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To,  
The General Manager  
Investment Management Department (IMD)  
Division of IA & RA Policy  
Securities and Exchange Board of India  
Plot No.C4-A, 'G' Block  
Bandra-Kurla Complex, Bandra (East),  
Mumbai - 400051, Maharashtra

**Sub: Request for Informal Guidance by way of an Interpretive Letter under the SEBI(Informal Guidance) Scheme, 2003 in connection with SEBI Investment Advisor Regulations (Amendment) which has come into effect from Sep 30th 2020.**

***Note: All the below queries are pertaining to a Registered Investment Advisor registered with SEBI as a body corporate***

**1. SEBI Provision: "Any portion of AUA held by the client under any pre-existing distribution arrangement with any entity shall be deducted from AUA for the purpose of charging fee by the IA. " SEBI Circular Sept 23, 2020, Clause 2 (iii) (A)(c)**

**Query**

1. Before the change in regulation, if there were both financial planning & distribution clients being managed by the RIA under the regular mode of MF investments, then as per the new regulation, all those wishing to continue financial planning were to be moved to direct mode of MF before Apr 1, 2021.

If a distribution client in the future (post-Apr 1, 2021) wants to also get financial planning advice from us and wants to move to an Advisory arrangement, are we allowed to do that? In that case, additional money invested by the client will be in direct mode while the older investments will continue to be as the pre-existing distribution arrangement. Please let us know if that is allowed.

2. SEBI Provision: " IA shall, wherever applicable, advise direct plans (non-commission based) on products only" - SEBI Circular Sept 23, 2020, Clause 2(i)(h)

#### Query

2. Given the current interest rate scenario, we find that Fixed Deposits (FDs) of certain banks and NBFCs offer better interest rates as compared to debt-based mutual funds. They make better investment recommendations for clients looking for debt investments. But currently, no such FDs are available in the regular mode of investing.

In this scenario, it makes more sense for us to advise FDs with the regular mode of investment so that the clients are not charged excessively (since there is no option of lower direct fees being charged by the bank/ NBFC).

The same is also true for some other products like Private Equity funds.

Our question is - " For such products, can we advise an advisory client with regular mode and earn commissions from the product manufacturer, as that is more favorable for the client?"

#### Illustration -

Assume a client invests 10L in Bank/NBFC FD

#### Regular mode -

Cost of FD from the bank side - 1%

Commission shared with IA - 50%

Total cost to the client - 1%

#### Direct mode -

Cost of FD from the bank side - 1% (since there is no direct mode pricing available)

IA advisory Fees - 0.50%

Total cost to the client - 1.5%

As illustrated above, it is more favourable for the client's investment to be made in Regular mode.

3. SEBI Provision: " IA shall charge fees from a client under any one mode i.e. (A) or (B) on an annual basis. The change of mode shall be effected only after 12 months of onboarding/last change of mode." *Sebi Circular Sept 23, 2020, Clause 2 (iii) (B)(b)*

3. Our question is that in case add-on services are provided to the client (for example, tax filing service, expense management services, etc. provided by the RIA), can a separate fixed fee be charged for the same along with the AUA based fee being charged for investment advisory.

Illustration:

Client A is an advisory client with an investment of 10L and is also taking tax filing service from one of the group companies.

Can the fee structure offered to the client be as follows?"

IA Fee - 1% p.a.

Tax filing fee – Rs. 1000 per year

Also, additionally, for a distribution client can we provide advisory services such as financial planning and not charge them? Eg taxes, financial plans.

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