



भारतीय प्रतिभूति
और विनिमय बोर्ड
Securities and Exchange
Board of India

General Manager
MARKET INTERMEDIARIES REGULATION
& SUPERVISION DEPARTMENT

SEBI/HO/MIRSD/DoP/P/OW/2022/6143/1
February 14, 2022

HDFC Securities Limited
I Think Techno Campus, Building – B,
“Alpha”, Office Floor 8,
Near Kanjurmarg Station,
Opp. Crompton Greaves, Kanjurmarg (East),
Mumbai – 400042

Kind Attention: Mr. Murli Karkera, Compliance Department

Dear Sir,

Sub: Request for informal guidance by way of “interpretive letter” under SEBI (Informal Guidance) Scheme, 2003 regarding applicability of Securities Contracts (Regulations) Rules, 1957 in the matter of HDFC Securities Limited

1. This has reference to your letter dated July 22, 2021, the revised letter dated August 20, 2021 and subsequent clarifications vide e-mails dated October 14, 2021, November 29, 2021 and December 17, 2021 in the captioned matter seeking an “Interpretive Letter” under SEBI (Informal Guidance Scheme), 2003 on the captioned subject.
2. Vide your aforementioned letter and other correspondences under reference, the following, inter-alia, has been represented:
 - a) HDFC Securities Limited (herein referred to as ‘HSL’) is registered with SEBI and Stock Exchanges as stock broker (INZ00186937), depository participant (IN-DP-372-2018) with CDSL, AMFI Registered Mutual Fund Distributor-ARN-13549, Research Analyst (INH000002475) and non-individual Investment Adviser (INA000011538).
 - b) HSL is Stock Broker/Distributor as well as a Registered Investment Adviser (herein referred as RIA) registered with SEBI with appropriate segregation between these two businesses. It is stated that as a part of Distribution business, HSL would tie up with third party Investment Advisors registered with SEBI to offer their advice to its customers.
 - c) That HSL will earn distribution/referral fee from the Advisers and it will add value to its customers.

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



अनुवर्ती :
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- d) Any customer grievance on the same would be addressed by the respective RIA and HSL would follow up and get the requisite response by the respective RIA.
 - e) This is purely a referral model and as broker/distributor, HSL is only referring customers to the third party RIA for the purpose of referral fees and does not involve any personal financial liability. In case the customer transacts on HSL platform, brokerage fees would also be received by HSL.
 - f) Vide e-mail dated October 14, 2021, it has been clarified by HSL that the said request for Informal Guidance is for Direct Equity.
 - g) Further, vide e-mail dated November 29, 2021, it is stated that agreement will be entered by HSL with third party RIAs and there will be an agreement between third party RIA and the client.
 - h) Vide e-mail dated December 17, 2021, it has been also clarified that the said service will only be offered to broking customers of HSL who already have rights and obligations agreed upon as required by SEBI including voluntary and non-voluntary conditions.
 - i) HSL will be obtaining consent on terms and conditions digitally via two factor authentication which will include informing the client about the said referral business, role of HSL in the entire referral process and the fact that HSL is not responsible for any losses incurred by client on account of activities of RIA.
3. Based on the above, referring to Rule 8(3)(f) of the Securities Contracts (Regulations) Rules, 1957 (herein referred as SCRR, 1957), you have sought informal guidance in the form of an interpretive letter on the following issues:
- a) Whether HSL acting as a broker/distributor, tie up with third party RIA to offer their services to its distribution clients.
 - b) Will the interpretation change in case HSL does not receive any referral /distribution fees for the same, however, provides the said services to broking customers of HSL.
4. We have considered the submissions made by you and without necessarily agreeing with your analysis, our view on the said issues are as under:
- a) Rule 8(3)(f) of the SCRR, 1957, which imposes certain restrictions on activities of members of stock exchanges, reads as under:



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*“(3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if-
(f) he engages either as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability;”*

- b) Thus, Rule 8(3)(f) of the SCRR, 1957, inter-alia, permits a member of stock exchange to function as a broker or agent in a business other than that of securities or commodity derivatives, provided that such member does not incur any personal financial liability by functioning as such broker or agent.
 - c) In the instant case, you have proposed to refer your clients to third party RIAs and receive referral fees from them. Further, it has been mentioned that the said referral business would not involve any personal financial liability.
 - d) Thus, in absence of any personal financial liability, the said referral activity would not attract the prohibition prescribed under Rule 8(3)(f) of the SCRR, 1957 and there is no bar for HSL, acting as a broker/distributor, to tie up with third party RIAs to offer advice to its distribution clients.
 - e) However, while providing the aforesaid services to the clients, HSL would have to maintain high standards of service and maintain segregation of business to avoid any potential conflict of interest.
5. The above position is based on the information furnished/representation made in your letter and further correspondences under reference. Different facts or conditions might require different results. Further, this letter does not express a decision of the Board on the question referred.
6. You may also note that the above views are expressed only with respect to the clarifications sought in your aforesaid letter and subsequent correspondence under reference with respect to the provisions of SCRR as referred above and does not affect the applicability of any other law or requirements of any other SEBI Regulations, Guidelines and Circulars administered by SEBI or the laws administered by any other authority.

Yours faithfully,


Narendra Rawat