

**MASTER CIRCULAR**

**SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/49**

**May 21, 2024**

**To,**

**All Research Analysts**

Dear Madam / Sir,

**Subject: Master Circular for Research Analysts**

1. Securities and Exchange Board of India (“SEBI”/ “the Board”), from time to time, has been issuing various circulars/directions to Research Analysts (RAs). In order to enable users to have access to the applicable circulars at one place, this Master Circular in respect of RAs is being issued.
2. SEBI Master Circular No. SEBI/HO/MIRSD-PoD-2/P/CIR/2023/90 dated June 15, 2023 for RAs was a compilation of relevant circulars issued by SEBI which were operational as on June 15, 2023.
3. Subsequently, various guidelines/directions were issued to the RAs by way of circulars/advisory. The provisions of such circulars issued until May 15, 2024 have been incorporated in this Master Circular, which supersedes the Master Circular for RAs dated June 15, 2023. With the issuance of this Master Circular, the directions/ instructions contained in the circulars listed out in the Appendix to this Master Circular, to the extent they relate to the RAs, shall stand rescinded
4. Notwithstanding such rescission,
  - a) Anything done or any action taken or purported to have been done or taken under the rescinded circulars, prior to such rescission, shall be deemed to

have been done or taken under the corresponding provisions of this Master Circular;

- b) Any application made to the Board under the rescinded circulars, prior to such rescission, and pending before it shall be deemed to have been made under the corresponding provisions of this Master Circular;
  - c) The previous operation of the rescinded circulars or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the rescinded circulars, any penalty, incurred in respect of any violation committed against the rescinded circulars, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, shall remain unaffected as if the rescinded circulars have never been rescinded.
5. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
6. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the categories "Legal framework –Master Circulars" and "Info for –Research Analysts" .

Yours faithfully

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## I. GUIDELINES FOR RESEARCH ANALYSTS

### 1. Procedural Guidelines for Proxy Advisors<sup>1</sup>

1.1 Regulation 24(2) read with regulation 23(1) of the Securities and Exchange Board of India (Research Analyst) Regulations, 2014 ('the Regulations') mandates proxy advisors to abide by Code of Conduct specified therein. It is decided that proxy advisors shall also comply with the following procedural guidelines:

- a) Proxy Advisors shall formulate the voting recommendation policies and disclose the updated voting recommendation policies to its clients. Proxy Advisors shall ensure that the policies should be reviewed at least once annually. The voting recommendation policies shall also disclose the circumstances when not to provide a voting recommendation.
- b) Proxy Advisors shall disclose the methodologies and processes followed in the development of their research and corresponding recommendations to its clients.
- c) Proxy Advisors shall alert clients, within 24 hours of receipt of information, about any factual errors and any impending material revisions to their reports. Further, any such material revisions to their reports shall be communicated to the clients within 72 hours of receipt of the information, while ensuring that adequate time is available for clients to make an informed decision.<sup>2</sup>
- d) Proxy Advisors shall have a stated process to communicate with its clients and the company.

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<sup>1</sup> Reference: Circular No. SEBI/HO/IMD/DF1/CIR/P/2020/147 dated August 03, 2020

<sup>2</sup> Reference: Circular No. SEBI/HO/IMD/DF1/CIR/P/2020/256 dated December 31, 2020.

- e) Proxy Advisors shall share their report with its clients and the company at the same time. This sharing policy should be disclosed by proxy advisors on their website. Timeline to receive comments from company may be defined by proxy advisors and all comments/clarifications received from the company, within timeline, shall be included as an addendum to the report. If the company has a different viewpoint on the recommendations stated in the report of the proxy advisors, then proxy advisors, after taking into account the said viewpoint, may either revise the recommendation in the addendum report or issue an addendum to the report with its remarks, as considered appropriate.
- f) Proxy Advisors shall clearly disclose in their recommendations the legal requirement vis-a-vis higher standard they are suggesting if any, and the rationale behind the recommendation of higher standards.
- g) Proxy Advisors shall disclose conflict of interest on every specific document where they are giving their advice. Further, the disclosures should especially address possible areas of potential conflict and the safeguards that have been put in place to mitigate possible conflicts of interest.
- h) Proxy Advisors shall establish clear procedures to disclose, manage and/or mitigate any potential conflicts of interest resulting from other business activities including consulting services, if any, undertaken by them and disclose the same to clients.

1.2 The provisions of Clause 1.1(c) and 1.1(e) became applicable with effect from February 01, 2021.<sup>3</sup> All other provisions of clause 1.1 became applicable with effect from January 01, 2021.<sup>4</sup>

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<sup>3</sup> Reference: Circular No. SEBI/HO/IMD/DF1/CIR/P/2020/157 dated August 27, 2020 and Circular No. SEBI/HO/IMD/DF1/CIR/P/2020/256 dated December 31, 2020

<sup>4</sup> Reference: Circular No. SEBI/HO/IMD/DF1/CIR/P/2020/157 dated August 27, 2020.

## II. ADMINISTRATION AND SUPERVISION OF RESEARCH ANALYSTS

### 2. Framework for administration and supervision of Research Analysts and Investment Advisers<sup>5</sup>

#### Background

2.1. In terms of Regulation 38A of the 'SECC Regulations'<sup>6</sup> notified on April 26, 2024, a recognised Stock Exchange may undertake the activities of administration and supervision over specified intermediaries on such terms and conditions and to such an extent as may be specified. Accordingly, Stock Exchange shall now be recognised as RAASB<sup>7</sup> and IAASB<sup>8</sup> under Regulation 14 of the 'RA Regulations'<sup>9</sup> and 'IA Regulations'<sup>10</sup> for administration and supervision of Research Analysts ('RAs') and Investment Advisers ('IAs') respectively. The detailed framework for RAASB and IAASB is specified in **Annexure F**.

2.2. As per clause (xi) of Regulation 6 of RA Regulations and clause (n) of Regulation 6 of IA Regulations, an applicant seeking registration as RA and IA is required to be enlisted with RAASB and IAASB respectively. The provisions governing enlistment including enlistment of existing RAs/IAs and of applicants whose registration applications are under process as on the effective date of this circular are specified in the enclosed framework at **Annexure F**.

#### Operationalization of RAASB and IAASB framework

2.3. Based on fulfillment of the criteria specified in **Annexure F**, a stock exchange

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<sup>5</sup> Reference: Circular No. SEBI/HO/MIRSD/MIRSD-SEC-3/P/CIR/2024/34 dated May 2, 2024

<sup>6</sup> SECC Regulations- Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018

<sup>7</sup> RAASB- Research Analyst Administration and Supervisory Body

<sup>8</sup> IAASB- Investment Adviser Administration and Supervisory Body

<sup>9</sup> RA Regulations- SEBI (Research Analysts) Regulations, 2014

<sup>10</sup> IA Regulations- SEBI (Investment Advisers) Regulations, 2013

shall be granted recognition as RAASB and IAASB. To begin with, in order to ensure efficiency in the system and economies of scale, RAASB and IAASB shall be one and the same stock exchange.

### **Timeline for implementation**

2.4. The above provisions of clause 2 as well as provisions contained in Annexure F shall become effective on July 25, 2024 (ninetieth day from the date of publication in the Official Gazette of the amendments to RA Regulations made vide the SEBI (Research Analysts) (Amendment) Regulations, 2024 and the amendments to IA Regulations made vide the SEBI (Investment Advisers) (Amendment) Regulations, 2024).

## **III. INVESTOR COMPLAINTS**

### **3. Grievance Resolution between listed entities and proxy advisers<sup>11</sup>**

3.1. Regulation 4(2)(a) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('LODR Regulations') casts certain obligations on listed entities to protect and facilitate the exercise of the rights of shareholders, including:

- a) right to participate in, and to be sufficiently informed of, decisions concerning fundamental corporate changes,
- b) opportunity to participate effectively and vote in general shareholder meetings,
- c) effective shareholder participation in key corporate governance decisions, such as the nomination and election of members of board of directors and
- d) exercise of ownership rights by all shareholders, including institutional investors.

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<sup>11</sup> Reference: Circular No. SEBI/HO/CFD/CMD1/CIR/P/2020/119 dated August 04, 2020



- 3.2. Proxy advisors, over the past few years, have played a key role in enabling shareholders to effectively participate in corporate governance decisions and thus, furthering the achievement of the above objectives. Proxy advisors provide advice to institutional investors / shareholders of a listed entity, in relation to exercise of their rights in the company including voting recommendation on agenda items. However, due to the inherent nature of the work, it is probable that proxy advisors and listed entities may have different views on any agenda item of the listed entity leading to grievances.
- 3.3. In order to facilitate resolution of such grievances of listed entities against SEBI registered proxy advisors, the listed entities may approach SEBI. SEBI will examine the matter for non-compliance by proxy advisors with the provisions of the Code of Conduct under regulation 24(2) read with regulation 23(1) of the Regulations and the procedural guidelines for proxy advisors as mentioned at clause 1.1.
- 3.4. The provisions under this clause became applicable with effect from January 01, 2021.<sup>12</sup>

#### **4. Redressal of investor grievances through SEBI Complaints Redress system (SCORES) Platform and Online Dispute Resolution (ODR) Platform <sup>13</sup>**

- 4.1. SEBI has been taking various measures to create awareness among investors about grievance mechanisms available to them through workshops as well as through print and electronic media.

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<sup>12</sup> Reference: Circular No. SEBI/HO/CFD/CMD1/CIR/P/2020/159 dated August 27, 2020.

<sup>13</sup> Reference: Circular No. CIR/MIRSD/3/2014 dated August 28, 2014, SEBI/HO/OIAE/IGRD/P/CIR/2022/0150 dated November 07, 2022, SEBI/HO/OIAE/IGRD/CIR/P/2023/156 dated September 20, 2023 and SEBI/HO/OIAE/OIAE\_IAD-3/P/CIR/2023/195 dated July 31, 2023 (updated as on December 28, 2023)

- 4.2. As an additional measure and for information of all investors who deal/ invest/ transact in the market, the research analysts shall prominently display in their offices the following information about the grievance redressal mechanism available to investors.

Dear Investor,

*In case of any grievance / complaint against the research analyst:*

- Please contact Compliance Officer of the research analyst (Name and Address) / email-id (xxx.@email.com) and Phone No. - 91- XXXXXXXXXXXX.
- You may also approach CEO / Partner / Proprietor (Name) / email- id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.
- If not satisfied with the response of the research analyst you can lodge your grievances with SEBI at <http://scores.gov.in> or you may also write to any of the offices of SEBI. For any queries, feedback or assistance, please contact SEBI Office on Toll Free Helpline at 1800 22 7575 / 1800 266 7575.

- 4.3. Research analysts are also advised to refer to the following circulars on the redressal of investor grievances through the SEBI Complaints Redressal System (SCORES) platform and Online Dispute Resolution (ODR) Platform.

- i. Master Circular No. SEBI/HO/OIAE/IGRD/P/CIR/2022/0150 dated November 07, 2022 issued by SEBI on the 'Redressal of investor grievances through the SEBI Complaints Redress System (SCORES) platform' at the following link: [https://www.sebi.gov.in/legal/master-circulars/nov-2022/master-circular-on-the-redressal-of-investor-grievances-through-the-sebi-complaints-redress-system-scores-platform\\_64742.html](https://www.sebi.gov.in/legal/master-circulars/nov-2022/master-circular-on-the-redressal-of-investor-grievances-through-the-sebi-complaints-redress-system-scores-platform_64742.html)

- ii. Circular No. SEBI/HO/OIAE/IGRD/CIR/P/2023/156 dated September 20, 2023 issued by SEBI on the 'Redressal of investor grievances through the SEBI Complaint Redressal(SCORES) Platform and linking it to Online Dispute Resolution platform' at the following link:  
[https://www.sebi.gov.in/legal/circulars/sep-2023/redressal-of-investor-grievances-through-the-sebi-complaint-redressal-scores-platform-and-linking-it-to-online-dispute-resolution-platform\\_77159.html](https://www.sebi.gov.in/legal/circulars/sep-2023/redressal-of-investor-grievances-through-the-sebi-complaint-redressal-scores-platform-and-linking-it-to-online-dispute-resolution-platform_77159.html)
- iii. Master Circular No. SEBI/HO/OIAE/OIAE\_IAD-3/P/CIR/2023/195 dated July 31, 2023 issued by SEBI on 'Online Resolution of Disputes in the Indian Securities Market' at the following link:  
[https://www.sebi.gov.in/legal/master-circulars/dec-2023/master-circular-for-online-resolution-of-disputes-in-the-indian-securities-market\\_80236.html](https://www.sebi.gov.in/legal/master-circulars/dec-2023/master-circular-for-online-resolution-of-disputes-in-the-indian-securities-market_80236.html)

## **5. Publishing of Investor Charter and disclosure of Investor Complaints by Research Analysts on their websites/mobile applications<sup>14</sup>**

- 5.1. In order to facilitate investor awareness about various activities which an investor deals with while availing the services provided by research analysts, SEBI has developed an Investor Charter for Research Analysts. This Charter is a brief document containing details of services provided to investors, their rights, dos and don'ts, responsibilities, investor grievance handling mechanism and estimated timelines thereof etc., at one single place, in a lucid language, for ease of reference.
- 5.2. All registered Research Analysts are advised to bring to the notice of their clients the Investor Charter as provided at [Annexure A](#) by prominently displaying on their websites and mobile applications. Research Analysts not

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<sup>14</sup> Reference: Circular No. SEBI/HO/IMD/IMD-II CIS/P/CIR/2021/0685 dated December 13, 2021

having websites/mobile applications shall, as a one-time measure, send Investor Charter to the investors on their registered e-mail address.

- 5.3. Additionally, in order to enhance transparency in grievance redressal, Research Analyst (RA) shall disclose on their websites/mobile applications, all complaints including SCORES complaints received by them in the format mentioned in [Annexure B](#) on a monthly basis. The information shall be made available by 07th of the succeeding month. Research Analysts not having websites/mobile applications shall send status of Investor Complaints to the investors on their registered email on a monthly basis.
- 5.4. Further, Research Analysts are advised to display link/option to lodge complaint with them directly on their websites and mobile apps. Additionally, link to SCORES website/ link to download mobile app (SEBI SCORES) may also be provided.
- 5.5. The disclosure requirements under this clause came into effect from January 01, 2022.

#### IV. TECHNOLOGY RELATED

##### 6. Advisory for Financial Sector Organizations regarding Software as a Service (SaaS) based solutions<sup>15</sup>

- 5.1 Ministry of Electronics & Information Technology, Govt. of India ('MEITY'), has informed SEBI that the financial sector institutions are availing or thinking of availing Software as a Service (SaaS) based solution for managing their Governance, Risk & Compliance (GRC) functions so as to improve their cyber Security Posture. As observed by MEITY, though SaaS

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<sup>15</sup> Reference: Circular No. SEBI/HO/MIRSD2/DOR/CIR/P/2020/221 dated November 03, 2020

may provide ease of doing business and quick turnaround, but it may bring significant risk to health of financial sector as many a time risk and compliance data of the institution moves beyond the legal and jurisdictional boundary of India due to nature of shared cloud SaaS, thereby posing risk to the data safety and security.

- 5.2 In this regard, Indian Computer Emergency Response Team (CERT-in) has issued an advisory for Financial Sector organizations. The advisory has been forwarded to SEBI for bringing the same to the notice of financial sector organization. The advisory can be viewed at [Annexure C](#).
- 5.3 It is advised to ensure complete protection and seamless control over the critical systems at your organizations by continuous monitoring through direct control and supervision protocol mechanisms while keeping the critical data within the legal boundary of India.
- 5.4 The compliance of the advisory shall be reported half yearly by research analysts to SEBI with an undertaking, “Compliance of the SEBI circular for Advisory for Financial Sector Organizations regarding Software as a Service (SaaS) based solutions has been made.”

## V. MISCELLANEOUS

### 7. Procedure for seeking prior approval for change in control<sup>16</sup>

- 6.1 Regulation 24(3) of the Regulations provide that research analyst or research entity shall obtain prior approval of SEBI in case of change in control.

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<sup>16</sup> Reference: Circular No. SEBI/HO/MIRSD/ MIRSD-PoD-2/P/CIR/2022/163 dated November 28, 2022

6.2 To streamline the process of providing approval to the proposed change in control of research analyst or research entity (hereinafter referred as intermediary or applicant), it has been decided as under:

- i) The Intermediary shall make an online application to SEBI for prior approval through the SEBI Intermediary Portal ('SI Portal') (<https://siportal.sebi.gov.in>).
- ii) The online application in SI portal shall be accompanied by the following information/declaration/undertaking about itself, the acquirer(s)/the person(s) who shall have the control and the directors/partners of the acquirer(s)/ the person(s) who shall have the control:
  - a. Current and proposed shareholding pattern of the applicant.
  - b. Whether any application was made in the past to SEBI seeking registration in any capacity but was not granted? If yes, details thereof.
  - c. Whether any action has been initiated / taken under Securities Contracts (Regulation) Act, 1956 (SCRA)/Securities and Exchange Board of India Act, 1992 (SEBI Act) or rules and regulations made thereunder? If yes, the status thereof along with the corrective action taken to avoid such violations in the future. The acquirer/ the person who shall have the control shall also confirm that it shall honour all past liabilities / obligations of the applicant, if any.
  - d. Whether any investor complaint is pending? If yes, steps taken and confirmation that the acquirer/ the person who shall have the control shall resolve the same.
  - e. Details of litigation(s), if any.

- f. Confirmation that all the fees due to SEBI have been paid.
  - g. Declaration cum undertaking of the applicant and the acquirer/ the person who shall have the control (in a format enclosed at [Annexure D](#)), duly stamped and signed by their authorized signatories that:
    - (i) there will not be any change in the Board of Directors of incumbent, till the time prior approval is granted;
    - (ii) pursuant to grant of prior approval by SEBI, the incumbent shall inform all the existing investors/ clients about the proposed change prior to effecting the same, in order to enable them to take informed decision regarding their continuance or otherwise with the new management; and
    - (iii) the 'fit and proper person' criteria as specified in Schedule II of SEBI (Intermediaries) Regulations, 2008 are complied with.
  - h. In case the incumbent is a registered stock broker, clearing member, depository participant, in addition to the above, it shall obtain approval/NOC from all the stock exchanges/clearing corporations/depositories, where the incumbent is a member/depository participant and submit self-attested copy of the same to SEBI.
- iii) The prior approval granted by SEBI shall be valid for a period of six months from the date of such approval within which the applicant shall file application for fresh registration pursuant to change in control.

6.3 To streamline the process of providing approval to the proposed change in control of an intermediary in matters which involve scheme(s) of arrangement which needs sanction of the National Company Law Tribunal

(NCLT) in terms of the provisions of the Companies Act, 2013, the following has been decided:

- i) The application seeking approval for the proposed change in control of the intermediary shall be filed with SEBI prior to filing the application with NCLT.
- ii) Upon being satisfied with compliance of the applicable regulatory requirements, an in-principle approval will be granted by SEBI;
- iii) The validity of such in-principle approval shall be three months from the date issuance, within which the relevant application shall be made to NCLT.
- iv) Within 15 days from the date of order of NCLT, the intermediary shall submit an online application in terms of clause 5.2 along with the following documents to SEBI for final approval:
  - a. Copy of the NCLT Order approving the scheme;
  - b. Copy of the approved scheme;
  - c. Statement explaining modifications, if any, in the approved scheme vis-à-vis the draft scheme and the reasons for the same; and
  - d. Details of compliance with the conditions/ observations, if any, mentioned in the in-principle approval provided by SEBI.

## **8. Advertisement code and usage of brand name/trade name <sup>17</sup>**

8.1. Research Analysts shall ensure compliance with the advertisement code as prescribed below:

a. **Forms of communication:**

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<sup>17</sup> Reference: Circular Nos. SEBI/HO/MIRSD/ MIRSD-PoD-2/P/CIR/2023/51 dated April 05, 2023 and SEBI/HO/MIRSD/ MIRSD-PoD-2/P/CIR/2023/52 dated April 06, 2023



- i. Advertisement shall include all forms of communications, issued by or on behalf of RA, that may influence investment decisions of any investor or prospective investor.
- ii. The forms of communications, to which the advertisement code shall be applicable, shall include pamphlets, circulars, brochures, notices, research reports or any other literature, document, information or material published, or designed for use in any publication or displays (such as newspaper, magazine, sign boards/hoardings at any location), in any electronic, wired or wireless communication (such as electronic mail, text messaging, messaging platforms, social media platforms, radio, telephone, or in any other form over the internet) or over any other audio-visual form of communication (such as television, tape recording, video tape recordings, motion pictures) or in any other manner whatsoever.

**b. Information/disclosures in the advertisement:**

The information/disclosures that the advertisement shall contain, include the following-

- i. Name of the RA as registered with SEBI, registered office address, SEBI Registration No., logo/brand name/trade name of RA, and CIN of the RA, if applicable.
- ii. Information which is accurate, true and complete in unambiguous and concise language.
- iii. Standard warning in legible fonts (minimum 10 font size) which states “Investment in securities market are subject to market risks. Read all the related documents carefully before investing.”. No

addition or deletion of words shall be made to/from the standard warning.

- iv. In audio-visual media based advertisements, the standard warning in visual media based advertisement and accompanying voice over reiteration shall be audible in a clear and understandable manner. For example, in standard warning both the visual and the voice over reiteration containing 20 words running for at least 10 seconds may be considered as clear and understandable.
- v. Whenever the advertisement is being issued in a language other than English, it will be ensured that the standard warning is accurately translated in the language of the advertisement.
- vi. In case the mode of advertisement is SMS/Message/Pop-up, social media etc. and the details such as full name, logo/brand name, full registered office address, SEBI registration number, membership number of a SEBI recognized supervisory body, if any and standard disclaimer are not mentioned, then official website hyperlink should be provided in such SMS/Message/Pop-up, etc. and the website must contain all such details.
- vii. In case any specific security/securities are displayed in the advertisement as examples, disclaimer that "The securities quoted are for illustration only and are not recommendatory" should be mentioned.
- viii. Advertisements and communications/correspondences with clients shall include the disclaimer that "Registration granted by SEBI, membership of a SEBI recognized supervisory body (if any) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors."

c. **Prohibitions in the advertisement:**

The advertisement shall not contain:

- i. Anything which is prohibited for publication under the law.
- ii. Statements which are false, misleading, biased or deceptive, based on assumptions or projections.
- iii. Any misleading or deceptive testimonials.
- iv. Statements which, directly or by implication or by omission, may mislead the investor.
- v. Any statement likely to be misunderstood or likely to disguise the significance of the same or any other statement contained in the advertisement.
- vi. Any statement designed to exploit the lack of experience or knowledge of the investors.
- vii. Any statement that is exaggerated or is inconsistent with or unrelated to the nature and risk and return profile of the product.
- viii. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details which may distract the investors.
- ix. Reference to any report, analysis, or service as free, unless it actually is free and without condition or obligation.

- x. Any promise or guarantee of assured or risk free return to the investors.

The advertisement shall not imply any assured returns or minimum returns or target return or percentage accuracy or service provision till achievement of target returns or any other nomenclature that gives the impression to the client that the recommendation of research report is risk-free and/or not susceptible to market risks and/or that it can generate returns with any level of assurance.

- xi. Any statement which directly or indirectly discredits other advertisements or intermediaries or makes unfair comparisons or ascribes any qualitative advantage over other intermediaries directly or indirectly.

- xii. Reference to past performance of the RA.

- xiii. Superlative terms such as “Best”, “No. 1”, Top Research Analyst, “Leading”, “One of the best amongst market leaders”, etc. so as to provide any endorsement of quality or standing of the RA. However, factual details of awards received by the RA from independent organizations may be included.

- xiv. Advertisements shall not include SEBI Logo.

d. **Other compliances/requirements:**

- i. Prior approval for the advertisement/material shall be obtained from SEBI recognized supervisory body, if any, before issue.
- ii. In the event of suspension of any RA by SEBI, the RA so suspended shall not issue any advertisement either singly or jointly with any other RA, during the period of suspension.

- iii. The RA shall not engage in games, leagues, schemes, competitions etc. which may involve distribution of prize monies, medals, gifts, etc.
  - iv. These norms shall be applicable to any other investment/ research/ consultancy agency associated with the RA concerned and issuing advertisement wherein the RA has been named in the advertisement.
  - v. Copy of the advertisement shall be retained by RA for a period of five years in terms of Regulation 25 (2) of SEBI (Research Analysts) Regulations, 2014.
  - vi. Any additional guidelines as may be specified by SEBI or SEBI recognized supervisory body, if any, from time to time.
- 8.2. In order to ensure the transparency in usage of brand name/trade name/logo, RA shall ensure that:
- i. The information such as name of the RA as registered with SEBI, its logo, its registration number and its complete address with telephone numbers shall be prominently displayed on portal/web site, if any, notice board, display boards, advertisements, publications, know your client forms and client agreements, if any.
  - ii. The information such as name of the RA as registered with SEBI, its logo, its registration number, its complete address with telephone numbers, the name of the compliance officer, his telephone number and e-mail address, the name, telephone number and e-mail address of the grievance officer or the grievance redressal cell shall be

displayed prominently in statements or reports or any other form of correspondence with the client.

iii. Disclaimer that “Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors” shall be mentioned on portal/web site, if any, notice board, display boards, advertisements, publications, know your client forms, client agreements, if any, statements or reports or any other form of correspondence with the client.

iv. SEBI logo shall not be used by RA.

8.3. The aforesaid provisions on advertisement code and usage of brand name/ trade name became applicable with effect from May 01, 2023.

## **9. Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication<sup>18</sup>**

9.1. Due to lack of proper internal controls and poor training, employees of intermediaries are sometimes not aware of the damage which can be caused by circulation of unauthenticated news or rumours. It is a well established fact that market rumours can do considerable damage to the normal functioning and behaviour of the market and distort the price discovery mechanisms.

9.2. In view of the above facts, SEBI Registered Market Intermediaries are directed that:

i. Proper internal code of conduct and controls should be put in place.

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<sup>18</sup> Reference: Circular No. CIR/ISD/1/2011 dated March 23, 2011

- ii. Employees/temporary staff/voluntary workers etc. employed/working in the Offices of market intermediaries do not encourage or circulate rumours or unverified information obtained from client, industry, any trade or any other sources without verification.
- iii. Access to Blogs/Chat forums/Messenger sites etc. should either be restricted under supervision or access should not be allowed.
- iv. Logs for any usage of such Blogs/Chat forums/Messenger sites (called by any nomenclature) shall be treated as records and the same should be maintained as specified by the respective Regulations which govern the concerned intermediary.
- v. Employees should be directed that any market related news received by them either in their official mail/personal mail/blog or in any other manner, should be forwarded only after the same has been seen and approved by the concerned Intermediary's Compliance Officer. If an employee fails to do so, he/she shall be deemed to have violated the various provisions contained in SEBI Act/Rules/Regulations etc. and shall be liable for action. The Compliance Officer shall also be held liable for breach of duty in this regard<sup>19</sup>.

## **10. Guidelines on Outsourcing of Activities by Intermediaries<sup>20</sup>**

10.1. SEBI Regulations for various intermediaries require that they shall render at all times high standards of service and exercise due diligence and ensure proper care in their operations.

10.2. It has been observed that often the intermediaries resort to outsourcing with a view to reduce costs, and at times, for strategic reasons.

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<sup>19</sup> Circular No. CIR/ISD/2/2011 dated March 24, 2011.

<sup>20</sup> Circular No. CIR/MIRSD/24/2011 dated December 15, 2011.

10.3. Outsourcing may be defined as the use of one or more than one third party – either within or outside the group - by a registered intermediary to perform the activities associated with services which the intermediary offers.

#### 10.4. Principles for Outsourcing

- i. The risks associated with outsourcing may be operational risk, reputational risk, legal risk, country risk, strategic risk, exit-strategy risk, counter party risk, concentration and systemic risk. The principles for outsourcing are given below in [Annexure E](#).

#### 10.5. Activities that shall not be Outsourced:

- i. The intermediaries desirous of outsourcing their activities shall not, however, outsource their core business activities and compliance functions. An example of core business activity may be – execution of orders and monitoring of trading activities of clients in case of stock brokers. Regarding Know Your Client (KYC) requirements, the intermediaries shall comply with the provisions of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued thereunder from time to time.

#### 10.6. Other Obligations:

**Reporting to Financial Intelligence Unit (FIU)** - The intermediaries shall be responsible for reporting of any suspicious transactions / reports to FIU or any other competent authority in respect of activities carried out by the third parties.



## 11. Framework for Regulatory Sandbox<sup>21</sup>

11.1. The Objective of Regulatory Sandbox is to grant certain facilities and flexibilities to the entities regulated by SEBI so that they can experiment with FinTech solutions in a live environment and on limited set of real users for a limited time frame.

11.2. The guidelines pertaining to the functioning of the Regulatory Sandbox are provided vide SEBI Circular No. SEBI/HO/ITD/ITD/CIR/P/2021/575 dated June 14, 2021 and SEBI/HO/MIRSD/MIRSD\_IT/P/CIR/2021/0000000658 dated November 16, 2021 which are available at the link below:

[https://www.sebi.gov.in/legal/circulars/jun-2021/revised-framework-for-regulatory-sandbox\\_50521.html](https://www.sebi.gov.in/legal/circulars/jun-2021/revised-framework-for-regulatory-sandbox_50521.html) and

[https://www.sebi.gov.in/legal/circulars/nov-2021/framework-for-regulatory-sandbox\\_53982.html](https://www.sebi.gov.in/legal/circulars/nov-2021/framework-for-regulatory-sandbox_53982.html)

## 12. General Guidelines for dealing with Conflicts of Interest of intermediaries and their Associated Persons in Securities Market.<sup>22</sup>

12.1. All intermediaries are presently governed by the provisions for avoidance of conflict of interest as mandated in the regulations read with relevant circulars issued from time to time by SEBI. On the lines of Principle 8 of the International Organisation of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulations, it has been decided to put in place comprehensive guidelines to collectively cover such intermediaries, for elimination of their conflict of interest, as detailed hereunder.

12.2. Intermediaries shall adhere to these guidelines for avoiding or dealing with or managing conflict of interest. They shall be responsible for educating their

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<sup>21</sup> Reference: Circular No. SEBI/HO/ITD/ITD/CIR/P/2021/575 dated June 14, 2021 and SEBI/HO/MIRSD/MIRSD\_IT/P/CIR/2021/0000000658 dated November 16, 2021

<sup>22</sup> Reference: Circular CIR/MIRSD/5/2013 dated August 27, 2013.

associated persons for compliance of these guidelines.

12.3. For the purpose of these guidelines "associated persons" shall have the same meaning as defined in Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007.

12.4. Intermediaries and their associated persons shall,

- i. lay down, with active involvement of senior management, policies and internal procedures to identify and avoid or to deal or manage actual or potential conflict of interest, develop an internal code of conduct governing operations and formulate standards of appropriate conduct in the performance of their activities, and ensure to communicate such policies, procedures and code to all concerned;
- ii. at all times maintain high standards of integrity in the conduct of their business;
- iii. ensure fair treatment of their clients and not discriminate amongst them;
- iv. ensure that their personal interest does not, at any time conflict with their duty to their clients and client's interest always takes primacy in their advice, investment decisions and transactions;
- v. make appropriate disclosure to the clients of possible source or potential areas of conflict of interest which would impair their ability to render fair, objective and unbiased services;
- vi. endeavor to reduce opportunities for conflict through prescriptive measures such as through information barriers to block or hinder the flow of information from one department/ unit to another, etc.;

- vii. place appropriate restrictions on transactions in securities while handling a mandate of issuer or client in respect of such security so as to avoid any conflict;
  - viii. not deal in securities while in possession of material non published information;
  - ix. not to communicate the material non published information while dealing in securities on behalf of others;
  - x. not in any way contribute to manipulate the demand for or supply of securities in the market or to influence prices of securities;
  - xi. not have an incentive structure that encourages sale of products not suiting the risk profile of their clients;
  - xii. not share information received from clients or pertaining to them, obtained as a result of their dealings, for their personal interest;
- 12.5. The Boards of intermediaries shall put in place systems for implementation of the aforementioned guidelines and provide necessary guidance enabling identification, elimination or management of conflict of interest situations. The Boards shall review the compliance of the above guidelines periodically.
- 12.6. The said guidelines shall be in addition to the provisions, if any, contained in respective regulations/ circulars issued by the Board from time to time regarding dealing with conflict of interest, in respect of intermediaries.

**13. Approach to securities market data access and terms of usage of data provided by data sources in Indian securities market<sup>23</sup>**

13.1. Research Analysts are advised to make note of the following:

“As far as the data provided by various data sources in Indian securities markets pursuant to regulatory mandates for reporting and disclosure in public domain are concerned, such data should be made available to users, ‘free of charge’ both for ‘viewing’ the data as also for download in the format as specified by regulatory mandate for reporting, as well as their usage for the value addition purposes.”

13.2. Further, apart from the data made available free of cost, data which is chargeable should be appropriately identified as such in public domain.

**14. Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules framed there under**

Research Analysts are advised to refer to the following circulars with respect to ‘Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules framed there under’:

- i. Master Circular issued on February 03, 2023, available at the following link:  
<https://www.sebi.gov.in/legal/master-circulars/feb-2023/guidelines-on-anti-money-laundering-aml-standards-and-combating-the-financing-of-terrorism->

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<sup>23</sup> Reference: Circular SEBI/HO/DEPA-III/DEPA-III\_SSU/P/CIR/2022/25 dated Feb 25,2022

[cft-obligations-of-securities-market-intermediaries-under-the-prevention-of-money-laundering-act-2002-a- 67833.html](https://www.sebi.gov.in/legal/circulars/jun-2023/amendment-to-guidelines-on-anti-money-laundering-aml-standards-and-combating-the-financing-of-terrorism-cft-obligations-of-securities-market-intermediaries-under-the-prevention-of-money-launderin-72683.html)

- ii. Circular no. SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2023/091 dated June 16, 2023, available at [https://www.sebi.gov.in/legal/circulars/jun-2023/amendment-to-guidelines-on-anti-money-laundering-aml-standards-and-combating-the-financing-of-terrorism-cft-obligations-of-securities-market-intermediaries-under-the-prevention-of-money-launderin- 72683.html](https://www.sebi.gov.in/legal/circulars/jun-2023/amendment-to-guidelines-on-anti-money-laundering-aml-standards-and-combating-the-financing-of-terrorism-cft-obligations-of-securities-market-intermediaries-under-the-prevention-of-money-launderin-72683.html)
- iii. Circular no. SEBI/HO/MIRSD/SEC-FATF/P/CIR/2023/0170 dated October 13, 2023, available at [https://www.sebi.gov.in/legal/circulars/oct-2023/amendment-to-the-guidelines-on-anti-money-laundering-aml-standards-and-combating-the-financing-of-terrorism-cft-obligations-of-securities-market-intermediaries-under-the-prevention-of-money-laund- 77975.html](https://www.sebi.gov.in/legal/circulars/oct-2023/amendment-to-the-guidelines-on-anti-money-laundering-aml-standards-and-combating-the-financing-of-terrorism-cft-obligations-of-securities-market-intermediaries-under-the-prevention-of-money-laund-77975.html)

## VI. REPORTING REQUIREMENTS

1. Complaint Data to be displayed by RAs on their website/ mobile application by 07<sup>th</sup> of the succeeding month:

<p><b>Formats for investors complaints data to be disclosed monthly by RAs on their website/mobile application:</b></p> <p>Data for the month ending - _____</p>							
Sr. No.	Received from	Pending at the end of last month	Recei ved	Resolv ed *	Total Pending #	Pending complaints > 3months	Average Resolution time^ (in days)
1	Directly						

	from Investors						
2	SEBI (SCORES)						
3	Other Sources (if any)						
	<b>Grand Total</b>						

\*Inclusive of complaints of previous months resolved in the current month.

#Inclusive of complaints pending as on the last day of the month.

^ Average Resolution time is the sum total of time taken to resolve each complaint in days, in the current month divided by total number of complaints resolved in the current month.

#### Trend of monthly disposal of complaints

Sr. No.	Month	Carried forward from previous month	Received	Resolved*	Pending#
1	April, YYYY				
2	May, YYYY				
3	June, YYYY				
4	.....				
5	March, YYYY				
	<b>Grand Total</b>				

\*Inclusive of complaints of previous months resolved in the current month.

#Inclusive of complaints pending as on the last day of the month.

#### Trend of annual disposal of complaints

Sr. No.	Year	Carried forward from previous year	Received	Resolved*	Pending#
1	2018-19				
2	2019-20				
3	2020-21				
4	20XX-XX				

	<b>Grand Total</b>				
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\*Inclusive of complaints of previous years resolved in the current year.

#Inclusive of complaints pending as on the last day of the year.

**2. Undertaking on compliance of the advisory for Financial Sector Organizations regarding Software as a Service (SaaS) based solutions to be submitted half yearly:**

The compliance of the advisory shall be reported by research analysts to SEBI with an undertaking, "Compliance of the SEBI circular for Advisory for Financial Sector Organizations regarding Software as a Service (SaaS) based solutions has been made."

**3. To conduct annual audit:**

In terms of regulation 25(3) of RA Regulations, research analyst or research entity shall conduct annual audit in respect of compliance with RA regulations and circulars issued thereunder from a member of Institute of Chartered Accountants of India or Institute of Company Secretaries of India.

**VII. ANNEXURES**

**ANNEXURE A**

**INVESTOR CHARTER IN RESPECT OF RAs**

**A. Vision and Mission Statements for investors**

- Vision:  
Invest with knowledge & safety.

- Mission:

Every investor should be able to invest in right investment products based on their needs, manage and monitor them to meet their goals, access reports and enjoy financial wellness.

**B. Details of business transacted by the Research Analyst with respect to the investors**

- To publish research report based on the research activities of the RA.
- To provide an independent unbiased view on securities.
- To offer unbiased recommendation, disclosing the financial interests in recommended securities.
- To provide research recommendation, based on analysis of publicly available information and known observations.
- To conduct audit annually

**C. Details of services provided to investors (No Indicative Timelines)**

- Onboarding of Clients
- Disclosure to Clients:  
To distribute research reports and recommendations to the clients without discrimination.
- To maintain confidentiality w.r.t publication of the research report until made available in the public domain.

**D. Details of grievance redressal mechanism and how to access it**

In case of any grievance / complaint, an investor should approach the concerned Research Analyst and shall ensure that the grievance is resolved within 30 days.

If the investor's complaint is not redressed satisfactorily, one may lodge a complaint with SEBI on SEBI's SCORES portal which is a centralized web based complaints



redressal system. SEBI takes up the complaints registered via SCORES with the concerned intermediary for timely redressal. SCORES facilitates tracking the status of the complaint.

With regard to physical complaints, investors may send their complaints to: Office of Investor Assistance and Education, Securities and Exchange Board of India, SEBI Bhavan, Plot No. C4-A, 'G' Block, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051.

#### **E. Expectations from the investors (Responsibilities of investors)**

- **Do's**

- Always deal with SEBI registered Research Analyst.
- Ensure that the Research Analyst has a valid registration certificate.
- Check for SEBI registration number.
- Please refer to the list of all SEBI registered Research Analysts which is available on SEBI website in the following link:  
<https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpis&intmId=14>
- Always pay attention towards disclosures made in the research reports before investing.
- Pay your Research Analyst through banking channels only and maintain duly signed receipts mentioning the details of your payments.
- Before buying securities or applying in public offer, check for the research recommendation provided by your Research Analyst.
- Ask all relevant questions and clear your doubts with your Research Analyst before acting on the recommendation.
- Inform SEBI about Research Analyst offering assured or guaranteed returns.

- **Don'ts**

- Do not provide funds for investment to the Research Analyst.
- Don't fall prey to luring advertisements or market rumors.
- Do not get attracted to limited period discount or other incentive, gifts, etc. offered by Research Analyst.
- Do not share login credential and password of your trading and demat

accounts with the Research Analyst.

## ANNEXURE B

### COMPLAINT DATA TO BE DISPLAYED BY RAs

**Formats for investors complaints data to be disclosed monthly by RAs on their website/mobile application:**

Data for the month ending - \_\_\_\_\_

Sr. No.	Received from	Pending at the end of last month	Received	Resolved*	Total Pending#	Pending complaints > 3months	Average Resolution time^ (in days)
1	Directly from Investors						
2	SEBI (SCORES)						
3	Other Sources (if any)						
	<b>Grand Total</b>						

\* Inclusive of complaints of previous months resolved in the current month.

# Inclusive of complaints pending as on the last day of the month.

^ Average Resolution time is the sum total of time taken to resolve each complaint in days, in the current month divided by total number of complaints resolved in the current month.

#### Trend of monthly disposal of complaints

Sr. No.	Month	Carried forward from previous month	Received	Resolved*	Pending#
1	April, YYYY				
2	May, YYYY				
3	June, YYYY				
4	.....				
5	March, YYYY				
	<b>Grand Total</b>				

\* Inclusive of complaints of previous months resolved in the current month.

# Inclusive of complaints pending as on the last day of the month.

#### Trend of annual disposal of complaints

Sr. No.	Year	Carried forward from previous year	Received	Resolved*	Pending#
1	2018-19				
2	2019-20				
3	2020-21				
4	20XX-XX				
	<b>Grand Total</b>				

\* Inclusive of complaints of previous years resolved in the current year.

# Inclusive of complaints pending as on the last day of the year.

## ANNEXURE C

### ADVISORY FOR FINANCIAL SECTOR ORGANIZATIONS REGARDING SOFTWARE AS A SERVICE (SaaS) BASED SOLUTION

TLP:AMBER

**CERT-Fin Advisory- 201155100308**

**Advisory for Financial Sector Organisations - RBI and SEBI**

#### **Overview**

It has been learnt that some of the financial sector institutions are availing or thinking of availing Software as a Service (SaaS) based solution for managing their Governance, Risk & compliance (GRC) functions so as to improve their cyber security posture. Many a time the risk & compliance data of the institution moves cross border beyond the legal and jurisdictional boundary of India due to the nature of shared cloud SaaS. While SaaS may provide ease of doing business and quick turnaround, it also brings significant risk to the overall health of India's financial sector with respect to data safety and security.

#### **Description**

If the following data sets fall in the hands of an adversary/cyber attacker, it may lead to unprecedented increase in the attack surface area and weakening of Indian financial sector infrastructure's overall resilience.

- Credit Risk Data
- liquidity Risk Data
- Market Risk Data
- System & Sub-System Information
- Internal & Partner IP Schema
- Network Topography & Design
- Audit/Internal Audit Data
- System Configuration Data

- System Vulnerability Information
- Risk Exception Information
- Supplier Information & it's dependencies related Data

### **Solution**

The Financial Sector organisations may be advised to protect such critical data using layered defence approach and seamless protection against external or insider threat. The organisations may also be advised to ensure complete protection & seamless control over their critical system by continuous monitoring through direct control and supervision protocol mechanisms while keeping such critical data within the legal boundary of India.

The organisations may also be requested to report back to their respective regulatory authority regarding compliance to this advisory.

It is requested that you may kindly keep CERT-In informed of the actions taken and periodically provide the updated compliance to this advisory.

(It may be noted that TLP Amber means: limited disclosure, restricted to participants' organizations.

When should be used: Sources may use TLP:AMBER when information requires support to be effectively acted upon, yet carries risks to privacy, reputation, or operations if shared outside of the organizations involved.

How may it be shared: Recipients may only share TLP:AMBER information with members of their own organization, and with clients or customers who need to know the information to protect themselves or prevent further harm. Sources are at liberty to specify additional intended limits of the sharing: these must be adhered to.)

**ANNEXURE D**

**DECLARATION CUM UNDERTAKING FOR SEEKING PRIOR APPROVAL FOR  
CHANGE IN CONTROL**

We M/s. (Name of the intermediary/the acquirer/person who shall have the control), hereby declare and undertake the following with respect to the application for prior approval for change in control of (name of the intermediary along with the SEBI registration no.):

1. The applicant/intermediary (Name) and its principal officer, the directors or managing partners, the compliance officer and the key management persons and the promoters or persons holding controlling interest or persons exercising control over the applicant, directly or indirectly (in case of an unlisted applicant or intermediary, any person holding twenty percent or more voting rights, irrespective of whether they hold controlling interest or exercise control, shall be required to fulfill the 'fit and proper person' criteria) are fit and proper person in terms of Schedule II of SEBI (Intermediaries) Regulations, 2008.
2. We bear integrity, honesty, ethical behaviour, reputation, fairness and character.
3. We do not incur following disqualifications mentioned in Clause 3(b) of Schedule II of SEBI (Intermediaries) Regulations, 2008 i.e.
  - (i) No criminal complaint or information under section 154 of the Code of Criminal Procedure, 1973 (2 of 1974) has been filed against us by the Board and which is pending.
  - (ii) No charge sheet has been filed against us by any enforcement agency in matters concerning economic offences and is pending.
  - (iii) No order of restraint, prohibition or debarment has been passed against us by the Board or any other regulatory authority or enforcement agency in any matter concerning securities laws or financial markets and such order is in force.
  - (iv) No recovery proceedings have been initiated by the Board against us and are pending.
  - (v) No order of conviction has been passed against us by a court for any offence

involving moral turpitude.

- (vi) No winding up proceedings have been initiated or an order for winding up has been passed against us.
  - (vii) We have not been declared insolvent.
  - (viii) We have not been found to be of unsound mind by a court of competent jurisdiction and no such finding is in force.
  - (ix) We have not been categorized as a wilful defaulter.
  - (x) We have not been declared a fugitive economic offender.
4. We have not been declared as not 'fit and proper person' by an order of the Board.
5. No notice to show cause has been issued for proceedings under SEBI(Intermediaries) Regulations, 2008 or under section 11(4) or section 11B of the SEBI Act during last one year against us.
6. It is hereby declared that we and each of our promoters, directors, principal officer, compliance officer and key managerial persons are not associated with vanishing companies.
7. We hereby undertake that there will not be any change in the Board of Directors of incumbent, till the time prior approval is granted.
8. We hereby undertake that pursuant to grant of prior approval by SEBI, the incumbent shall inform all the existing investors/ clients about the proposed change prior to effecting the same, in order to enable them to take informed decision regarding their continuance or otherwise with the new management.

The said information is true to our knowledge.

(stamped and signed by the Authorised Signatories)

## ANNEXURE E

### PRINCIPLES FOR OUTSOURCING FOR INTERMEDIARIES

1. **An intermediary seeking to outsource activities shall have in place a comprehensive policy to guide the assessment of whether and how those activities can be appropriately outsourced. The Board / partners (as the case may be) {hereinafter referred to as the “the Board”} of the intermediary shall have the responsibility for the outsourcing policy and related overall responsibility for activities undertaken under that policy.**
  - 1.1. The policy shall cover activities or the nature of activities that can be outsourced, the authorities who can approve outsourcing of such activities, and the selection of third party to whom it can be outsourced. For example, an activity shall not be outsourced if it would impair the supervisory authority's right to assess, or its ability to supervise the business of the intermediary. The policy shall be based on an evaluation of risk concentrations, limits on the acceptable overall level of outsourced activities, risks arising from outsourcing multiple activities to the same entity, etc.
  - 1.2. The Board shall mandate a regular review of outsourcing policy for such activities in the wake of changing business environment. It shall also have overall responsibility for ensuring that all ongoing outsourcing decisions taken by the intermediary and the activities undertaken by the third-party, are in keeping with its outsourcing policy.
2. **The intermediary shall establish a comprehensive outsourcing risk management programme to address the outsourced activities and the relationship with the third party.**
  - 2.1. An intermediary shall make an assessment of outsourcing risk which depends on several factors, including the scope and materiality of the outsourced activity, etc. The factors that could help in considering materiality



in a risk management programme include-

- 2.1.1. The impact of failure of a third party to adequately perform the activity on the financial, reputational and operational performance of the intermediary and on the investors / clients;
  - 2.1.2. Ability of the intermediary to cope up with the work, in case of non performance or failure by a third party by having suitable back-up arrangements;
  - 2.1.3. Regulatory status of the third party, including its fitness and probity status;
  - 2.1.4. Situations involving conflict of interest between the intermediary and the third party and the measures put in place by the intermediary to address such potential conflicts, etc.
- 2.2. While there shall not be any prohibition on a group entity / associate of the intermediary to act as the third party, systems shall be put in place to have an arm's length distance between the intermediary and the third party in terms of infrastructure, manpower, decision-making, record keeping, etc. for avoidance of potential conflict of interests. Necessary disclosures in this regard shall be made as part of the contractual agreement. It shall be kept in mind that the risk management practices expected to be adopted by an intermediary while outsourcing to a related party or an associate would be identical to those followed while outsourcing to an unrelated party.
- 2.3. The records relating to all activities outsourced shall be preserved centrally so that the same is readily accessible for review by the Board of the intermediary and / or its senior management, as and when needed. Such records shall be regularly updated and may also form part of the corporate governance review by the management of the intermediary.
- 2.4. Regular reviews by internal or external auditors of the outsourcing policies, risk management system and requirements of the regulator shall be

mandated by the Board wherever felt necessary. The intermediary shall review the financial and operational capabilities of the third party in order to assess its ability to continue to meet its outsourcing obligations.

**3. The intermediary shall ensure that outsourcing arrangements neither diminish its ability to fulfill its obligations to customers and regulators, nor impede effective supervision by the regulators.**

3.1. The intermediary shall be fully liable and accountable for the activities that are being outsourced to the same extent as if the service were provided in-house.

3.2. Outsourcing arrangements shall not affect the rights of an investor or client against the intermediary in any manner. The intermediary shall be liable to the investors for the loss incurred by them due to the failure of the third party and also be responsible for redressal of the grievances received from investors arising out of activities rendered by the third party.

3.3. The facilities / premises / data that are involved in carrying out the outsourced activity by the service provider shall be deemed to be those of the registered intermediary. The intermediary itself and Regulator or the persons authorized by it shall have the right to access the same at any point of time.

3.4. Outsourcing arrangements shall not impair the ability of SEBI/SRO or auditors to exercise its regulatory responsibilities such as supervision/inspection of the intermediary.

**4. The intermediary shall conduct appropriate due diligence in selecting the third party and in monitoring of its performance.**

4.1. It is important that the intermediary exercises due care, skill, and diligence in the selection of the third party to ensure that the third party has the ability and capacity to undertake the provision of the service effectively.

4.2. The due diligence undertaken by an intermediary shall include assessment

of:

- 4.2.1. third party's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed;
  - 4.2.2. compatibility of the practices and systems of the third party with the intermediary's requirements and objectives;
  - 4.2.3. market feedback of the prospective third party's business reputation and track record of their services rendered in the past;
  - 4.2.4. level of concentration of the outsourced arrangements with a single third party; and
  - 4.2.5. the environment of the foreign country where the third party is located.
5. **Outsourcing relationships shall be governed by written contracts / agreements / terms and conditions (as deemed appropriate) {hereinafter referred to as "contract"} that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of the parties to the contract, client confidentiality issues, termination procedures, etc.**
- 5.1. Outsourcing arrangements shall be governed by a clearly defined and legally binding written contract between the intermediary and each of the third parties, the nature and detail of which shall be appropriate to the materiality of the outsourced activity in relation to the ongoing business of the intermediary.
  - 5.2. Care shall be taken to ensure that the outsourcing contract:
    - 5.2.1. clearly defines what activities are going to be outsourced, including appropriate service and performance levels;

- 5.2.2. provides for mutual rights, obligations and responsibilities of the intermediary and the third party, including indemnity by the parties;
- 5.2.3. provides for the liability of the third party to the intermediary for unsatisfactory performance/other breach of the contract
- 5.2.4. provides for the continuous monitoring and assessment by the intermediary of the third party so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable the intermediary to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations;
- 5.2.5. includes, where necessary, conditions of sub-contracting by the third-party, i.e. the contract shall enable intermediary to maintain a similar control over the risks when a third party outsources to further third parties as in the original direct outsourcing;
- 5.2.6. has unambiguous confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the contract and also after the expiry of the contract;
- 5.2.7. specifies the responsibilities of the third party with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
- 5.2.8. provides for preservation of the documents and data by third party;
- 5.2.9. provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
- 5.2.10. provides for termination of the contract, termination rights, transfer of information and exit strategies;

5.2.11. addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when intermediary outsources its activities to foreign third party. For example, the contract shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction;

5.2.12. neither prevents nor impedes the intermediary from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and

5.2.13. provides for the intermediary and /or the regulator or the persons authorized by it to have the ability to inspect, access all books, records and information relevant to the outsourced activity with the third party.

**6. The intermediary and its third parties shall establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.**

6.1. Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines.

6.2. An intermediary shall take appropriate steps to assess and address the potential consequence of a business disruption or other problems at the third party level. Notably, it shall consider contingency plans at the third party; co-ordination of contingency plans at both the intermediary and the third party; and contingency plans of the intermediary in the event of non-performance by the third party.

6.3. To ensure business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of the intermediary to fulfill its obligations to other market participants/clients/regulators and could undermine the privacy interests of

its customers, harm the intermediary's reputation, and may ultimately impact on its overall operational risk profile. Intermediaries shall, therefore, seek to ensure that third party maintains appropriate IT security and robust disaster recovery capabilities.

6.4. Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken by the intermediary to confirm the adequacy of the third party's systems.

**7. The intermediary shall take appropriate steps to require that third parties protect confidential information of both the intermediary and its customers from intentional or inadvertent disclosure to unauthorised persons.**

7.1. An intermediary that engages in outsourcing is expected to take appropriate steps to protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.

7.2. The intermediary shall prevail upon the third party to ensure that the employees of the third party have limited access to the data handled and only on a "need to know" basis and the third party shall have adequate checks and balances to ensure the same.

7.3. In cases where the third party is providing similar services to multiple entities, the intermediary shall ensure that adequate care is taken by the third party to build safeguards for data security and confidentiality.

**8. Potential risks posed where the outsourced activities of multiple intermediaries are concentrated with a limited number of third parties.**

In instances, where the third party acts as an outsourcing agent for multiple intermediaries, it is the duty of the third party and the intermediary to ensure that strong safeguards are put in place so that there is no co-mingling of information /documents, records and assets.

## ANNEXURE F

### Detailed framework for RAASB and IAASB

#### 1. Criteria for grant of recognition as RAASB and IAASB:

1.1. The recognition of a recognised stock exchange as RAASB and IAASB under regulation 14 of RA Regulations and IA Regulations respectively shall be based on the following eligibility criteria:

- (i) Minimum number of years of existence as recognised stock exchange: 15 years;
- (ii) Minimum net worth of recognised stock exchange: INR 200 crores;
- (iii) Stock exchange having nation-wide terminals;
- (iv) Investor grievance redressal mechanism including Online Dispute Resolution Mechanism;
- (v) Capacity for investor service management gauged through reach of Investor Service Centers (ISCs): Stock exchange having ISCs in at least 20 cities.

#### 2. Setting up of requisite systems by stock exchange recognised as RAASB/ IAASB:

2.1. The stock exchange recognised as RAASB/IAASB shall include in its Memorandum of Association, Articles of Association and bye-laws, requisite provisions to fulfil the role and responsibilities specified in para 3 below.

2.2. The stock exchange recognised as RAASB/IAASB shall maintain necessary infrastructure like adequate office space, equipment and manpower to effectively discharge the responsibilities of RAASB/ IAASB. Infrastructure may be shared with other group entities where required.

2.3. The stock exchange recognised as RAASB/IAASB shall put in place systems/ processes for maintaining database of RAs/IAs, sharing of information with SEBI and discharging the responsibilities of RAASB/ IAASB.

2.4. RAASB and IAASB shall constitute an internal committee to oversee the activities of administration and supervision of RAs and IAs. The committee shall periodically

review the performance of the stock exchange as RAASB/ IAASB and make recommendations to SEBI. The constitution of the committee shall be as follows:

- (i) Public Interest Directors shall form the majority of the committee;
- (ii) A maximum of two key management personnel of the stock exchange can be on the committee;
- (iii) The committee shall also include independent external persons representing RAs, IAs and proxy advisors, with minimum one representative for each segment.

### 3. Responsibilities of SEBI and RAASB/ IAASB:

3.1. The core functions relating to registration, enforcement action and disciplinary or penal action shall remain with SEBI and SEBI shall continue to register IAs and RAs as per the mandate given under the Securities and Exchange Board of India Act, 1992. The following functions as specified in the table below shall be performed concurrently by SEBI and RAASB or IAASB, as the case may be.

SEBI	Proposed RAASB/IAASB
<p>1. Approval of registration applications of RAs/IAs – fresh registration as well as application made pursuant to change in control</p> <p>2. Approval for post-registration applications such as –</p> <ol style="list-style-type: none"> <li>a. Change of name</li> <li>b. Change of address</li> <li>c. Change of compliance officer/ principal officer/ director/ associated</li> </ol>	<p><b><u>Activities pertaining to administration:</u></b></p> <ol style="list-style-type: none"> <li>1. Initial scrutiny of registration applications for ensuring completeness of submission of information/ documents along with recommendation on the applications to SEBI</li> <li>2. Initial scrutiny of post-registration applications illustrated below for ensuring completeness of submission of information/ documents along with recommendation on the applications to SEBI:               <ol style="list-style-type: none"> <li>a. Change of name</li> <li>b. Change of address</li> <li>c. Change of compliance officer/ principal officer/ director/ associated person, contact details, etc.</li> <li>d. Change in shareholding</li> </ol> </li> </ol>



	<p>person, contact details, etc.</p> <p>d. Change in shareholding</p> <p>e. Merger/ amalgamation/ takeover/ change in control of RA/IA</p> <p>f. Surrender of registration</p> <p>g. NOC for establishing wholly owned subsidiary/ joint venture in foreign jurisdiction, etc.</p> <p>3. Supervision of RAs/IAs</p> <p>4. Taking enforcement action suo moto or otherwise</p> <p>5. Taking disciplinary/ penal action including levying penalty on recommendation of proposed body</p> <p>6. Grievance redressal</p>	<p>e. Merger/amalgamation/takeover/change in control of RA/IA</p> <p>f. Surrender of registration</p> <p>g. NOC for establishing wholly owned subsidiary/ joint venture in foreign jurisdiction, etc.</p> <p>3. Approval of advertisements of RAs/IAs as per Advertisement Code issued by SEBI</p> <p>4. Maintenance of database of RAs/IAs</p> <p>5. Enlisting RAs/IAs in the proposed RAASB/IAASB</p> <p>6. Issuance of circulars/instructions/standard operating procedures, etc. to RAs/IAs for implementation of provisions of SEBI regulations/ circulars</p> <p>7. Submission of periodical reports to SEBI</p> <p>8. Collection and administration of fees.</p> <p><b><u>Activities pertaining to supervision:</u></b></p> <p>9. Monitoring the activities of RAs/IAs by obtaining Annual Compliance Audit Report and other periodic/ad-hoc reports covering general details of RAs/IAs, details of customer complaints, details of clients, etc.</p> <p>10. Monitoring compliance of regulations/ circulars by Ras/IAs</p> <p>11. Grievance redressal and Arbitration/ Online Dispute Resolution (ODR)</p> <p>12. Taking administrative action including imposition of penalties and issuing warning/caution letter</p>
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	<p>13. Referring to SEBI for enforcement action against RAs/IAs.</p> <p>In addition to the above, the recognised RAASB/IAASB may be assigned with on-site/offsite inspection of RAs/IAs, to be done on behalf of/concurrently with SEBI and any other activity as may be specified by SEBI.</p>
<p><b>4. Enlistment of RAs/IAs with RAASB/IAASB:</b></p> <p>4.1. Amendments have been made to RA/IA Regulations to provide for 'enlistment' of RAs/IAs with RAASB/IAASB in place of the earlier provision of 'membership' of RAs/IAs with RAASB/IAASB. Under the amended regulations, an applicant seeking registration as RA./IA shall be required to 'enlist' with RAASB/IAASB.</p> <p>4.2. Further, in order to provide ease of doing business and to ensure smooth operationalization of RAASB and IAASB framework and to prevent disruption for existing RAs and IAs registered with SEBI, the following has been provided for:</p> <ul style="list-style-type: none"> <li>(i) Existing RAs registered with SEBI shall be deemed to be enlisted with RAASB. Existing IAs registered with SEBI who are also members of BASL<sup>24</sup> shall be deemed to be enlisted with the IAASB recognised under this framework.</li> <li>(ii) Applications for registration as RA received and under process with SEBI up to the effective date of operationalization of RAASB framework shall continue to be processed by SEBI. Such RAs shall be deemed to be enlisted with RAASB once registration is granted by SEBI.</li> <li>(iii) Applications for registration as IA pending with SEBI/BASL at the time of operationalization of IAASB framework shall continue to be processed by SEBI/BASL. Once registration is granted by SEBI, such IAs shall be deemed to be enlisted with the IAASB recognised under this framework.</li> </ul>	

<sup>24</sup> BASL- BSE Administration and Supervision Limited ("BASL") which is currently recognized as IAASB

(iv) New applications received from the effective date of operationalization of RAASB/IAASB framework shall be routed through RAASB/IAASB. In such cases, enlistment with RAASB/ IAASB shall be a pre-requisite for grant of certificate of registration as RA/ IA by SEBI.

(v) With reference to the RAs/IAs/applicants referred in point (i) to (iii) above, it is clarified that no additional documentation shall be required to be submitted by such RAs/IAs/applicants for enlistment with RAASB or IAASB as the case may be.

#### **5. Repeal and Savings with respect to erstwhile IAASB framework**

5.1 Any action taken or purported to have been taken or any action that may be taken against any person in relation to the membership of IAASB recognised under regulation 14 of IA Regulations shall be deemed to have been done or taken or may be taken under the corresponding provisions of the amended IA regulations.

#### **6. Measures for promoting efficiency**

6.1 To begin with, in order to ensure efficiency in the system and economies of scale, RAASB and IAASB shall be one and the same stock exchange.

6.2 In cases where a person has registration as both RA as well as IA, in the interest of efficiency, a single window clearance of various approvals shall be adopted. Details in this regard shall be specified by the recognised RAASB and IAASB.

#### **7. Submission of Periodic Reports**

7.1 Pursuant to operationalization of RAASB/ IAASB framework, all registered RAs/ IAs shall submit periodic reports to RAASB/ IAASB in the manner specified by SEBI.

#### **8. Monitoring of RAASB/IAASB**

8.1 SEBI shall monitor RAASB and IAASB through periodical reports and inspection regarding administration and supervision of RAs and IAs.

**VIII. APPENDIX: LIST OF CIRCULARS / NOTIFICATIONS/ COMMUNICATIONS**

<b>Sr. No.</b>	<b>Circular/ Notification No.</b>	<b>Date</b>	<b>Subject</b>
1	Cir/ ISD/1/2011	23-Mar-11	Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication
2	CIR/ISD/2/2011	24-Mar-11	Addendum to Circular no. Cir/ISD/1/2011 dated March 23, 2011
3	CIR/MIRSD/24/2011	15-Dec-11	Guidelines on Outsourcing of Activities by Intermediaries
4	CIR/MIRSD/5/2013	27-Aug-13	General Guidelines for dealing with Conflicts of Interest of Intermediaries and their Associated Persons in Securities Market
5	CIR/MIRSD/3/2014	28-Aug-14	Information regarding Grievance Redressal Mechanism
6	SEBI/HO/IMD/DF1/CIR/P/2020/147	03-Aug-20	Procedural Guidelines for Proxy Advisors
7	SEBI/HO/CFD/CMD1/CI R/P/2020/119	04-Aug-20	Grievance Resolution between listed entities and proxy advisers
8	SEBI/HO/IMD/DF1/CIR/P/2020/157	27-Aug-20	Procedural Guidelines for Proxy Advisors' - Extension of implementation timeline
9	SEBI/HO/CFD/CMD1/CI R/P/2020/159	27-Aug-20	Grievance Resolution between listed entities and proxy advisers' –Extension of timeline for implementation
10	SEBI/HO/MIRSD2/DOR /CIR/P/2020/221	03-Nov-20	Advisory for Financial Sector Organizations regarding Software as a Service (SaaS) based solutions
11	SEBI/HO/IMD/DF1/CIR/P/2020/256	31-Dec-20	Procedural Guidelines for Proxy Advisors
12	SEBI/HO/IMD/IMD-II CIS/P/CIR/2021/0685	13-Dec-21	Publishing of Investor Charter and disclosure of Investor Complaints by

<b>Sr. No.</b>	<b>Circular/ Notification No.</b>	<b>Date</b>	<b>Subject</b>
			Research Analysts on their websites/mobile applications
13	SEBI/HO/DEPA-III/DEPA-III_SSU/P/CIR/2022/25	25-Feb-22	Approach to securities market data access and terms of usage of data provided by data sources in Indian securities market
14	SEBI/HO/MIRSD/MIRSD-PoD-2/P/CIR/2022/163	28-Nov-22	Procedure for seeking prior approval for change in control
15	SEBI/HO/MIRSD/MIRSD-PoD-2/P/CIR/2023/51	05-Apr-23	Advertisement code for Investment Advisers (IA) and Research Analysts (RA)
16	SEBI/HO/MIRSD/MIRSD-PoD-2/P/CIR/2023/52	06-Apr-23	Usage of brand name/trade name by Investment Advisers (IA) and Research Analysts (RA)
17	SEBI/HO/MIRSD/MIRSD-SEC-3/P/CIR/2024/34	02-May-24	Framework for administration and supervision of Research Analysts and Investment Advisers

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