



Date : November 24, 2020

To
Shri Naveen Sharma – General Manager
Market Intermediaries Regulation and Supervision Department
The Securities Exchange Board of India
Plot No.C4-A, 'G' Block
Bandra-Kurla Complex, Bandra (East),
Mumbai - 400051, Maharashtra

Respected Sir

Sub: Revision of Request for interpretation/ Guidance under Securities Exchange Board of India (informal guidance) scheme 2003 in connection with circular SEBI/HO/IMD/DF1/CIR/P/2020/182 dated September 23, 2020

This has reference to our representation sent you on October 08, 2020 on the captioned subject and your email dated November 09, 2020 instructing us to specify the clause of SEBI circular for which the interpretation has been sought. We have included the reference to the clauses and revised our representation.

Background:

1. Paytm Money Limited is registered with SEBI as an RIA (INA100009859), Broker (INZ000240532) and Depository Participant (IN-DP-416-2019). We have just initiated offering services for stock broking and DP services to our clients along with direct Mutual Fund investments platform.
2. We offer Advisory services to the investors post completing the KYC process and Risk assessment (based on the replies provided by the investor to the set of questions).
3. Standard Investment Packs are made available on our application depending upon the risk profile of the investor and the investors are given the option to select these Investment Packs or can decide to choose their own funds in which they want to invest. The investor may choose any of the relevant packs and initiate investment.
4. PML also offers investment packs suggested by AMCs and Morning Star. The investor is free to choose any of these packs apart from the one recommended by us.
5. Here we would like to mention that PML only offers Direct Mutual Funds and thus does not receive any commission or compensation from the AMCs. Further PML does not charge the investor for the use of the platform as of now. PML has decided to offer Direct funds which have distinct advantages to the investor including a higher return of about 1 % per year.

(We are attaching the screen shots of the Risk assessment process and few Investment Packs offered by Paytm Money in separate PDF files)

Paytm Money Limited Corporate Office- B-121, Sector 5, Noida 201301, India

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www.PaytmMoney.com Registered Office- 136, First Floor, Devika Tower, Nehru Place, New Delhi-110019



Query 1:

SEBI permits a non-individual IA to offer execution services for its advisory clients without getting any commission or brokerage – Reg.22A of SEBI (Investment Advisers) Regulations, 2013 (Last amended on July 03, 2020)

(1) *Investment adviser may provide implementation services to the advisory clients in securities market:*

Provided that investment advisers shall ensure that no consideration including any commission or referral fees, whether embedded or indirect or otherwise, by whatever name called is received; directly or indirectly, at investment adviser's group or family level for the said service, as the case may be.

(2) *Investment adviser shall provide implementation services to its advisory clients only through direct schemes/products in the securities market.*

(3) *Investment adviser or group or family of investment adviser shall not charge any implementation fees from the client.*

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

We understand that the intention of SEBI to come up with this clause in the regulation is to protect the interest of the small investor who should not be mis-sold any scheme only for personal monetary gains. PML do not push any product which is not suitable for the client as per his / her risk profile as these are standard off-the-shelf service based on risk profiling of the client (client under the same risk profile are offered a standard advise) made available to the client and the advice is done through predefined algorithms. Further, PML offers advisory services for free to retail investors and thus would gain no monetary benefit by mis-selling as PML is offering only direct MF plans where no commission is payable. In fact PML goes out of pocket on various costs such as KYC, PG, technology hosting, platform cost and thus PML loses more money as the business expands.

Further PML has decided to make it's product more effective so as to promote financial inclusion and make available it's services to the section of society which had no access to such services till date. The data analysis of our clients shows that 43% of our advisory investors are new to the market & they prefer to use our Investment Packs (which are as low as Rs 2000/-).

Clarification sought from SEBI:

Considering the above especially that currently PML does not charge advisory or execution fees, PML intends to avail of reimbursement of the service related out-of-pocket expenses such as KYC, PG, technology hosting, platform maintenance etc. form Asset Management Companies (AMC) whose direct plans they are selling, as PML is bearing the cost that the AMC would have borne in case the investments were directly routed through them.

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SEBI may please clarify that this is not in violation of the aforesaid regulation.

Query 2:

Mandatory Agreement between IA and advisory customers – Reg.19(1)(d) of SEBI (Investment Advisers) Regulations, 2013 (Last amended on July 03, 2020) and Point 2(ii) of SEBI Circular Ref. No. SEBI/HO/IMD/DF1/CIR/P/2020/182 dated September 23, 2020 - Guidelines for Investment Advisers

d) Copies of agreements with clients, incorporating the terms and conditions as may be specified by the Board;

Agreement between IA and the client

Regulation 19 (1) (d) of the amended IA Regulations provides that IA shall enter into an investment advisory agreement with its clients. The said agreement shall mandatorily cover the terms and conditions provided in Annexure-A.

b. IA can include additional terms and conditions in the agreement without diluting the provisions of SEBI (Investment Advisers) Regulations, 2013 and amendments thereto as well as circulars issued thereunder.

c. IA shall ensure that neither any investment advice is rendered nor any fee is charged until the client has signed the aforesaid agreement and provided copy of signed agreement to the client.

d. IA shall enter into investment advisory agreement with its clients including existing clients latest by April 01, 2021 and submit a report, confirming the same to SEBI latest by June 30, 2021.

Clarification sought from SEBI:

The proposed agreement which needs to be signed by the clients would involve additional costs. This further increase in the cost would make offering direct plans by PML which are in the interest of investors non-viable.

SEBI may please clarify on whether PML can seek electronic consent of the clients on all the points mentioned in Annexure A of the circular and share the same with the client on their registered email address for their records and reference. It would not only save expenses, it would also expedite the entire process. PML would maintain all relevant records in this regard.

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Query 4:

Reg 2(1)(s) of SEBI (Investment Advisers) Regulations, 2013 (Last amended on July 03, 2020)

"principal officer" shall mean the managing director or designated director or managing partner or executive chairman of the board or equivalent management body who is responsible for the overall function of the business and operations of non-individual investment adviser.

The managing director / managing partner / executive chairman would be associated with many other business line within PML, we would like to avoid appointing these senior officers as Principal officer and would like to go in for the equivalent management body who is responsible for the overall function of the business and operations of a non- individual investment adviser provided under the regulations.

Clarification sought from SEBI :

1. We request SEBI to define as what would be considered as, equivalent management body who is responsible for the overall function of the business and operations

Whether a committee appointed by the board of PML to oversee the advisory functions and operations can be considered as a management body and a member of the said committee can be appointed as a Principal Officer.

2. Alternately, whether the Department Head in charge of Advisory business who is a member of management advisory committee appointed by the board can be appointed as Principal officer as such a person would be responsible for the overall function of the advisory business.

Fees :

The relevant fees has already been paid on **07.10.2020** to bank account number 012210210000007 (IFSC BKID0000122) of Bank of India BKC Branch, of Securities Exchange Board of India electronically.

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We seek your interpretation / guidelines / consent on the above queries.

For Paytm Money Limited

Cyrus Dinshaw Khambata
Digitally signed by Cyrus Dinshaw Khambata
Date: 2020.11.25 10:55:57 +05'30'

Cyrus Khambata
Director

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