



भारतीय प्रतिभूति  
और विनिमय बोर्ड  
Securities and Exchange  
Board of India

DEPUTY GENERAL MANAGER  
INVESTMENT MANAGEMENT DEPARTMENT  
DIVISION OF FUNDS-1

IMD/ DoF-1/30106/ 2016  
November 02, 2016

**Karvy Stock Broking Limited**  
701, Hallmark Business Plaza,  
Sant Dnyaneshwar Marg,  
Bandra (East),  
Mumbai- 400 051.

Sir/ Madam,

**Sub:- Request for interpretive letter under the SEBI (Informal Guidance) Scheme, 2003 by Karvy Stock Broking Limited (Karvy).**

1. This has reference to your letter dated September 19, 2016, seeking an interpretive letter under the SEBI (Informal Guidance) Scheme, 2003 in connection with applicability of SEBI (Portfolio Managers) Regulations, 1993 {"PM Regulations"}:-
2. In your letter under reference you have *inter alia* represented as follows:-
  - a. Karvy is a SEBI registered Portfolio Manager.
  - b. In terms of Regulation 16(5) of the SEBI (Portfolio Managers) Regulations, 1993 (PM Regulations), the portfolio manager shall, ordinarily purchase or sell securities separately for each client. However, in the event of aggregation of purchases or sales for economy of scale, inter se allocation shall be done on a pro rata basis and at weighted average price of the day's transactions. The portfolio manager shall not keep any open position in respect of allocation of sales or purchases effected in a day.
  - c. In terms of Regulation 16(7) of PM regulations, the portfolio manager shall segregate each clients' funds and portfolio of securities and keep them separately from his own funds and securities and be responsible for safekeeping of clients' funds and securities.

सेबी भवन, प्लॉट सं. सी 4-ए, "जी" ब्लॉक, बांद्रा कुर्ला कॉम्प्लेक्स, बांद्रा (पूर्व), मुंबई - 400 051.  
दूरभाष : 2644 9950 / 4045 9950 (आई.वी.आर. एस.), 2644 9000 / 4045 9000 फैक्स : 2644 9019 से 2644 9022 वेब : www.sebi.gov.in



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- d. In terms of Regulation 16(8) of PM regulations, the portfolio manager shall not hold the listed securities [or unlisted securities], belonging to the portfolio account, in its own name on behalf of its clients either by virtue of contract with clients or otherwise.
- e. Vide circular no. IMD/DOF I/PMS/Cir- 4/2009 dated June 23, 2009, SEBI has clarified that, 'portfolio managers may keep the funds of all clients in a separate bank account maintained by the portfolio manager subject to the following conditions:
- a) There shall be a clear segregation of each client's fund through proper and clear maintenance of back office records
  - b) Portfolio Managers shall not use the funds of one client for another client.
  - c) Portfolio Managers shall also maintain an accounting system containing separate client-wise data for their funds and provide statement to clients for such accounts at least on monthly basis.
  - d) Portfolio Managers shall reconcile the client-wise funds with the funds in the aforesaid bank account on daily basis.
- f. With regard to the same, the process followed by Karvy is as under:
- i. A separate bank account is opened for pooling the funds of the clients. This separate bank account is named as "Karvy Stock Broking Limited A/c Discretionary PMS strategy Name" and is not a bank account owned by Karvy and exclusively maintaining the client's funds. The corporate benefits are also received in this account for distribution on a pro rata basis to the clients.
  - ii. Detailed back office records are maintained for funds of each client and the same is reconciled on daily basis with the separate bank account mentioned above. Other conditions of the circular dated June 23, 2009 are complied with.
  - iii. Separate demat accounts are opened in the name of the clients for transferring the allocated securities to the clients.
  - iv. The bank account named "Karvy Stock Broking Limited A/c Discretionary PMS strategy Name" is stated as the bank account of the client in the demat records.

On the said basis, you have sought an interpretive letter under SEBI (Informal Guidance) Scheme, 2003 from SEBI on whether the above mentioned process of stating the separate bank account named as "Karvy Stock Broking Limited A/c Discretionary PMS strategy Name" being the pooled bank account in the Demat account opening forms and demat records is in order.



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3. Our Comments

The submissions made in your letter has been considered and without necessarily agreeing with your analysis, our views on the issues raised in your letter under reference are as under:-

- a. In terms of Regulation 16(5) of the SEBI (Portfolio Managers) Regulations, 1993 (PM Regulations), *the portfolio manager shall, ordinarily purchase or sell securities separately for each client. However, in the event of aggregation of purchases or sales for economy of scale, inter se allocation shall be done on a pro rata basis and at weighted average price of the day's transactions. The portfolio manager shall not keep any open position in respect of allocation of sales or purchases effected in a day.*
- b. In terms of Regulation 16(7) of PM regulations, *the portfolio manager shall segregate each clients' funds and portfolio of securities and keep them separately from his own funds and securities and be responsible for safekeeping of clients' funds and securities.*
- c. In terms of Regulation 16(8) of PM regulations, *the portfolio manager shall not hold the listed securities [or unlisted securities], belonging to the portfolio account, in its own name on behalf of its clients either by virtue of contract with clients or otherwise.*
- d. Vide SEBI circular no. IMD/DOF I/PMS/Cir- 4/2009 dated June 23, 2009, it is clarified that, *'portfolio managers may keep the funds of all clients in a separate bank account maintained by the portfolio manager subject to the following conditions:*
  - a) *There shall be a clear segregation of each client's fund through proper and clear maintenance of back office records*
  - b) *Portfolio Managers shall not use the funds of one client for another client*
  - c) *Portfolio Managers shall also maintain an accounting system containing separate client-wise data for their funds and provide statement to clients for such accounts at least on monthly basis*
  - d) *Portfolio Managers shall reconcile the client-wise funds with the funds in the aforesaid bank account on daily basis'.*



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e. Therefore, we are of the view that :

A portfolio manager may keep the funds of all clients in a separate bank account maintained by it and may capture the same in the demat account of its resident Indian clients, subject to compliance with Regulation 16 of PM Regulations read with SEBI circular no. IMD/DOF I/PMS/Cir- 4/2009 dated June 23, 2009 .

4. This position is based on the representation made to the Division in your letters under reference. Different facts or conditions might require a different result. This letter does not express decision of the Board on the questions referred.
5. You may note that the above views are expressed only with respect to the clarification sought on SEBI (Portfolio Managers) Regulations, 1993 and do not affect the applicability of any law and other SEBI Regulations, guidelines and circulars administered by SEBI or any other authority.

Yours faithfully,

**Richa Goel Agarwal**

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KARVY STOCK BROKING

September 19, 2016

To:  
Investment Management Department  
Division of Funds - 1  
Securities and Exchange Board of India  
SEBI Bhavan Plot No C4 - A G Block  
Bandra Kurla Complex  
Bandra East Mumbai 400051

Kind Attn: Ms. Richa Goel Agarwal, DGM

Madam,

**Sub : Request for Interpretative letter/ Informal Guidance under the SEBI Informal Guidance Scheme 2003.**

Karvy Stock Broking Limited [Portfolio Manager] is a SEBI registered Portfolio Manager. As a Portfolio Manager, Karvy provides both discretionary and non discretionary portfolio management services to its clients.

By this letter, Karvy, in its capacity as a Portfolio manager – Discretionary Portfolio Management, is seeking interpretative letter/Informal guidance of SEBI on the provisions of the SEBI (Portfolio Managers) Regulations, 1993 (“Regulations”) as detailed below;

**A) Relevant Regulatory Provisions:**

Regulation 16(5) provides that:

*“ The portfolio manager shall ordinarily purchase or sell securities separately for each client, However in the event of aggregation of purchase or sales for economy of scale inter se allocation shall be done on a pro rata basis and at weighted average price of the day’s transactions. The portfolio manager shall not keep any open position in respect of allocation of sales or purchases effected in a day”.*

Regulation 16(7) provides that;

*“ The portfolio manager shall segregate each clients funds and portfolio of securities and keep them separately from his own funds and securities and be responsible for safe keeping of clients funds and securities”.*

*flu*

Karvy Stock Broking Limited  
701, Hallmark Business Plaza, Sant Dnyaneshwar Marg, Bandra (E), Mumbai - 400 051.  
T: +91-22-33055000 | F: +91-22-33055033 | Email: pms@karvy.com

Registered Office: Karvy House, 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500 034.  
T: +91-40-2331-2454 | F: +91-40-2331-1968 | service@karvy.com | www.karvy.com

SEBI Registration No.: INP000001512

Compliance Officer: Mr. V Srinivasan. Contact No.: +91 22 6176 8806. E-mail: srini.v@karvy.com. IG.Email ID: karvypmsig@karvy.com. CIN: U67120TG1995PLC019877

Regulation 16(8) provides that;

*“ The portfolio manager shall not hold the listed securities (or unlisted securities) belonging to the portfolio account in its own name on behalf of its clients either by virtue of contract with clients or otherwise ”*

By circular no. IMD/DOF-I/PMS CIR-4/2009 dated 23-6-2009 SEBI has clarified the following in respect of the provisions of Regulation 16(7);

*“ ...portfolio manager may keep the funds of all clients in a separate bank account maintained by the portfolio manager subject to the conditions that;*

- a) there shall be a clear segregation of each clients fund through proper and clear maintenance of back office records;*
- b) portfolio managers shall not use the funds of one client for another client;*
- c) portfolio managers shall also maintain an accounting system containing separate client wise data for their funds and provide statement to clients for such accounts at least on monthly basis;*
- d) portfolio managers shall reconcile the client wise funds with the funds in aforesaid bank account on daily basis”.*

**B) Processes followed by Karvy:**

- 1) A separate bank account is opened (as permitted by circular dated 23.6.2009) for pooling the funds of the clients. This separate bank account is named as “KARVY STOCK BROKING LIMITED A/C DISCRETIONARY PMS STRATEGY NAME” and is not a bank account owned by Karvy and exclusively maintaining the client’s funds. The corporate benefits are also received in this account for distribution on a pro rata basis to the Clients.
- 2) Detailed back office records are maintained for funds of each client and the same is reconciled on an daily basis with the separate bank account mentioned above . The other conditions of the circulated dated 23.6.2009 are complied with.
- 3) Separate demat accounts are opened in the name of the Clients for transferring the allocated securities to the clients;
- 4) The bank account named KARVY STOCK BROKING LIMITED A/C DISCRETIONARY PMS STRATEGY NAME is stated as the bank account of the Client in the demat records.

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**C) Interpretation/ informal Guidance sought:**

Karvy seeks interpretation/informal guidance that its process of stating the separate bank account named as "KARVY STOCK BROKING LIMITED A/C DISCRETIONARY PMS STRATEGY NAME " being the pooled bank account in the Demat account opening forms and demat records is in order.

In case any further details are required as regards the opinion sought above, we request you to contact us at the below address

Mr. Srinivasan V, Compliance Officer  
702, Hallmark Business Plaza off BKC,  
Opp Gurunanak Hospital  
Bandra East, Mumbai 400051.

Email: Srini.v@karvy.com

We request you to keep the matter in confidence as provided in the SEBI Informal Guidance Scheme.

Yours faithfully  
For Karvy Stock Broking Limited



Authorised Signatory

Karvy Stock Broking Limited  
701, Hallmark Business Plaza, Sant Dnyaneshwar Marg, Bandra (E), Mumbai - 400 051.  
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