

November 2, 2020

COMNOV-20/004

Securities and Exchange Board of India
Investment Management Department
SEBI Bhawan, Plot No – C4 .A, "G Block"
BandraKurla Complex, Bandra East.
Mumbai – 400051

Kind Attn : Biranchi Narayan Sahoo, Chief General Manager
RuchiChojer, Chief General Manager

Dear Sir,

Request for an interpretative letter under SEBI (Informal Guidance) scheme, 2003 regarding clarification on applicability of provisions of SEBI (Investment Advisers) (Amendment) Regulations 2020 for the following query.

Query:

Can a Trading Member receive Broking income from Advisory Clients for Execution services?

Reference to SEBI (Investment Advisers) (Amendment) Regulations 2020 (Regulations)

Regulation 22 (4) of the Regulations states;

(4) Non-individual investment adviser shall maintain an arm's length relationship between its activities as investment adviser and distributor by providing advisory services through a separately identifiable department or division.

Regulation 22A of the Regulations states:

Implementation of advice or execution.

22A (1) Investment adviser may provide implementation services to the advisory clients in securities market. :

HDFC Securities Limited

Registered Address: I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp Crompton Greaves, Kanjurmarg(East), Mumbai 400 042 Tel.: +91-22-30753400 Fax: +91-22-30753435 www.hdfcsec.com
Member of NSE, BSE, MSEI, MCX | Reg No. INZ000186937 | Member CDSL | Reg No. IN-DP-372-2018 | Research Analyst. INH000002475 | Investment Adviser INA000011538 | PFRDA: POP-11092018 | AMFI: ARN13549 | Corporate Identity Number (CIN) - U67120MH2000PLC152193
Compliance Officer Binkle R. Oza, Contact: +91 22 3045 3600, Email: complianceofficer@hdfcsec.com
For any complaints / grievance. services@hdfcsec.com

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 maybe.

(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.

Facts:

HDFC Securities Limited (HSL) is registered with the SEBI and Stock Exchanges as a Trading /Clearing Member (TM/CM). HSL has been admitted as the Member of the MCX with effect from February 26, 2018 and been activated for trading on October 22, 2018. HSL is also registered as Point of Presence (POP) under the PFRDA (PoP) Regulations, 2018 and Corporate Agents under IRDAI (Register of Corporate Agents) Regulations, 2015. HSL offers various products to its customers which are available on the Exchange platform.

HSL is registered as a Research Analyst (RRA reg. no. INH000002475) and Non- Individual investment adviser (RIA reg. no. INA000011538). HSL's primary business is Broking. Clause 22A of the Regulations states that an investment adviser may provide implementation services to the advisory clients provided that the investment adviser shall ensure that no consideration including any commission or referral fees whether embedded or indirect or otherwise, by whatever name is received, directly or indirectly at investment advisers group level for the said service.

Our understanding:

The regulations clearly specify that a customer should be segregated as a distribution customer or advisory customer. Broking fees / Brokerage is paid by the client to a Stock Broker for

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execution of trades in securities on the Stock Exchange platform and it is not a commission. It does not follow within the ambit of distribution services wherein the distributor gets income from the manufacturer of the product. Our understanding is that a Trading Member can receive Broking income from the clients who, in addition to availing Broking services, are also signed up for investment advisory services.

Request :

We request for an interpretative letter on our understanding on the applicability of Provisions of IA Regulations as stated above, in accordance with SEBI Informal Guidance Scheme, 2003.

Demand draft of Rs 25000/- in favour of Securities and Exchange Board of India payable at Mumbai is enclosed towards fees for informal guidance and request for your opinion.

We would appreciate an early response in the above matter.

Thanking you

For **HDFC Securities Limited**


Binkle R. Oza

Compliance Officer

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