research analyst or his associate or his relative has:
  - a) any financial interest in the subject company and the nature of such financial interest;
  - b) beneficial ownership of one or more per cent. of the securities of the subject company;
  - c) any business relationship with the subject company over the past 12 months that may result in conflict of interest; and
  - d) any other material conflict of interest relating to the subject company.
- (13) A registered 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.
- (14) A registered research entity shall have adequate documentary basis, supported by research, for preparing a research report.
- (15) Where a registered research entity employs a rating system, it must clearly define the meaning of each such rating including the time horizon and benchmarks on which a rating is based.

## CHAPTER V

### INSPECTION

#### 35. Inspection

- (1) The Authority may *suo motu* or upon receipt of information or complaint at any time appoint one or more persons as inspecting authority to undertake the inspection of the books, accounts, records, and documents of a registered capital market intermediary, for any purpose, including the purposes as specified under sub-regulation (2).
- (2) The purposes referred to in sub-regulation (1) may include, -
  - (a) to ensure that the books of account, records and documents are being maintained in the manner as required under these regulations;
  - (b) to ensure that the provisions of the Act, the regulations and circulars made thereunder, are complied with;
  - (c) to ascertain whether adequate internal control systems, procedures and safeguards have been established or are being followed by the capital market intermediary to fulfil its obligations under these regulations;
  - (d) to ascertain whether any circumstances exist which would render the intermediary unfit or ineligible;
  - (e) to inquire into the complaints received from the investors, clients, other market participants, or any other person on any matter having a bearing on the activities of the intermediary; and
  - (f) to inquire *suo motu* into such matters as may be deemed fit in the interest of investors or the capital market in IFSC.
- (3) Before undertaking an inspection under sub-regulation (1), the inspecting authority shall give a notice to the registered capital market intermediary:

Provided that where the inspecting authority is satisfied that in the interest of the investors no such notice should be given, it may, for reasons to be recorded in writing, dispense with such notice.
- (4) Notwithstanding anything contained in sub-regulations (1), (2) and (3), the recognised stock exchange, recognised clearing corporation and recognised depository may conduct inspection of registered broker dealer (trading member), registered clearing member and registered depository participant respectively, in accordance with their respective bye-laws.
- (5) The Authority and the relevant market infrastructure institution may conduct joint inspection of a capital market intermediary.

#### 36. Obligations of capital market intermediary on inspection

- (1) Where an inspection of a registered capital market intermediary is undertaken by the Authority, such capital market intermediary and every principal officer, proprietor, partner, designated partner, trustee, director, chairperson, officer, employee and any agent of the intermediary shall provide all assistance and cooperate with the inspection authority and shall furnish books of accounts, records and documents to the inspection authority with such statements and information relating to its activities within such time as decided by the inspection authority.

- (2) The capital market intermediary shall give all assistance as may be required in connection with the inspection and allow the inspecting authority to have reasonable access to its premises and extend reasonable facility for examining any books of accounts, records and documents in its possession, and also provide copies of records or documents or other material which in the opinion of the inspecting authority are relevant for the purposes of the inspection.

### **37. Inspection by third parties**

- (1) The Authority may appoint a professional to inspect the books of account, records, documents infrastructures, systems and procedures or affairs of a registered capital market intermediary:

Provided that such professional so appointed shall have the same powers of an inspecting authority:

Provided further that a capital market intermediary and its employees shall have the same obligations as specified in regulation 36 with respect to such inspection.

- (2) The Authority shall be entitled to recover expenses relating to such inspection from the capital market intermediary.

### **38. Submission of report**

The inspecting authority shall submit an inspection report including interim reports to the Authority, and the Authority may take such action as it may deem fit and appropriate.

## **CHAPTER VI**

### **MISCELLANEOUS**

### **39. Suspension, cancellation of registration or any other actions**

- (1) The Authority may take such action as deemed fit, including suspension or cancellation of registration, against a capital market intermediary if it:
  - (a) fails to comply with any conditions subject to which a certificate of registration has been granted; or
  - (b) contravenes any of the provisions of the Act or rules or regulations or circulars or guidelines or directions or instructions issued thereunder.
- (2) Without prejudice to sub-regulation (1), a recognised stock exchange may take such action as deemed fit, including suspension, against a registered broker dealer (trading member), in accordance with the applicable laws.
- (3) Without prejudice to sub-regulation (1), a recognised clearing corporation may take such action as deemed fit, including suspension, against a registered clearing member, in accordance with the applicable laws.
- (4) Without prejudice to sub-regulation (1), a recognised depository may take such action as deemed fit, including suspension, against a registered depository participant, in accordance with the applicable laws.

### **40. Power to call for information**



The Authority may call for any information, documents or records from a registered capital market intermediary.

#### **41. Power to remove difficulties**

In order to remove any difficulties in the interpretation or application of the provisions of these regulations, the Authority shall have the power to issue directions through guidance notes or circulars.

#### **42. Power to relax strict enforcement of the regulations**

- (1) The Authority may, in the interest of development and regulation of financial services in IFSC, relax the strict enforcement of any requirements of these regulations.
- (2) For seeking relaxation under sub-regulation (1), an application, giving details and the grounds on which such relaxation has been sought, shall be filed with the Authority along with a non-refundable fee as may be specified by the Authority.
- (3) The Authority shall process such application within thirty days of the date of receipt of the application complete in all respects and shall record reasons for acceptance or refusal of the relaxations sought by the applicant.

#### **43. Power to specify procedures and issue clarifications**

For the purposes of implementation of these regulations and matters incidental thereto, the Authority may specify norms, procedures, processes etc. by way of circulars or guidelines or directions to capital market intermediaries.

#### **44. Repeal and Savings**

- (1) On and from the commencement of these regulations, the IFSCA (Capital Market Intermediaries) Regulations, 2021 shall stand superseded.
- (2) Notwithstanding anything contained in sub-regulation (1), anything done or any action taken or purported to have been taken under the regulations mentioned in sub-regulation (1), before the commencement of these regulations shall be deemed to have been done or taken or commenced under the corresponding provisions of these regulations.

## Schedule I

### Net worth requirements

S. No.	Category	Net worth
1	Broker dealer (Trading member)	As specified by recognised stock exchange
2	Broker dealer (Global Access only)	USD 100,000
3	Clearing Member	As specified by recognised clearing corporation
4	Credit Rating Agency	USD 500,000
5	Custodian	As specified by the Authority from time to time
6	Debenture Trustee	USD 500,000
7	Depository Participant	As specified by depository
8	Distributor	USD 50,000
9	ESG Ratings and Data Products Provider	USD 25,000
10	Investment Adviser	USD 25,000
11	Investment Banker	USD 100,000
12	Research Entity	USD 25,000

## Schedule II

### CODE OF CONDUCT

#### Part A - Code of Conduct - All capital market intermediaries (as applicable)

1. A registered capital market intermediary shall make all efforts to protect the interest of investors and render the best possible advice to the clients having regard to the needs of the clients, environment and its own professional skills.
2. A registered capital market intermediary shall in the conduct of its business, observe high standards of integrity and fairness and fulfil its obligations in a prompt, ethical and professional manner.
3. A registered capital market intermediary shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment.
4. A registered capital market intermediary shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.
5. A registered capital market intermediary shall not create false market either singly or in collusion with other intermediaries or the issuer in a manner that is detrimental to the interests of investors, or which leads to interference with the fair and smooth functioning of the market.
6. A registered capital market intermediary shall endeavour to ensure that inquiries and grievances of the investors are dealt with in a timely and appropriate manner.
7. A registered capital market intermediary shall not make any exaggerated statement either oral or in written form to the client about its capability, qualification and achievement in regard to services rendered to the client.
8. A registered capital market intermediary shall maintain confidentiality with respect to the information about its clients, except where such disclosures are required to be made in compliance with any law for the time being in force.
9. A registered capital market intermediary shall avoid conflict of interest and make adequate disclosure of its possible conflict of interest and duties and shall put in place a mechanism to resolve any conflict-of-interest situation.
10. A registered capital market intermediary shall not indulge in any unfair competition, which is likely to harm the interests of other capital market intermediaries and investors.
11. A registered capital market intermediary shall not discriminate amongst its clients, save and except on ethical and commercial considerations.
12. A registered capital market intermediary shall ensure that any change in registration status/any penal action taken by Authority or any material change in financials which may adversely affect the interests of clients/investors is promptly informed to the clients.
13. A registered capital market intermediary shall inform the Authority promptly about any action initiated against it in respect of material breach or non-compliance of any law, regulations and direction issued by the Authority or any other regulatory body.
14. A registered capital market intermediary shall ensure that it and any of its employees shall not render, directly or indirectly any investment advice about any security in the publicly accessible media, unless a disclosure of its interest in the said security has been made while rendering such advice.

15. A registered capital market intermediary shall ensure that it or any of its principal officers, directors, or employees having power of management shall not either on its own account or through their relatives or friends indulge in insider trading.
16. A registered capital market intermediary shall have and employ effectively appropriate resources and procedures which are needed for the efficient performance of its business activities.
17. A registered capital market intermediary shall have internal control procedures and financial and operational capabilities adequate enough to protect the clients and investors from financial loss arising from theft, fraud, omissions and professional misconduct.
18. A registered capital market intermediary shall develop its own internal code of conduct for governing its internal operations and conduct of its employees.
19. A registered capital market intermediary shall ensure that the compliance officer has adequate freedom and power for effective discharge of his duties.
20. A registered capital market intermediary shall ensure that any person it employs or appoints is a fit and proper person and otherwise qualified to act in the capacity so employed or appointed.
21. A registered capital market intermediary shall not be a party to or instrumental for:
  - (a) creation of false market;
  - (b) price rigging or manipulation;
  - (c) passing of unpublished price sensitive information to any other intermediary or any person, in respect of any securities which are listed and proposed to be listed in any stock exchange.
22. The senior management of a registered capital market intermediary shall bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures by the intermediary.
23. A registered capital market intermediary shall not make untrue statement or suppress any material fact in any documents, reports or information furnished to the Authority.
24. A registered capital market intermediary shall not make a recommendation to any client or investor who may be expected to rely thereon to acquire, dispose of or retain any securities unless he has reasonable grounds to believe that the recommendation is suitable.

## **Part B**

In addition to compliance with the code of conduct as specified in Part A of this Schedule, the capital market intermediaries shall abide by the following code of conduct:

### **A. Broker dealers / Clearing Members**

1. A registered broker dealer shall abide by all the provisions of the Act and the rules, regulations and bye-laws issued by the Government of India, the Authority and the recognised stock exchange from time to time as may be applicable.
2. A registered clearing member shall abide by all the provisions of the Act and the rules, regulations and bye-laws issued by the Government of India, the Authority and the recognised clearing corporation from time to time as may be applicable.
3. A registered broker dealer shall not involve itself in excessive speculative business in the market beyond reasonable levels not commensurate with its financial soundness.
4. A registered broker dealer shall faithfully execute the orders for buying and selling of securities at the best available price and not refuse to deal with a small investor merely on the ground of the volume of business involved.
5. A registered broker dealer shall promptly inform its client about the execution or non-execution of an order, and make prompt payment in respect of securities sold and arrange for prompt delivery of securities purchased by its clients.
6. A registered broker dealer shall issue without delay to its client a contract note for all transactions in the form specified by the stock exchange.
7. A registered broker dealer shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.
8. A registered broker dealer shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing them to do business in particular securities and enabling itself to earn brokerage or commission thereby.
9. A registered broker dealer shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out its commitments in relation to securities with another broker dealer.
10. A registered broker dealer shall not resort to unfair means of inducing clients from other broker dealers.

### **B. Credit rating agencies**

1. A registered credit rating agency shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment in order to achieve and maintain objectivity and independence in the rating process.
2. A registered credit rating agency shall maintain an arm's length relationship between the credit rating activity and its other activities.
3. A registered credit rating agency shall have a reasonable and adequate basis for performing rating evaluations, with the support of appropriate and in-depth rating researches. It shall also maintain records to support its decisions.

4. A registered credit rating agency shall have in place a rating process that reflects consistent and international rating standards.
5. A registered credit rating agency shall disclose its rating methodology to clients, users and the public.
6. A registered credit rating agency shall not indulge in any unfair competition.
7. A registered credit rating agency shall keep track of all important changes relating to its client companies and shall develop efficient and responsive systems to yield timely and accurate ratings. Further a credit rating agency shall also monitor closely all relevant factors that might affect the creditworthiness of the issuers.
8. A registered credit rating agency shall, wherever necessary, disclose to its clients, possible sources of conflict of duties and interests, which could impair their ability to make fair, objective and unbiased ratings. Further, a registered credit rating agency shall ensure that no conflict of interest exists between any member of the rating committee participating in the rating analysis, and that of its clients.
9. A registered credit rating agency shall ensure that there is no misuse of any privileged information including prior knowledge of rating decisions or changes.
10. A registered credit rating agency shall develop its own internal code of conduct for governing its internal operations and laying down standards of appropriate conduct for its employees and officers in the carrying out of their duties within the credit rating agency and as a part of the industry.

#### **C. Custodians**

1. A registered custodian shall be prompt in distributing dividends, interest or any such accruals of income received or collected by it on behalf of its clients on the securities held in custody.
2. A registered custodian shall be continuously accountable for the movement of securities or financial products in and out of the custody account, deposit, and withdrawal of cash from the client's account and shall provide complete audit trail, whenever called for by the client or the Authority.
3. A registered custodian shall establish and maintain adequate infrastructural facility to be able to discharge custodial services to the satisfaction of clients, and the operating procedures and systems of the custodian shall be well documented and backed by operations manuals.
4. A registered custodian shall take precautions necessary to ensure that continuity in record keeping is not lost or destroyed and that sufficient back up of records is available.
5. A registered custodian shall create and maintain the records of securities held in custody in such manner that the tracing of securities or obtaining duplicate title documents is facilitated, in the event of loss of original records for any reason.
6. A registered custodian shall extend to other custodial entities, depositories and clearing organizations all such co-operation that is necessary for the conduct of business in the areas of inter custodial settlements, transfer of securities and transfer of funds.
7. A registered custodian shall ensure that an arm's length relationship is maintained, both in terms of staff and systems, from its other businesses.
8. A registered custodian shall exercise due diligence in safe-keeping and administration of the assets of its clients.

#### **D. Debenture trustees**

1. A registered debenture trustee shall ensure that adequate disclosures are made to the debenture holders, in a comprehensible and timely manner so as to enable them to make a balanced and informed decision.

2. A registered debenture trustee shall take all reasonable steps to establish the true and full identity of each of its clients, and of each client's financial situation and maintain record of the same.
3. A registered debenture trustee shall share information available with it regarding client companies with credit rating agencies, wherever required.
4. A registered debenture trustee shall make reasonable efforts to avoid misrepresentation and ensure that the information provided to the debenture holders is not misleading.

#### **E. Depository Participants**

1. A registered depository participant shall not increase charges/fees for the services rendered without proper advance notice to the beneficial owners.
2. A registered depository participant shall be prompt and diligent in opening of a beneficial owner account, dispatch of the dematerialisation request form, rematerialisation request form and execution of debit instruction slip and in all the other activities undertaken by them on behalf of the beneficial owners.
3. A registered depository participant shall take adequate and necessary steps to ensure that continuity in data and record keeping is maintained and that the data or records are not lost or destroyed. It shall also ensure that for electronic records and data, up-to-date back up is always available with it.
4. A registered depository participant shall ensure that it has satisfactory internal control procedures in place as well as adequate financial and operational capabilities which can be reasonably expected to take care of any losses arising due to theft, fraud and other dishonest acts, professional misconduct or omissions.

#### **F. Distributors**

1. A distributor shall avoid malpractices, such as mis-selling of capital market products and services, and shall consider clients' interest and suitability to their financial needs.
2. When dealing with clients other than sophisticated investors, a distributor shall undertake due diligence of capital market products and services being distributed to them, and also assess the suitability of product / service to the investors. For this purpose, a distributor shall seek information from such clients about their financial status, investment experience, investment objectives, etc. to be in a better position to offer them such capital market products and services which are suitable to their risk profile.
3. A distributor shall act in the best interests of the clients and the integrity of the market. A distributor shall inform the client if the capital market product or service is not deemed suitable for them.
4. A distributor shall be fully conversant with the terms of the private placement memorandum, disclosure document and all other relevant agreements / documents.
5. A distributor shall enter into a written agreement with clients and issuers / service providers/ associated distributors, as applicable, which clearly lays down the inter-se relationship, mutual rights, liabilities and obligations and other material details.
6. Wherever the client is a sophisticated investor, a distributor shall obtain a declaration to the effect that the investor understands the risks associated to the capital market product or service being distributed.
7. A distributor shall disclose all material information to its prospective clients, including but not limited to its business, disciplinary history, terms and conditions of distribution services, conflict of interest, affiliations with other intermediaries and any other material information.
8. A distributor shall urge its clients to go through the private placement memorandum, disclosure document and other applicable capital market product or service related documents, as the case may be, and agreement to be entered with the client and the regulated financial entities before making the final decision.

9. A distributor shall disclose all material information regarding the capital market products and services being distributed to its clients, including related party transactions and self-positions. If requested by a client, the distributor shall disclose the amount of direct and indirect remuneration and the basis of such remuneration it receives as a result of rendering distributing services to that client and whether there is any relation between the distributor and the entity offering the capital market product or service.
10. A distributor shall assist its clients in completing KYC and other related procedures and assist in compliance with relevant laws relating to, *inter alia*, AML and CFT to the extent applicable.
11. A distributor shall abstain from tampering with the application form and other documents submitted by the client, including inserting, deleting, or changing any information in the application form or any other document provided by the client.
12. A distributor shall provide to its clients full and latest information about the capital market products and services offered by the regulated financial entities and shall clearly highlight the assumptions made in performance calculations, risk assessments, performance projections etc.
13. A distributor shall abstain from giving any assurance or cause any misrepresentation to its clients with respect to returns or risk characteristics of a capital market product or service.
14. A distributor shall abstain from attracting clients through offer of rebate, kickback, gifts, etc.
15. A distributor shall maintain necessary infrastructure to provide support to its clients and regulated financial entities, so as to be able to satisfactorily discharge its responsibilities as per the mutually agreed terms.
16. A distributor shall ensure clear segregation of its proprietary investments and those carried out as part of distribution activities. If allowed to facilitate clients' investments through omnibus structure, it shall ensure compliance with all applicable norms.
17. A distributor shall maintain adequate records in relation to its clients, whether in physical or digital form including correspondence with the clients on particular capital market product or service suitability and consent/dissent of the clients, wherever applicable.
18. A distributor shall ensure that all client related statutory communications as well as such other reports as mutually agreed are reliably and timely sent to its clients.
19. A distributor shall take all reasonable steps to avoid conflicts of interest (whether actual or perceived) and develop appropriate policies and procedures to identify, manage, monitor and, where applicable, disclose, those conflicts of interest in order to prevent them from adversely affecting the interests of the clients.
20. In order to avoid conflict of interest arising due to multiple activities, a distributor shall ensure segregation of the activities and proper disclosures about segregation to the clients.
21. A distributor shall maintain and protect confidentiality of its clients' details, deals and transactions, investment goals which it comes to know in the course of business relationship.
22. A distributor shall have a robust complaint redressal mechanism and an escalation matrix. It shall endeavour to resolve all grievances / complaints arising out of its distribution activities in a time bound manner.
23. A distributor shall abstain from encouraging over transacting and churning of portfolio of the clients to earn higher remuneration.



24. When distributing various capital market products and services, a distributor shall ensure that clients' interest are paramount and that earning extra remuneration should never form the basis for distributing any product or service to its clients.
25. A distributor shall not indulge in any manipulative, fraudulent or deceptive practices.
26. A distributor shall hold valid registration with the IFSCA at all times, if applicable, and shall comply with all applicable laws, code of conduct and norms related to qualifications and experiences of its Principal Officer and other employees.

#### **Advertisement Code for Distributors**

27. Advertisements shall be accurate, true, fair, clear, complete, unambiguous and concise.
28. Advertisements shall not contain statements which are false, misleading, biased or deceptive, based on assumption/projections and shall not contain any testimonials or any ranking based on any criteria.
29. Advertisements shall not be so designed as likely to be misunderstood or likely to disguise the significance of any statement. Advertisements shall not contain statements which directly or by implication or by omission may mislead the client.
30. Advertisements shall not carry any slogan that is exaggerated or unwarranted or slogan that is inconsistent with or unrelated to the nature and risk and return profile of the capital market product or service.
31. Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the clients. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details which may detract the clients should be avoided.
32. Advertisements shall contain information which is timely and consistent with the disclosures made in the private placement memorandum, disclosure document or the basic document, by whatever name called, which is created by the issuer / service provider and explains the characteristics of the capital market product or service.

#### **G. Investment Advisers**

1. A registered investment adviser shall seek from its clients, information about their financial situation, investment experience and investment objectives relevant to the services to be provided and maintain confidentiality of such information.
2. A registered investment adviser shall make adequate disclosures of relevant material information while dealing with its clients.
3. A registered investment Adviser shall ensure that fees charged to the clients is fair and reasonable.

#### **H. Investment Bankers**

1. A registered investment banker shall ensure that adequate disclosures are made to the investors in a timely manner in accordance with the applicable regulations and guidelines so as to enable them to make a balanced and informed decision.
2. A registered investment banker shall endeavour to ensure that the investors are provided with true and adequate information without making any misleading or exaggerated claims or any misrepresentation and are made aware of the attendant risks before taking any investment decision.
3. A registered investment banker shall ensure that copies of the prospectus, offer document, letter of offer or any other related document is made available to the investors at the time of issue or the offer.

4. A registered investment banker shall not discriminate amongst its clients, save and except on ethical and commercial considerations.
5. A registered investment banker shall maintain arm's-length relationship between the investment banking activity and any other activity.
6. A registered investment banker shall demarcate the responsibilities of the various intermediaries clearly so as to avoid any conflict or confusion in their job description.

**I. IBU acting as banker to an issue**

1. A banker to an issue shall not allow blank application forms bearing brokers stamp to be kept at the bank premises or peddled anywhere near the entrance of the premises.
2. A banker to an issue shall not accept applications after office hours or after the date of closure of the issue or on bank holidays.
3. A banker to an issue shall not part with the issue proceeds until listing permission is granted by the stock exchange to the body corporate.
4. A banker to an issue shall not delay in issuing the final certificate pertaining to the collection figures to the lead manager and the body corporate.

**J. Research Entities**

1. A registered research entity shall act with due skill, care and diligence and shall ensure that the research report is prepared after thorough analysis.
2. A registered research entity shall effectively address conflict of interest which may affect the impartiality of its research analysis and research report and shall make appropriate disclosures to address the same.
3. A research entity or its employees or research analysts shall not engage in insider trading or front running or front running of its own research report
4. A registered research entity shall maintain confidentiality of report till the report is made public.
5. A registered research entity shall observe high professional standard while preparing research report.
6. The senior management of a research entity shall bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures.

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