

CIRCULAR

SEBI/HO/MIRSD/ MIRSD-PoD-1/P/CIR/2025/003

January 08, 2025

To,

All Registered Investment Advisers

BSE Limited (Investment Adviser Administration and supervisory body- IAASB)

Sir / Madam,

Sub: Guidelines for Investment Advisers

1. Securities and Exchange Board of India (SEBI), after considering the inputs from public consultation, has reviewed the framework for regulation of Investment Advisers (IA) and has notified Securities and Exchange Board of India (Investment Advisers) (Second Amendment) Regulations, 2024 (hereinafter referred to as “amendments to IA Regulations”) on December 16, 2024. These amendments have come into force on the date of notification i.e. on December 16, 2024.
2. The investment advisers shall ensure compliance with the aforesaid amendments to IA Regulations and the following guidelines specified under the amended SEBI (Investment Advisers) Regulations, 2013 (hereinafter referred to as “IA Regulations”):
 - i. **Deposit requirement:**
 - a. As per Regulation 8 of the IA Regulations, an investment adviser shall maintain a deposit of such sum, as specified by SEBI from time to time. The deposit requirements shall be based on the maximum number of clients of IA on any day of the previous financial year, as under:

No. of clients	Deposit
Up to 150 clients	₹ 1 lakh
151 to 300 clients	₹ 2 lakh
301 to 1,000 clients	₹ 5 lakhs
1,001 and above clients	₹ 10 lakhs

- b. The deposit shall be maintained with a scheduled bank marked as lien in favor of Investment Adviser Administration and Supervisory body (IAASB), in the manner and form as may be specified by IAASB.
- c. The deposit amount may be revised for any change in applicable amount of deposit, based on the maximum number of clients on any day in the previous financial year, latest by 30th April of the subsequent financial year.
- d. The deposit requirements shall be reviewed by SEBI from time to time.
- e. The existing IAs shall ensure compliance with the deposit requirement latest by June 30, 2025. For the new applicants seeking registration as IA, the deposit requirement shall become effective immediately from the date of this circular.

ii. Registration both as Investment Adviser and Research analyst:

In terms of the proviso to Regulation 9 of the IA Regulations, an individual or partnership firm registered as a research analyst may be granted certificate of registration as an investment adviser, subject to such terms and conditions as the SEBI may deem fit and appropriate. Accordingly, these terms and conditions are as under:

- a. A research analyst, who is an Individual or partner-ship firm, registered under the SEBI (Research Analysts) Regulations, 2014 (RA Regulations), may be considered eligible for grant of certificate of registration as IA under the IA Regulations provided that it shall comply with the rules/regulations/reporting requirements under each of these regulations viz. IA Regulations and RA Regulations separately.

- b. Such IA/RA shall provide an undertaking stating that it shall maintain arms-length relationship between its activity as IA and RA and shall ensure that its investment advisory services and research services are clearly segregated from each other.

iii. Registration as part-time investment adviser:

- a. In terms of Regulation 2(1)(qa) read with regulation 2(1)(pb) of IA Regulations, a part-time IA is an individual or partnership firm who is also engaged in any other business activity/employment which is unrelated to securities and does not involve handling/ managing of money/ funds of client/ person or providing advice/ recommendation to any client/person in respect of any products/ assets for investment purposes.
- b. An applicant engaged in any activity or business or employment permitted by any financial sector regulator or an activity under the purview of statutory self-regulatory organisations such as Institute of Chartered Accountants of India ('ICAI'), Institute of Company Secretaries of India (ICSI), Institute of Cost Accountants of India (ICMAI) etc. shall be considered eligible for registration as part-time IA.
- c. In terms of regulation 2(1)(m) read with regulation 7 of IA Regulations, Part-time IAs shall be required to have similar qualification and certification requirements as prescribed under IA regulations for full-time IAs.
- d. Part-time IA shall provide an undertaking stating that it shall maintain arms-length relationship between its activity as IA and other activities and shall ensure that its investment advisory services are clearly segregated from all its other activities at all stages of client engagement.
- e. Part-time IA shall provide disclaimer prominently (minimum 10 font size) and attracting the attention of the investor while providing their other service/raising invoice related to other business/service that the activity/invoice is related to services not under purview of SEBI and no complaint can be raised to SEBI for the services rendered therein.

- f. The part-time IA shall disclose the nature of other activities to their clients and shall ensure that there is no conflict of interest between its IA activity and its other business activities or employment.
- g. For the purpose of providing additional clarity as to whether a person shall or shall not be considered eligible for registration as part-time IA, reference may be made to the following explanations/illustrations regarding other business activities or employment that a person shall or shall not engage in.

Example/Illustration 1:

Who shall be considered eligible for registration as part-time IA?

A person shall be considered eligible for registration as part-time IA if it-

- (i) is a member of ICAI or ICSI or ICMAI providing their statutory services or an insurance agent having license from Insurance Regulatory and Development Authority of India ('IRDAI').
- (ii) is professional such as an architect, lawyer, doctor etc.
- (iii) is employed as a professor or a teacher etc., or is engaged in education business or activity:

Provided that such person is not engaged in any of the two prohibited activities under Regulation 16A of Securities and Exchange Board of India (Intermediaries) Regulations, 2008 i.e.-

- (a) providing advice or any recommendation, directly or indirectly, in respect of or related to a security or securities, without being registered with or otherwise permitted by the SEBI to provide such advice or recommendation; and
- (b) making any claim, of returns or performance expressly or impliedly, in respect of or related to a security or securities, without being permitted by the SEBI to make such a claim.

Example/Illustration 2:

Who shall not be considered eligible for registration as part-time IA?

If a person is engaged in a business/activity of providing advice/recommendations on assets such as gold, real estate, cryptocurrency etc., it shall not be considered eligible for registration as part-time IA.

Example/Illustration 3:

Who is required to register as part-time IA?

If a CA for the purpose of tax planning/tax filing provides advice/recommendation on securities as an asset class to its client as an incidental advice to its primary activity, it is not required to get registered as a part-time IA. However, if a CA is providing security-specific advice to a specific client, even though as part of tax planning/tax filing, it is required to seek registration as part-time IA.

iv. Designation as ‘principal officer’:

- a. Regulation 2(1)(s) of IA Regulations provides that in case of non-individual investment adviser being a partnership firm, one of the partners shall be designated as its principal officer. It further provides that in case no partner of the partnership firm registered as an investment adviser has minimum qualification and certification requirements provided under the IA Regulations, it shall apply for registration as an investment adviser in the form of a limited liability partnership or a body corporate within such time as may be specified by the SEBI.
- b. Accordingly, a partnership firm registered as an investment adviser, where no partner of the firm has the minimum qualification and certification requirements provided under the Regulations, shall apply for registration as an investment adviser in the form of a limited liability partnership or a body corporate latest by September 30, 2025.

v. Appointment of an independent professional as Compliance Officer:

- a. In terms of Regulation 20 of the IA Regulations, a non-individual investment adviser may appoint an independent professional who is a member of ICAI or ICSI or ICMAI or member of any other professional body as may be specified

by the SEBI, provided such a professional holds a relevant certification from NISM, as may be specified by the SEBI. In such cases, the principal officer shall submit an undertaking to IAASB/SEBI to the effect that principal officer shall be responsible for monitoring the compliance in respect of the requirements of the Act, regulations, notifications, guidelines, instructions issued by SEBI/IAASB.

b. A non-individual IA may appoint such an independent professional as compliance officer who holds certifications from NISM by passing the following certification examinations-

- NISM-Series-X-A: Investment Adviser (Level 1) Certification Examination,
- NISM-Series-X-B: Investment Adviser (Level 2) Certification Examination,
- NISM-Series-X-C: Investment Adviser Certification (Renewal) Examination, and
- NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination

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

a. In terms of scope of the 'investment advice' under Regulation 2(1)(I) of the IA Regulations, Investment advice related to securities under purview of SEBI shall only fall under the purview of IA Regulations.

b. It is however noted that IAs may also provide financial planning services to their clients and comprehensive financial planning may include the investment advice related to products or services not under the purview of SEBI. In this regard, the following is specified for IAs providing investment advice related to products or services not under the purview of SEBI to their clients-

For the products and services not under the purview of SEBI, IA shall make disclosure to the client and take appropriate declaration and undertaking from the client that that such products/services and the services of IA in respect of such products/services do not come under regulatory purview of SEBI and that

no recourse is available to them with SEBI for their grievances related to such products/services or services of IA in respect of such products/services. IAs shall make the aforesaid disclosure and obtain appropriate declaration and undertaking while on-boarding new client. For existing clients, IAs shall ensure compliance with these requirements latest by April 30, 2025.

vii. Use of Artificial Intelligence ('AI') tools in IA services

- a. In terms of Regulation 15(14) of the IA Regulations, an investment adviser who uses Artificial Intelligence tools, irrespective of the scale and scenario of adoption of such tools, for servicing its clients shall be solely responsible for the security, confidentiality, integrity of the client data, use of any other information or data to arrive at investment advice, investment advice based on output of Artificial Intelligence tools and compliance with any law for the time being in force. Further, in terms of Regulation 18(9) of the IA Regulations, an investment adviser shall disclose to the client the extent of use of Artificial Intelligence tools in providing investment advice.
- b. Investment Adviser shall provide the disclosure of the extent of use of Artificial Intelligence tools by them in providing investment advice to their clients at the time of entering into the agreement and make such additional disclosure whenever required.
- c. For the existing clients, investment advisers shall comply with the requirements under this clause latest by April 30, 2025.

viii. Fees and flexibility in change of modes of charging fee to clients

- a. Regulation 15A of the IA Regulations provide that IAs shall be entitled to charge fees from a client in the manner as specified by SEBI. In terms of the fee related provisions, IAs can charge fees under two modes, namely, (i) Assets under Advice ('AUA') mode, which is subject to a limit of 2.5 per cent of AUA per annum per family of client across all services offered by IA, and (ii) Fixed fee mode, which is subject to a specified fee limit (earlier limit ₹1,25,000) per annum per family of client across all services offered by IA.

- b. The maximum fee that may be charged by the IA under the fixed fee mode now stands revised and shall not exceed ₹1,51,000 per annum per family of client. The fee limit shall be revised and announced by IAASB once in three years based on the Cost Inflation Index (CII) after due consultation with SEBI.
- c. In terms of the earlier provisions, IA could charge fees from a client under any one mode, i.e., Assets under Advice (AUA) mode or fixed fee mode on an annual basis. Change of mode, if any, can be effected only after twelve months of on-boarding/last change of mode.
- In order to provide more flexibility in charging of fees, IAs have now been allowed to change the fee mode for a client at any time, without restriction on the minimum period between two fee mode changes. The maximum fee that can be charged by the IA shall, however, not exceed the higher of fee limit under the fixed fee mode or 2.5 per cent of AUA per annum per family of client.
- d. The fee limits do not include statutory charges.
- e. The provisions related to limits on fee chargeable by IAs shall only apply to their individual and Hindu Undivided Family (HUF) clients. These shall not be applicable in case of non-individual clients and accredited investors and in such cases, the limits and modes of fees payable to the IA shall be governed through bilaterally negotiated contractual terms.
- f. In terms of revised scope of the 'investment advice' under Regulation 2(1)(I) of the IA Regulations, Investment advice related to securities under purview of SEBI shall only fall under the purview of IA Regulations. As provided under Regulation 2(1) (ac) of IA Regulations, for the purpose of charging fee under AUA mode, AUA shall mean the aggregate net asset value of securities under the purview of SEBI. Accordingly, it is clarified that the limits on fee chargeable to clients by IAs shall be applicable only in respect of investment advice related to securities under purview of SEBI.
- g. The fee limit and mode of fees payable for the existing Individual/HUF clients shall remain unchanged till the expiry of the current agreement, or up to June

30, 2025, whichever is earlier. For new clients, the fee related provisions under this clause shall be effective from the date of this circular.

ix. Registration as non-individual investment adviser

- a. As per Regulation 13(e) of the IA Regulations, an individual IA, whose number of clients exceed three hundred at any point of time or the fee collected during the financial year exceeds three crore rupees, whichever is earlier, is required to apply for in-principal registration as non-individual IA.
- b. The “number of clients” shall mean number of client agreements in force at any point of time i.e. limit of 300 clients not to be exceeded on any day.
- c. In order to ease the process of transition from individual IA to non-individual IA, an individual IA shall initially be required to apply for grant of in-principle registration as non-individual IA which shall be valid for a period of up to three months within which time, the IA is required to complete the transition process. On completion of transition within the time limit, the IA shall surrender his individual IA registration certificate and will be granted final registration as non-individual IA subject to compliance with all the requisite requirements of registration. During the transition period, individual IA shall continue to service existing clients.
- d. In case the aforesaid IA does not get registration as a non-individual IA, such IA shall continue the advisory activities as an Individual IA while ensuring the applicable limits on the number of clients and fee collected.

x. Client level segregation of advisory and distribution activities

- a. Regulation 22 of the IA Regulations provides for the segregation of advisory and distribution activities by IA at family and group level.
- b. The IAs providing investment advisory services exclusively to institutional clients and accredited investors may not be subject to compliance with the requirements of segregation of investment advisory and distribution activities provided that the client/investor signs a standard waiver stating the above.
- c. Stock broking activity is not considered as distribution activity for the purpose of regulation 22 of IA Regulations.

xi. Agreement between IA and the client

- a. Regulation 19 (1) (d) of the IA Regulations provides that IA shall enter into an investment advisory agreement with its clients. The agreement shall also include the Most Important Terms and Conditions (MITC) to be disclosed by IAs as may be specified by SEBI. MITC shall be standardised by industry standards forum (ISF) in consultation with IAASB and SEBI.
- b. IA shall also include the following as terms and conditions in their MITC:
“This agreement is for the investment advisory services provided by the IA and IA cannot execute/ carry out any trade (purchase/ sell transaction) on behalf of the client without his/her specific and positive consent on every trade. Thus, you are advised not to permit IA to execute any trade on your behalf without your explicit consent.”
- c. IAs shall also provide guidance to their clients in the agreement on the optional ‘Centralised Fee Collection Mechanism for IA and RA’ (CeFCoM).
- d. Consent of client to agreement between IA and client may be signed by the client in person or through any other legally acceptable mode including DigiLocker enabled Aadhaar based e-signature facility.
- e. For the existing clients, the IA shall comply with the requirements by disclosing the aforesaid terms and conditions and take their consent latest by June 30, 2025.

xii. Maintenance of record

- a. Regulation 22A of the IA Regulations provides that IAs may provide implementation services to the advisory clients in securities market. In this regard, IAs providing implementation/execution services shall maintain call recording of every consent for implementation/execution obtained from the client if advice/execution is given through telephone call. All such communications shall have time stamped to maintain clear audit trail.
- b. IAs shall ensure the compliance with requirements under this clause latest by June 30, 2025.

xiii. Compliance audit requirements

- a. As per regulation 19(3) of the IA Regulations, IA shall conduct annual audit in respect of compliance with SEBI (Investment Advisers) Regulations, 2013.
- b. Annual compliance audit report shall specify each of the provisions of the IA Regulations and the circulars and guidelines issued thereunder upon which compliance is reported.
- c. An IA shall -
 - (i) complete the annual compliance audit within six months from the end of each financial year and submit a compliance audit report to IAASB/SEBI within a period of one month from the date of the audit report.
 - (ii) submit adverse findings of audit, if any, along with action taken thereof duly approved by the individual IA or management of non-individual IA to IAASB/SEBI within a period of one month from the date of the audit report but not later than October 31st of each year for the previous financial year; and
 - (iii) maintain on record an annual certificate from a member of ICAI/ ICSI/ ICMAI or from an auditor confirming compliance with client level segregation requirements. Such annual certificate shall be obtained within six months of the end of the financial year and form part of compliance audit, in terms of Regulation 19(3) of the IA Regulations.
- d. IA shall publish the status of the compliance audit report on its website and shall also publish the adverse findings of audit, if any, along with the action taken thereof on their website. IA shall provide the compliance audit report to its clients.
- e. IAs shall ensure compliance with the additional audit requirements under this clause starting with for audit report of the financial year ending March 31, 2025.

xiv. **Requirement of website and the details on the website**

- a. In terms of Regulation 19A of IA Regulations, an investment adviser shall maintain a functional website and shall contain the details as may be specified by SEBI.
- b. IAs shall confirm the details of its website to IAASB latest by June 30, 2025.

3. **Applicability**

The provisions of this circular shall come into effect on the date of this circular unless otherwise mentioned separately under the respective clause(s).

4. This circular is issued in exercise of powers conferred under section 11(1) of the Securities and Exchange Board of India Act, 1992 read with aforesaid regulations of SEBI (Investment Advisers) Regulations, 2013, to protect the interests of investors in securities market and to promote the development of, and to regulate the securities market.
5. This circular is available on the SEBI website at www.sebi.gov.in under the category "Legal →Circulars".

Yours faithfully,

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