

# Operational Aspects of Investment Management

LEARNING OBJECTIVES: Investor Types • PAN & KYC • Demat/Remat • Power of Attorney • NRI Accounts • Payment Instru

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## 1 Who Can Invest? — Investor Categories & On-Boarding

**Individual Investors:** Resident individuals (competent to contract), Minors through guardians, HUF, NRIs, FPIs (Foreign Individual Investors). **Institutional Investors:** Companies, trusts, charitable organisations, societies, banks, FIs, pension funds, insurance funds. Institutional investors must follow formal decision processes approved by their Board/Trustees.

Investor Category	Who is Included	Key Note
<b>Resident Individual</b>	Indian citizens/persons resident in India, competent to contract	Most financial products available; PAN + KYC mandatory
<b>Minor</b>	Person under 18 years of age	Investments through guardian only; minor cannot enter contracts or grant PoA
<b>HUF</b>	Hindu Undivided Family	Managed by Karta; separate PAN required
<b>NRI / PIO</b>	Non-Resident Indian; Person of Indian Origin	Special bank accounts (NRE/NRO/FCNR); repatriation rules apply
<b>FPI</b>	Foreign Portfolio Investors	Registered with SEBI; invest in listed securities; FPI limit per company: 10%
<b>Institutional</b>	Companies, trusts, pension funds, banks, insurance companies, MFs, AIFs	Board/Trustee approval required; authorised signatories execute documentation
<b>Accredited Investor</b>	Individuals/HUFs/Trusts/Companies meeting net-worth/income criteria	Access to higher-risk products; reduced ticket sizes in AIFs (Rs.25L instead of Rs.1Cr)

### CLIENT ON-BOARDING

**ASBA** (Application Supported by Blocked Amount): Mandatory for public issues from January 1, 2016. Application money blocked in investor bank account; debited ONLY on allotment. Earns interest till allotment. Eliminates need for refunds. **UPI with ASBA:** Available for retail applications submitted through intermediaries. **Folio/Account Number:** Unique ID allotted at first investment — used for all subsequent transactions. No need to re-provide PAN/KYC for subsequent transactions in same folio.

## 2 PAN — Permanent Account Number

PAN is the **single identification number for all capital market transactions** in India, issued by the Income Tax department. Applied via **Form 49A** with proof of identity and address.

Transaction / Product	PAN Mandatory?	Threshold
Capital market investments (demat, shares, bonds, MFs)	YES — all categories including NRIs and guardians	All amounts
Bank Fixed Deposits	YES	Exceeding Rs.50,000
Insurance premium payments	YES	Exceeding Rs.50,000

Transaction / Product	PAN Mandatory?	Threshold
NPS contributions in cash	YES	Exceeding Rs.50,000
NPS Tier II account opening	YES	All amounts
MF micro investments (individuals only)	EXEMPT — quote PAN Exempt KYC Ref No.	Up to Rs.50,000 aggregate per fund house in 12 months
Post Office BSBDA / low-risk POSB accounts	NOT required	Balance does not exceed Rs.50,000
Cash MF subscriptions (PMLA compliance)	YES	Up to Rs.50,000 per investor per MF per year allowed in cash
Cash NPS contributions	EXEMPT	Up to Rs.50,000
Cash insurance premiums	EXEMPT	Up to Rs.50,000 per transaction

#### PAN EXEMPTION KEY RULE

Micro investments in MFs exempt from PAN: **up to Rs.50,000 aggregate across ALL schemes** of one fund house in a rolling 12-month period. Available only to **individual investors** (NOT HUFs or non-individuals). Must quote PAN Exempt KYC Reference Number. Each eligible investor holds only one such reference number.

### 3 KYC — Know Your Customer Process

KYC is mandated under the **Prevention of Money Laundering Act (PMLA), 2002**. All financial intermediaries must verify and maintain identity records. A single **KYC Registration Agency (KRA)** process is valid across all capital market intermediaries (MFs, DPs, brokers, PMS, VCFs) from January 1, 2012.

KYC Aspect	Details
<b>Documents Required</b>	Proof of Identity (with photo): passport, driving licence, voter ID, Aadhaar. Proof of Address: passport, ration card, voter ID, utility bills. PAN card (where available).
<b>KRA System</b>	Centralised KYC Registration Agency — investor KYC done once, valid across all SEBI intermediaries. CERSAI operates as Central KYC Record Registry (CKYCR) since 2016.
<b>CKYCR</b>	Central KYC Registry caters to all 4 major regulators (RBI, SEBI, IRDAI, PFRDA). Issues a unique KYC Identifier. Once submitted, reporting entities must download records from CKYCR instead of collecting documents again.
<b>e-KYC / Video IPV</b>	Online KYC via app/website: OTP verification (mobile/email), Aadhaar via UIDAI, PAN via online tax database, bank via penny drop. Video IPV (VIPV) replaces in-person verification — live environment, investor must be clearly visible, random Q&A, digitally saved with date/time stamp.
<b>NRI KYC extras</b>	Certified true copy of Passport, overseas address, permanent address, PIO card (for PIOs), Mariner's declaration (for Merchant Navy NRIs). All documents in English; attested by Consulate or overseas branch of Indian bank.
<b>FATCA/CRS</b>	From January 2016: all investors (Indian and NRI) must file FATCA/Common Reporting Standards self-declaration. Required: name, PAN, address, city/country of birth, nationality, income, occupation, tax residency details.
<b>Disability Inclusion</b>	SEBI circular (May 2025): intermediaries mandated to offer assistive digital KYC services accessible to persons with disabilities including visual impairments.

### 4 Dematerialisation & Rematerialisation

Two depositories in India: **NSDL** (National Securities Depository Ltd.) and **CDSL** (Central Depository Services (I) Ltd.). All public issues exceeding **Rs.10 crores** must be issued in demat form. Physical share transfers discontinued from **01 April, 2019**. DRFs must be stored for at least **5 years**.

Process	Direction	Key Steps	Form Used
<b>Dematerialisation</b>	Physical → Electronic	(1) Investor submits physical certificates + DRF to DP. (2) DP sends electronic request + physical docs to R&T.; (3) R&T; verifies DRN match, hologram, signature. (4) Certificates mutilated and marked "Surrendered for Dematerialisation". (5) Depository name entered in Register of Members. (6) Investor DP account credited. No stamp duty payable.	DRF (Dematerialisation Request Form)
<b>Rematerialisation</b>	Electronic → Physical	(1) Investor submits RRF to DP. (2) DP validates signature + free balance. (3) Depository forwards to R&T.; (4) R&T; creates new folio, assigns new certificate numbers. (5) Beneficial owner names entered in Register of Members; depository entry removed. (6) Revenue stamps affixed. (7) Certificates printed and dispatched to shareholder.	RRF (Rematerialisation Request Form)

#### DEMAT KEY FACTS

**ISIN:** 12-character International Securities Identification Number — unique per security type. **Dematerialised securities are fungible** — lose distinctive identity (certificate/folio numbers); only quantity matters. **Rejection reasons:** DRF-certificate mismatch, fake/stolen certificates, different names, wrong R&T;, signature mismatch. **Demat at IPO:** ISIN assigned by depository before allotment; allotment advice carries client account number and DP id.

## 5 Power of Attorney (PoA)

Aspect	Details
<b>Parties</b>	Grantor (primary investor) and Attorney/Holder (authorised to act). Both must be PAN and KYC compliant.
<b>What Holder Can Do</b>	Purchase, payment for purchase, sale, settlement, redemptions. Make initial and subsequent investments in MFs/POS schemes.
<b>What Holder CANNOT Do</b>	Open or close a bank/demat account. Appoint or change nominees. Make/change nominations.
<b>Validity Requirements</b>	Typed on non-judicial stamp paper. Stamped per state rules. Signed by grantor on ALL pages. Signed by BOTH grantor and holder on LAST page. Notarised (varies by intermediary).
<b>Foreign PoA</b>	On plain paper; attested by Indian embassy official or foreign notary; stamped and notarised on arrival in India.
<b>General PoA</b>	Broad authority: banking, tax filing, property management, entering contracts, settling claims. Used when investor is incapacitated or travelling.
<b>Specific/Limited PoA</b>	Restricted to designated act(s) only. Must clearly specify the exact powers granted. Used for specific travel or health situations.
<b>Minor Exception</b>	Minors cannot enter contracts — no PoA for minors. Guardian plays a similar role.
<b>Grantor Rights</b>	Grantor can continue to operate account even after granting PoA. Grantor's signature also recorded in folio.

## 6 NRI Account Structure & Investment Rules

**NRI Definition (Income Tax Act, Section 6):** Individual not in India for 182+ days in the previous year (or not meeting 60+365 day test). **PIO (Person of Indian Origin):** Held Indian passport, grandchild of Indian citizen, or spouse of Indian citizen/PIO.

Account Type	Source of Funds	Repatriation	Key Use
<b>NRE Account</b> (Non-Resident External)	Foreign currency remitted from abroad	FREELY repatriable — both principal and interest	Parking foreign earnings; investment routing for repatriation basis
<b>NRO Account</b> (Non-Resident Ordinary)	Income earned in India (rent, dividends, etc.)	Repatriable up to <b>USD 1 million per financial year</b>	Receiving Indian income; non-repatriable investment proceeds

Account Type	Source of Funds	Repatriation	Key Use
<b>FCNR Account</b> (Foreign Currency Non-Resident)	Foreign currency deposits	FREELY repatriable	Foreign currency deposits in designated currencies; earns interest in foreign currency
<b>PINS Account</b> (Portfolio Investment Scheme)	Linked to NRE or NRO account	Per linked account	Mandatory for NRIs buying/selling listed shares and convertible debentures on recognised stock exchange; report to RBI

NRI Investment Limits	Rule
<b>Max per company (individual NRI)</b>	5% of paid-up capital per company (shares) or 5% of each debenture series
<b>Overall NRI limit per company</b>	10% of paid-up capital — can be increased to 24% by passing a General Body resolution
<b>PINS account</b>	One NRE-PINS and one NRO-PINS account permitted. Cannot hold two PINS accounts at same time. Only at designated RBI-authorized dealer branches.
<b>NRI demat accounts</b>	Separate demat accounts for repatriable and non-repatriable securities. Joint accounts allowed; first holder determines repatriation eligibility.
<b>NRI cannot</b>	Trade in currency/commodity segment using NRI demat account. Short sell stocks. Hold NRI investments in regular resident demat account.

<b>REPATRIATION KEY RULE</b>	Investments from <b>NRE/FCNR account or foreign currency draft + FIRC</b> : proceeds repatriable WITHOUT LIMIT. Investments from <b>NRO account</b> : proceeds repatriable up to <b>USD 1 million per financial year</b> . <b>All income earned in India</b> (dividends, interest, rent) is freely repatriable regardless of source, provided Indian taxes paid.
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## 7 Folio Maintenance — Changes & Updates

Change Type	How to Update	Key Document
<b>Address / Contact details</b>	Capital markets: KYC Change Form to KRA — updates all intermediaries. Bank: directly with bank. NPS: Form S2.	Proof of new address (passport, utility bill, ration card)
<b>Change of Name</b>	Letter + KYC change form or prescribed form (Form S2 for NPS)	Name change certificate, Gazette notification, marriage certificate (if applicable)
<b>Change of Status (Resident to NRI)</b>	KYC change form to KRA. Bank: re-designate savings account to NRO. Open new NRE/NRO. New demat + trading account with NRI status.	Passport, visa, foreign address proof. TDS deducted on MF redemptions once flagged as NRI.
<b>Marking a Lien</b>	Investor + lender inform investment provider. R&T; records lien; DP creates pledge in demat account.	Lien letter specifying folio no., units pledged, ISIN, lender bank account
<b>Add/Delete Joint Holder</b>	Bank: simple application + KYC docs. MFs: <b>NOT allowed to add</b> — open new folio with desired holdings.	KYC documents of new holder; specimen signature update
<b>Change Bank Mandate</b>	Submit form + cancelled cheque. Multiple accounts can be linked; one designated as primary for payouts.	Cancelled cheque of new/additional account

## 8 Payment Instruments

<p><b>Local / At-Par Cheque</b></p> <p>Most common traditional mode. Out-station and post-dated cheques NOT permitted (except for SIP post-dated cheques).</p>	<p><b>Demand Draft</b></p> <p>Accepted for applications from centres where product has no office/collection centre.</p>	<p><b>NACH / ACH</b></p> <p>Automated Clearing House — used for SIP mandates. MICR-enabled account required. Specific cities only.</p>	<p><b>ASBA</b></p> <p>For public issues and NFOs. Funds blocked (not debited) till allotment. Earns interest. No refund needed.</p>
<p><b>NEFT</b></p> <p>Batch settlement; no minimum amount. IFSC code required. Charges: Rs.5-25 per txn + GST.</p>	<p><b>RTGS</b></p> <p>Real-time gross settlement. Minimum Rs.2 lakhs. IFSC required. Charges: Rs.5-55 per txn + GST.</p>	<p><b>UPI / Digital</b></p> <p>Unified Payment Interface, AEPS, e-wallets. Mobile-based. Uses phone number, Aadhaar or bank ID.</p>	<p><b>Cash (limited)</b></p> <p>MFs: up to Rs.50,000/investor/fund/year (PMLA compliant). PO schemes, insurance. Repayments only via banking channels.</p>

#### THIRD-PARTY PAYMENT RULE

Payments must come from the FIRST holder's bank account. Third-party payments NOT accepted EXCEPT: (1) Grandparents/parents paying for minor — up to Rs.50,000 per transaction. (2) Employer paying via payroll deductions for employee. (3) Custodians paying for FPIs. Third-party declarant must be PAN and KYC compliant. Cash investment proceeds and dividends/redemptions must go through banking channels only.

## 9 Documentation for Investment Advice

Document / Step	Purpose	Key SEBI Requirement
<b>Advisory Agreement</b>	Lays out roles, responsibilities, scope of work, fees, good faith undertaking of both parties	Must include Most Important Terms and Conditions (MITC). Signed copy with both parties. IA cannot trade on client behalf without explicit consent per trade.
<b>Client Financial Information</b>	Age, income, assets, liabilities, existing borrowings, goals — basis for financial plan	Must be recorded and client-verified before use. Updated periodically.
<b>Risk Profiling</b>	Assess risk tolerance using questionnaires/tools. Risk profile communicated to client.	Mandatory. Must not contain vague, leading, or double-negative questions. Profile updated periodically.
<b>Suitability Assessment</b>	Product selection documented with parameters considered, performance track record, reasons for recommendation	IA must have reasonable basis: product meets objectives, client can bear risk, client understands risks.
<b>Investment Advice Record</b>	Written record of all advice given, products recommended, rationale (signed and dated)	Maintained in physical or electronic form for minimum 5 years. Electronic records must be digitally signed.
<b>MITC (Most Important Terms)</b>	Key disclosures: IA cannot hold client funds, no guaranteed returns, fees via banking channels only, client must not share login credentials with IA	Mandatory part of Investment Advisory Agreement per SEBI circular.
<b>Annual Compliance Audit</b>	Yearly audit of regulatory compliance by CA/CS/CMA member	Report submitted as specified by SEBI.
<b>Record Retention</b>	All records (KYC, risk profile, suitability, agreements, advice, rationale, client register, communications) for 5 years	Communications including emails and call recordings must be maintained.

## 10 MF Investing via Stock Exchange Platform

SEBI permits MF transactions through recognised stock exchange platforms. BSE platform: **StAR MF**. NSE platform: **NMF II**. Distributor must be AMFI-registered to use these platforms. Units are purchased from and redeemed with the AMC directly. Clearing corporation eliminates counterparty risk. Available in demat form (online, no physical documents needed) and physical form.

Feature	Benefit
<b>Single-window portfolio view</b>	Investment adviser sees entire client MF portfolio, holdings, and transactions at one place
<b>Seamless transactions</b>	Purchase, sale, SIP, STP, SWP and switch — all available on the platform
<b>Family clubbing</b>	Family member portfolios can be viewed together for consolidated advice
<b>Non-financial changes</b>	Address, bank details and other non-financial changes can be done through the platform
<b>Near-zero paperwork</b>	Online transactions require no physical document submission; units allocated immediately
<b>Transparency</b>	All transaction history, status and portfolio statements available at one place
<b>Payment modes</b>	Cheque, demand draft, NEFT/RTGS, internet banking, debit card — all accepted

## ■ CHAPTER 17 — QUICK REVISION: OPERATIONAL ASPECTS

<b>PAN</b>	Single identification number for capital market transactions. Form 49A. Mandatory for most financial products. Exceptions for micro/low-risk/BSBDA.
<b>PAN Exemption (MF)</b>	Aggregate investments up to Rs.50,000 per fund house in 12 months. Only individual investors. Must quote PAN Exempt KYC Ref No.
<b>KYC</b>	Know Your Customer under PMLA 2002. Verifies identity (with photo) and address. One KYC via KRA valid across all SEBI intermediaries from Jan 2012.
<b>KRA</b>	KYC Registration Agency. Stores, safeguards, and shares KYC records. CKYCR (CERSAI) is central registry serving RBI, SEBI, IRDAI, PFRDA from 2016.
<b>e-KYC / VIPV</b>	Online KYC via app/Aadhaar/PAN/bank verification. VIPV (Video In-Person Verification) replaces physical IPV — live, clear, with OTP/OVD and date-time stamp.
<b>FATCA/CRS</b>	Mandatory self-declaration for all investors from January 2016. Required for Indian and NRI investors. Requires tax residency and foreign country details.
<b>Demat</b>	Converting physical securities to electronic form. DRF submitted to DP. Physical certificates mutilated. No stamp duty. NSDL and CDSL are two depositories.
<b>Remat</b>	Converting electronic securities back to physical. RRF submitted to DP. R&T; assigns new certificate numbers; dispatches physical certificates to shareholder.
<b>ISIN</b>	12-character International Securities Identification Number. Unique per security type. Dematerialised securities identified by ISIN + quantity (fungible).
<b>Physical transfers</b>	Discontinued from 01 April 2019. DRFs to be stored for 5 years.
<b>PoA</b>	Grantor + Attorney. Holder can do transactions but CANNOT open/close accounts or make/change nominations. Typed on stamp paper; signed all pages by grantor; both sign last page.
<b>NRE Account</b>	Foreign currency source. Freely repatriable — principal and interest. For routing investments on repatriation basis.
<b>NRO Account</b>	Indian rupee income source. Repatriable up to USD 1 million per year. Non-repatriable beyond that.
<b>FCNR Account</b>	Foreign currency deposits. Freely repatriable.

<b>PINS Account</b>	Mandatory for NRIs buying/selling listed shares on recognised exchanges. One NRE-PINS + one NRO-PINS. Only at RBI-authorised designated bank branches.
<b>NRI limits</b>	5% per company per individual NRI; 10% overall NRI ceiling (can be raised to 24% by GBR). Separate repatriable and non-repatriable demat accounts required.
<b>ASBA</b>	Funds blocked in bank account until allotment. Earns interest. Only the allotment amount is debited. Eliminates refunds. Mandatory for public issues from Jan 2016.
<b>NEFT</b>	Batch settlement; no minimum amount; Rs.5-25 charges + GST; IFSC required.
<b>RTGS</b>	Real-time settlement; minimum Rs.2 lakhs; Rs.5-55 charges + GST; IFSC required.
<b>Third-party payment</b>	NOT allowed except: (1) Grandparent/parent for minor up to Rs.50,000/txn; (2) Employer payroll for employee; (3) Custodian for FPI.
<b>MITC</b>	Most Important Terms and Conditions — mandatory part of IA advisory agreement per SEBI. Key: IA cannot hold client funds; no guaranteed returns; fees via banking only; never share login credentials.
<b>Record maintenance</b>	All IA records (KYC, risk profile, agreements, advice, rationale, client register, communications) for minimum 5 years. Electronic records must be digitally signed.
<b>StAR MF / NMF II</b>	BSE (StAR) and NSE (NMF II) MF platforms. AMFI-registered distributors can use. Clearing corporation eliminates counterparty risk. SIP/STP/SWP/switch all available.

## ■ MCQ PRACTICE — Chapter 17 — Operational Aspects

10 Questions | Answers shown below each question

### 1 What is ASBA and what is its KEY advantage for investors in public issues?

- a) ASBA is an electronic wallet that stores investment money between applications and allotments
- b) Application Supported by Blocked Amount — funds remain in investor's bank account earning interest; only allotment amount is debited, eliminating refunds**
- c) ASBA is a secondary market facility allowing investors to buy listed securities on demat account without RTGS
- d) ASBA is a risk profiling tool mandated by SEBI for all capital market intermediaries under PMLA 2002

✓ **Answer: b) Application Supported by Blocked Amount — funds earn interest; no refund needed**

**ASBA** (Application Supported by Blocked Amount) is an application for subscribing to a public issue/NFO containing authorisation to BLOCK (not debit) the application money in the investor's bank account. Key advantages: (1) **Funds continue to earn interest** in the bank account during the subscription period; (2) Only the amount required for allotment is debited — no excess deduction means **no refund process needed**. ASBA is mandatory for all public issue applications from January 1, 2016. The facility is available through SEBI-specified banks.

**2 A Power of Attorney holder wants to appoint a nominee for the investor's mutual fund investment. Can they do this?**

- a) Yes — PoA holders have all the rights of the investor including nomination rights
- b) Yes — but only if the grantor has provided written permission in the PoA document itself
- c) No — a PoA holder CANNOT make or change nominations in any account or investment**
- d) Only if the PoA is a General Power of Attorney — Specific PoA does not include nomination rights

✓ **Answer: c) No — PoA holder CANNOT make or change nominations under any circumstances**

This is a specific statutory restriction on PoA holders. A Power of Attorney holder **CANNOT make or change nominations** in any account or investment — regardless of whether it is a General or Specific PoA, and regardless of what the grantor has written in the PoA document. Similarly, a PoA holder cannot open or close bank or demat accounts. The grantor's direct signature is required for these actions. The rationale is that nominations and account opening/closure have significant post-death consequences for the investor's estate that only the account holder themselves can determine.

**3 An NRI investor made an investment through their NRE account. The investment has generated gains. How much of the proceeds can be repatriated?**

- a) Up to USD 1 million per financial year — same limit as NRO account repatriation
- b) Only the original investment amount; gains on investment are non-repatriable
- c) The proceeds can be FREELY repatriated without any limit**
- d) Repatriation requires prior RBI approval for each transaction above Rs.1 crore

✓ **Answer: c) FREELY repatriable without any limit**

Investments made through the **NRE (Non-Resident External) account** are freely repatriable — both the **principal and any returns/gains** can be taken outside India without any limit. This is also true for investments made through **FCNR accounts** or via foreign currency draft supported by FIRC (Foreign Inward Remittance Certificate). The USD 1 million annual limit applies specifically to **NRO account** proceeds. All income earned in India (dividends, interest, rent) is also freely repatriable regardless of source, provided Indian taxes have been paid.

**4 What is the minimum period for which Investment Advisers must maintain client records under SEBI regulations?**

- a) 1 year — short-term record-keeping for recent advisory interactions
- b) 3 years — standard regulatory requirement for most financial intermediaries
- c) 5 years — mandatory for all records including KYC, risk profiles, advice, agreements and communications**
- d) 10 years — permanent record as per Indian Contract Act requirements

✓ **Answer: c) 5 years — mandatory for all IA records including communications**

SEBI (Investment Adviser) Regulations 2013 mandates that all records must be maintained for a **minimum period of five years**. This covers: KYC records, risk profiling and risk assessment, suitability assessment, copies of agreements, investment advice (written or oral), rationale for advice (signed and dated), client register with PAN/date/nature/fees, and records of all communications including emails and call recordings. Records can be maintained physically or electronically, but **electronic records must be digitally signed**. The same 5-year period applies to PMLA transaction records under Section 12.

### 5 What is the key difference between NEFT and RTGS payment systems?

- a) NEFT is for small transactions only; RTGS is exclusively for transactions above Rs.10 lakhs
- b) NEFT settles in batches at defined times; RTGS settles transactions in real-time continuously; minimum Rs.2 lakhs for RTGS**
- c) RTGS is slower than NEFT because it involves physical clearing; NEFT uses digital processing
- d) Both systems are identical in speed and settlement but differ only in fee structure

✓ **Answer: b) NEFT: batch settlement; RTGS: real-time; RTGS minimum Rs.2 lakhs**

**NEFT** (National Electronic Funds Transfer) settles in **batches at times defined by RBI**. There is **no minimum amount**. Charges: Rs.5–25 per transaction + GST. **RTGS** (Real Time Gross Settlement) settles **continuously and immediately** as each transaction is placed. **Minimum Rs.2 lakhs** — the online system will not show RTGS option for lower amounts. Charges: Rs.5–55 per transaction + GST. Both require the **IFSC code** (11-digit alphanumeric; 4 letters = bank identity, 7 digits = branch). Both systems allow transfer between different banks.

### 6 Which of the following is a valid third-party payment in mutual fund investments?

- a) Payment by friend of investor to help with lump sum investment — supported by notarised affidavit
- b) Payment by employer through payroll deduction for employee — treated as valid third-party payment**
- c) Payment by spouse of investor — treated as valid third-party payment under PMLA guidelines
- d) Payment by any immediate family member below Rs.1 lakh — exempt from third-party restrictions

✓ **Answer: b) Employer payroll payment for employee — one of three valid exceptions**

Third-party payments in capital markets are generally **prohibited** — all payments must come from the first holder's account. The three valid exceptions in mutual funds are: (1) **Grandparents or parents paying for a minor** — up to Rs.50,000 per transaction; (2) **Employer paying for employee through payroll deductions**; (3) **Custodians paying on behalf of FPIs**. Spouse payments are NOT listed as an exception. Friend payments are NOT permitted. A third-party declaration form stating the relationship with the beneficiary and the payment bank details must be submitted with the application. The third-party payer must also be PAN and KYC compliant.

### 7 A woman investor wants to change her maiden name to her married name in her mutual fund folio. What document should she provide?

- a) Self-declaration letter signed in front of a notary is sufficient for all name change requests
- b) Name change certificate from a regulatory authority, official gazette, and marriage certificate if applicable**
- c) Only a marriage certificate is sufficient to change the name in a mutual fund folio
- d) Name changes are not permitted in mutual fund folios — investor must redeem and reinvest in new name

✓ **Answer: b) Name change certificate + official gazette + marriage certificate (if applicable)**

For a name change request in investment records, the following documentation is required: (1) **Name change certificate** issued by a regulatory authority; (2) **Official gazette copy** announcing the new name; (3) **Marriage certificate** if the change is due to marriage. The request must be supported by this documentary evidence. In mutual funds, the KYC details change form (KRA) is used, while NPS uses Form S2. Banks and insurance companies have their own prescribed forms. A simple self-declaration is not sufficient — official documentary proof of the new name is mandatory across all financial product providers.

**8 When an Indian resident becomes an NRI, what must they do with their existing resident savings bank account?**

- a) Continue using the resident savings account — RBI allows retention for 2 years after becoming NRI
- b) The existing resident savings account cannot be operated and must be re-designated as an NRO account**
- c) Transfer all balance to a new NRE account — resident accounts must be closed within 30 days
- d) Convert the resident account to a joint account with a resident family member to continue operations

✓ **Answer: b) Cannot operate resident savings account — must re-designate to NRO account**

Once a person's status changes from Resident Indian to NRI: (1) **Resident savings account cannot be operated**; (2) It must be **re-designated as an NRO account** through an application signed by all holders; (3) Bank FDs must be converted to NRO fixed deposits with new terms; (4) A new **NRE account** must be opened for foreign currency remittances; (5) New **NRI demat account** must be opened and all securities transferred (treated as non-repatriable); (6) New **NRI trading account** must be opened (existing one delinked from resident bank account). Existing small savings scheme investments can continue; maturity credited to NRO account.

**9 The CKYCR (Central KYC Record Registry) is operated by which organisation and which regulators does it serve?**

- a) AMFI operates CKYCR; it serves only mutual fund investors and SEBI-regulated intermediaries
- b) CERSAI operates as CKYCR; it serves all four major financial regulators — RBI, SEBI, IRDAI, PFRDA**
- c) NSDL operates CKYCR for capital market transactions; RBI maintains a separate CKYCR for banking
- d) Each KRA independently operates CKYCR with separate databases for their respective intermediaries

✓ **Answer: b) CERSAI operates CKYCR — serves RBI, SEBI, IRDAI and PFRDA**

**CERSAI** (Central Registry of Securitisation Asset Reconstruction and Security Interest of India) was authorised by the Government of India in November 2015 to act as the **Central KYC Record Registry (CKYCR)**. It serves all four major financial regulators: **RBI, SEBI, IRDAI, and PFRDA** — making it truly cross-sector. Key functions: electronically stores, safeguards and retrieves KYC records; issues a unique KYC Identifier per client; disseminates updated KYC data to any reporting entity using the CKYCR service (on payment of prescribed fee); processes records for deduplication. Individual accounts opened from **August 1, 2016** onwards must be uploaded by all Registered Intermediaries.

**10 An investor holds 1,000 units in physical form. What has changed in the ability to transfer these physical share certificates from 01 April 2019?**

- a) Physical transfer of shares requires prior SEBI approval for amounts exceeding Rs.10 crore
- b) Physical transfer of shares has been completely DISCONTINUED from 01 April 2019 — securities must be held in demat form for transfer**
- c) Physical transfer is permitted only for shares of non-listed companies or companies not eligible for dematerialisation
- d) Physical share transfer now requires a No Objection Certificate from the company before R&T; can process the transfer

✓ **Answer: b) Physical transfer of shares discontinued from 01 April 2019 — must dematerialise to transfer**

SEBI discontinued **physical transfer of shares from 01 April 2019**. This means that if an investor wants to transfer ownership of their shares (excluding in cases of transmission/inheritance or court orders), the securities must first be dematerialised. After that, the electronic form of transfer through the depository system is used. Only investors who wish to **hold** their securities in physical form can continue to do so — but they cannot transfer these shares physically to someone else. The DRFs (Dematerialisation Request Forms) must be retained by the DP for at least **5 years**.

# Key Regulations

LEARNING OBJECTIVES: SCRA 1956 • SEBI Act 1992 • PFUTP 2003 • Insider Trading 2015 • IA Regulations 2013 • PMLA 200

Sneha Rege

## 1 Core Regulatory Framework — Overview

Act / Regulation	Year	Purpose / Scope
<b>Securities Contracts (Regulation) Act — SCRA</b>	1956	Governs business of dealing in securities; provides for recognition and supervision of stock exchanges; jurisdiction over contracts in securities and listing of securities on exchanges.
<b>SEBI Act</b>	1992	Establishes SEBI to protect investor interests; develop and regulate securities markets. SEBI has quasi-judicial, quasi-legislative and quasi-executive powers.
<b>SEBI PFUTP Regulations</b>	2003	Prohibits fraudulent, unfair and manipulative trade practices in securities markets. Fraud includes misrepresentation, concealment of material facts, promises without intent to perform.
<b>SEBI (Intermediaries) Regulations</b>	2008	Code of conduct for all SEBI-registered intermediaries — investor protection, high service standards, due diligence, no collusion, no misrepresentation, confidentiality.
<b>SEBI (Prohibition of Insider Trading) Regulations</b>	2015	Prohibits trading by "insiders" — connected persons or those possessing unpublished price sensitive information (UPSI). Protects market integrity.
<b>SEBI (Investment Advisers) Regulations</b>	2013	Regulates all persons providing investment advisory services. Registration, qualification, fees, obligations, disclosures, code of conduct for IAs.
<b>Prevention of Money Laundering Act — PMLA</b>	2002	Prevents money laundering; confiscation of proceeds of crime. KYC obligations, 5-year record maintenance, suspicious transaction reporting for all reporting entities.
<b>FEMA</b>	1999	Foreign Exchange Management Act — regulates foreign exchange, external trade, payments. Governs NRI/FPI investments in India; LRS limits; repatriation rules.
<b>Indian Contract Act</b>	1872	Foundation for all contracts. IA-client agreement is a contract; must have offer, acceptance, intention to create legal relations, free consent, lawfulness, capable parties.
<b>Guardians and Wards Act</b>	1890	Protects minors (under 18) and their property. Guardian = person with care of minor's person/property. Relevant for investment advice involving minors' assets.

## 2 SEBI Act 1992 — Key Powers & Functions

SEBI Power / Function	Description
<b>Regulate stock exchanges</b>	Regulate business in stock exchanges and other securities markets
<b>Register and regulate intermediaries</b>	Stock brokers, transfer agents, bankers to issues, merchant bankers, underwriters, portfolio managers, investment advisers, depositories, custodians, FPIs, credit rating agencies
<b>Regulate Collective Investment Schemes</b>	Including Venture Capital Funds, Mutual Funds
<b>Promote SROs</b>	Promote and regulate self-regulatory organisations

SEBI Power / Function	Description
Prohibit fraud and insider trading	Prohibit fraudulent and unfair trade practices; prohibit insider trading
Investor education	Promote investor education and training of intermediaries
Regulate takeovers	Regulate substantial acquisition of shares and takeover of companies
Inspection and audit	Call for information; undertake inspection; conduct inquiries and audits of any market participant
Penalties and adjudication	Impose penalties; initiate adjudication proceedings against defaulting intermediaries

### 3 SEBI IA Regulations 2013 — Registration, Qualifications & Exemptions

**Who must register:** Any person providing investment advice for consideration (fee). Includes part-time IAs, persons who hold themselves out as IAs. SEBI certificate valid until suspended/cancelled.

Qualification / Requirement	Rule
<b>Educational Qualification</b>	Professional or graduate/post-graduate degree/diploma (min 2 years) in finance, accountancy, business management, commerce, economics, capital markets, banking, insurance, actuarial science OR NISM Post Graduate Program in Securities Market (IA) of min 1 year OR CFA Charter from CFA Institute
<b>Certification</b>	Relevant NISM certification as specified by SEBI — must be renewed before expiry to maintain continuity
<b>Persons Associated with Advice</b>	Minimum graduate degree in any discipline from recognised university. Must also hold relevant NISM certification.
<b>Individual IA client limit</b>	If clients exceed <b>300</b> OR fee collected exceeds <b>Rs.3 crore</b> in a financial year (whichever earlier) — must apply for registration as non-individual IA within 3 months (in-principle registration)
<b>Part-time IA limit</b>	Maximum <b>75 clients</b> at any point of time
<b>Deposit requirement</b>	Maintained with a scheduled bank; marked as lien in favour of SEBI-recognised supervisory body (IAASB). Available for arbitration dues if IA defaults.
<b>Compliance Officer</b>	Non-individual IA must appoint compliance officer OR independent professional (CA/CS/CMA with NISM certification)

#### Persons EXEMPT from IA Registration:

Exempt Category	Condition
General comments in media	Good faith general comments on market trends — do NOT specify particular securities or investment products
Insurance agent/broker	Advice solely in insurance products; registered with IRDAI
Pension advisor	Advice solely on pension products; registered with PFRDA
MF distributor	Advice incidental to primary distribution activity; member of SEBI-recognised SRO or AMFI-registered
Advocate / Law firm	Investment advice incidental to legal practice
CA / CS / CMA / Actuary	Advice incidental to professional service
Fund manager of MF/AIF/intermediary	Not required to register separately under IA Regulations
Advice to clients outside India	Exempt, EXCEPT advice to NRIs/PIOs — these fall within IA Regulations

### 4 IA General Obligations, Fees & Suitability

Obligation	Key Rule
<b>Fiduciary duty</b>	Act in fiduciary capacity; disclose all conflicts of interest as and when they arise
<b>No third-party remuneration</b>	IA must NOT receive any consideration (commission/referral/embedded fees) from any person other than the client being advised
<b>Arms-length relationship</b>	IA services must be clearly segregated from all other activities (distribution, broking, etc.)
<b>Confidentiality</b>	Cannot divulge client information without prior client permission, except where required by law
<b>No own-account trading vs client</b>	IA cannot enter transactions contrary to advice given to clients for 15 days from date of such advice (exception: revised assessment given 24 hrs in advance)
<b>AI tools</b>	IA using AI tools is solely responsible for security, confidentiality, integrity of client data and compliance — regardless of scale of AI adoption
<b>Fees — general</b>	Fair and reasonable. Cannot receive fees in advance exceeding one year. Breakage fee on early termination: maximum one-quarter fee. Cash payment NOT allowed.
<b>Fees — individual/HUF clients</b>	Fee limit per SEBI/IAASB applicable. Advance fee, refund, breakage provisions ONLY for individual and HUF clients (not accredited investors).
<b>Suitability</b>	IA must have documented process for selecting investments per client's objectives, risk profile, experience, and knowledge. Reasonable basis for every recommendation.
<b>Risk profiling</b>	Mandatory before providing services. Must assess capacity for loss, willingness to accept risk loss of capital. Profile communicated to client. Updated periodically.
<b>Segregation — Advisory vs Distribution</b>	Individual IA: CANNOT provide distribution services. Family of individual IA: cannot distribute to same client. Non-individual IA: client-level segregation at group level.
<b>Implementation services</b>	IA may assist with implementation — but ONLY in direct plans/products. No commission/referral fees at IA/group/family level. Client not obligated to use IA for implementation.

## 5 Disclosures to Clients — Key Requirements

Disclosure Required	Details
<b>Business &amp; disciplinary history</b>	All material information about IA's business, disciplinary history, terms of service, affiliations with other intermediaries
<b>IA's own positions</b>	Disclose any holdings/positions the IA has in securities that are the subject of advice
<b>Conflicts of interest</b>	Actual or potential conflicts arising from connection to any issuer or product — must be disclosed proactively
<b>Product key features</b>	Adequate disclosure of all material facts relating to key features especially performance track record
<b>Warnings and disclaimers</b>	Draw client attention to all warnings and disclaimers in advertising/offer documents for recommended products
<b>Non-SEBI products</b>	If advising on products outside SEBI's purview — must disclose that no SEBI recourse is available for those products
<b>AI tool usage</b>	Must disclose the extent to which AI tools are used in providing investment advice

## 6 PFUTP, Insider Trading & Code of Conduct

### SEBI PFUTP Regulations 2003 — Fraud includes:

(a) Wilful misrepresentation of truth or concealment of material fact. (b) Stating a fact one does not believe to be true. (c) Active concealment of a known fact. (d) Promise made without intent to perform. (e) Representation — true or false — made recklessly. Note: Wrongful gain or avoidance of loss is NOT required to constitute fraud.

**Insider Trading Regulations 2015** — "Insider" = connected person OR person possessing Unpublished Price Sensitive Information (UPSI). Trading by an insider based on non-public information gives undue advantage and affects market

integrity.

### Code of Conduct for Investment Advisers (Third Schedule, IA Regs 2013):

Principle	Requirement
<b>Honesty &amp; Fairness</b>	Act honestly, fairly and in best interests of clients and market integrity
<b>Diligence</b>	Act with due skill, care and diligence; advice based on thorough analysis considering available alternatives
<b>Capabilities</b>	Have and employ appropriate resources and procedures for efficient business performance
<b>Information from Clients</b>	Seek financial situation, investment experience and objectives; maintain confidentiality
<b>Information to Clients</b>	Make adequate disclosures of relevant material information when dealing with clients
<b>Fair &amp; Reasonable Charges</b>	Fees must be fair, reasonable, and subject to SEBI ceilings
<b>Conflicts of Interest</b>	Avoid conflicts; when unavoidable — disclose to clients; ensure clients are fairly treated
<b>Compliance</b>	Comply with all applicable regulatory requirements to promote client interests and market integrity
<b>Senior Management Responsibility</b>	Senior management bears primary responsibility for appropriate standards of conduct

## 7 IA Penalties, Administration & Investor Charter

Topic	Key Provision
<b>Penalty for default</b>	Regulation 15EB of SEBI Act 1992: penalty not less than <b>Rs.1 lakh</b> ; may extend to Rs.1 lakh per day of continuing default; <b>maximum Rs.1 crore</b>
<b>Grounds for action</b>	Contravening SEBI Act/Regulations; failure to furnish information; false/misleading information; non-submission of periodic reports; non-cooperation with SEBI inquiry/inspection; unresolved investor complaints
<b>IAASB (IA Administration)</b>	BSE Administration and Supervision Limited (BASL) — recognised by SEBI to administer and supervise IAs. Functions: on-site and off-site supervision, grievance redressal, issuing warnings, referring to SEBI, monitoring, maintaining IA database. Parent stock exchange must: 15+ years existence, net worth Rs.200 crores, nationwide terminals, ISCs in at least 20 cities.
<b>Investor Charter</b>	SEBI circular June 2, 2025. IA must display charter on website and in office; provide during onboarding; disclose complaint data monthly (by 7th of succeeding month). Investor Do's: verify IA registration, pay fees via banking/CeFCoM, insist on risk profiling, get written terms. Don'ts: don't share login credentials, don't fall for assured returns, don't give funds to IA for investment.
<b>Grievance Redressal</b>	Step 1: Contact IA directly. Step 2: SEBI SCORES platform (scores.sebi.gov.in). Step 3: Online Dispute Resolution via Smart ODR portal (smartodr.in).
<b>CeFCoM</b>	Centralised Fee Collection Mechanism managed by BSE (IAASB). Clients can optionally pay advisory fees through this platform.

## 8 PMLA 2002 — Key Obligations

**Money laundering:** Disguising proceeds of criminal activity to make them appear to have a legal source. PMLA Section 3 makes it an offence to directly or indirectly attempt to indulge in or assist in any process connected with proceeds of crime including concealment, possession, acquisition, use, or projecting as untainted property.

PMLA Obligation (Section 12)	Requirement
<b>Record all transactions</b>	Maintain records of all transactions to enable reconstruction of individual transactions. Retained for <b>5 years</b> from date of transaction.
<b>Report to Director</b>	Furnish information on transactions of specified nature/value to the PMLA Director

PMLA Obligation (Section 12)	Requirement
<b>Identity records</b>	Maintain records of documents evidencing identity of clients and beneficial owners, account files, business correspondence for <b>5 years</b> after relationship ends or account closed
<b>Confidentiality</b>	All information maintained/furnished/verified under PMLA must be kept confidential (except where law requires disclosure)
<b>Enhanced Due Diligence (Sec 12AA)</b>	For specified high-risk transactions: verify identity via Aadhaar authentication, examine ownership/source of funds, record purpose of transaction. If client fails to comply — transaction must NOT be carried out.
<b>Suspicious transactions</b>	If transaction appears suspicious — increase future monitoring of the client relationship including greater scrutiny
<b>SEBI AML Guidelines</b>	Apply to all SEBI-registered intermediaries and their overseas branches. Divided into: (1) Overview of ML/TF principles; (2) Detailed procedures for AML/CFT compliance.

## 9 Other Key Acts

Act	Year	Key Points for IAs
<b>FEMA</b>	1999	Regulates foreign exchange transactions; governs NRI/FPI investments. Section 6: capital account transactions. LRS: \$250,000 per resident individual per year. FPI = investment less than 10% of post-issue paid-up equity on fully diluted basis.
<b>Indian Contract Act</b>	1872	Foundation for IA-client agreement. Contract = "an agreement enforceable by law" (Section 2(h)). Essentials: offer + acceptance, intention to create legal relations, free consent, lawfulness, capable parties.
<b>Guardians and Wards Act</b>	1890	Protects minors (under 18 under Indian Majority Act 1875) and their property. Guardian = person with care of minor's person and/or property. Court may appoint/declare guardian in welfare of minor. Relevant when IA manages investments of minors through guardians.

## CHAPTER 18 — QUICK REVISION: KEY REGULATIONS

<b>SCRA 1956</b>	Governs securities contracts and stock exchange regulation. Provides Central Government jurisdiction over stock exchanges, securities contracts, and listing.
<b>SEBI Act 1992</b>	Establishes SEBI to protect investors and develop/regulate securities markets. Quasi-judicial, legislative and executive powers.
<b>PFUTP 2003</b>	Prohibits fraudulent and manipulative trade practices. Fraud = misrepresentation, concealment, false statements, promises without intent. No wrongful gain needed.
<b>Insider Trading 2015</b>	Insider = connected person OR person with UPSI. Trading on non-public information gives undue advantage and affects market integrity.
<b>IA Regulations 2013</b>	Registration mandatory for all persons providing investment advice for consideration. Certificate valid until cancelled/suspended by SEBI.
<b>IA Qualification</b>	Professional/graduate/PG degree in finance/commerce/economics etc. OR NISM PG Program in Securities Market OR CFA Charter + valid NISM certification.
<b>IA Exemptions</b>	General media comments (no specific securities), insurance agents (IRDAI-registered), pension advisers (PFRDA-registered), MF distributors (incidental advice), lawyers, CAs/CSs/CMAs/Actuaries, fund managers, advice to non-India clients (except NRIs/PIOs).
<b>Individual IA limits</b>	More than 300 clients OR fees exceeding Rs.3 crore per year → must become non-individual IA. Part-time IA: maximum 75 clients.
<b>IA Fiduciary</b>	Must act in fiduciary capacity. No third-party remuneration (no commissions/referral fees). Arms-length between advisory and other activities.

<b>IA - No own-account trading</b>	Cannot trade contrary to client advice for 15 days. Exception: revised view given 24 hours in advance.
<b>IA Segregation</b>	Individual IA: cannot distribute. Family of individual IA: cannot distribute to same client. Non-individual: client-level segregation at group level.
<b>IA Implementation</b>	May assist with implementation — ONLY in direct plans. No commission at IA/group/family level. Client not obligated to use IA for this.
<b>IA Fees</b>	Fair and reasonable. Advance fees: max 1 year. Breakage fee on early termination: max one-quarter fee. Cash payment NOT allowed. Fee limits for individual/HUF clients only.
<b>IA Risk Profiling</b>	Mandatory before services. Assess capacity for loss + willingness. Communicated to client. Updated periodically. Questionnaire must be clear, not leading or vague.
<b>IA Suitability</b>	Products must meet client objectives, client able to bear risks, client understands risks. Documented process mandatory.
<b>IA Records</b>	5 years minimum. KYC, risk profiles, suitability, agreements, advice, rationale, client register, communications (emails + call recordings). Electronic = digitally signed.
<b>IA Penalty</b>	Rs.1 lakh to Rs.1 crore maximum (Rs.1 lakh per day of continuing default). Under Regulation 15EB of SEBI Act 1992.
<b>IAASB / BASL</b>	BSE Administration and Supervision Limited — recognised by SEBI to administer IAs. Supervises, redresses grievances, issues warnings, refers to SEBI.
<b>Investor Charter</b>	SEBI circular June 2025. Displayed on IA website/office; provided at onboarding; monthly complaint data disclosure by 7th of succeeding month.
<b>Grievance steps</b>	Step 1: IA directly. Step 2: SEBI SCORES (scores.sebi.gov.in). Step 3: Smart ODR portal (smartodr.in).
<b>PMLA 2002</b>	Prevents money laundering. Section 3: offence includes concealment/possession/use of proceeds of crime. All records for 5 years.
<b>PMLA Records</b>	Transaction records: 5 years from transaction date. Identity/account/correspondence records: 5 years after relationship ends or account closed.
<b>Enhanced Due Diligence</b>	Section 12AA: for high-risk/suspicious transactions — Aadhaar authentication, examine source of funds, record purpose. If client non-compliant: must refuse transaction.
<b>FEMA 1999</b>	Governs foreign exchange. LRS: \$250,000 per resident per year. FPI: less than 10% of post-issue paid-up equity of listed company.
<b>Indian Contract Act</b>	Contract = "agreement enforceable by law." Essentials: offer+acceptance, legal intention, free consent, lawfulness, capable parties.
<b>MITC</b>	Most Important Terms and Conditions — mandatory in IA advisory agreement. Key: IA cannot hold client funds, no guaranteed returns, fees via banking only, no cash, client must not share login credentials with IA.

## ■ MCQ PRACTICE — Chapter 18 — Key Regulations

10 Questions | Answers shown below each question

**1 Under SEBI (Investment Adviser) Regulations 2013, when must an individual Investment Adviser apply to become a non-individual IA?**

- a) When they have more than 50 clients or earn more than Rs.50 lakh in fees in any year
- b) When clients exceed 300 OR fees collected exceed Rs.3 crore in a financial year — whichever is earlier**
- c) When they have been registered for 5 years or more as an individual investment adviser
- d) Individual IAs are never required to convert — individual and non-individual registration are permanent categories

✓ **Answer: b) Clients exceed 300 OR fees exceed Rs.3 crore — whichever is earlier**

Under SEBI IA Regulations, individual investment advisers who reach either threshold must apply for non-individual registration: (1) **Number of clients exceeds 300** at any point; OR (2) **Fee collected exceeds Rs.3 crore** in a financial year — **whichever is earlier**. The transition involves: (i) applying for in-principle registration as non-individual IA; (ii) in-principle registration valid for 3 months to assist transition; (iii) on completion or grant of non-individual certificate (whichever earlier), the individual IA certificate must be surrendered. Part-time IAs have a separate, much lower limit of **maximum 75 clients** at any point.

**2 Which of the following persons is EXEMPT from registering as an Investment Adviser under SEBI IA Regulations 2013?**

- a) A retired banker who charges fees to 30 clients for selecting mutual fund schemes on their behalf
- b) A Chartered Accountant who provides investment advice to clients as an incidental part of their accounting services**
- c) A financial planner who provides both equity advice and MF distribution services but has fewer than 50 clients
- d) An NRI-focused company incorporated in Singapore providing investment advice to NRI clients about Indian securities

✓ **Answer: b) CA providing investment advice incidental to professional accounting service**

SEBI IA Regulations provide specific exemptions. A **Chartered Accountant** (or CS, CMA, actuary, or member of specified professional bodies) who provides investment advice **incidental to their primary professional service** is exempt from IA registration — subject to complying with general obligations in Chapter III. Key criteria: the advice must be incidental (not the primary activity). The retired banker (primary activity = advice, fee charged) is NOT exempt. The NRI-focused Singapore company is NOT exempt — advice to NRIs/PIOs falls within IA Regulations regardless of where the IA is located. The MF distributor+equity adviser combination is NOT exempt.

**3 An Investment Adviser wants to enter a transaction in their own account that is contrary to the advice they gave to clients today. When can they do this?**

- a) They can never trade in their own account if the securities conflict with any advice given at any time
- b) Immediately after providing advice — personal trading and client advice can occur simultaneously
- c) After 15 days from the date of advice, OR with 24 hours advance revised assessment to clients if view changes sooner**
- d) 30 days after the original advice — to protect clients from any short-term price impact of the IA's trading

✓ **Answer: c) After 15 days; or earlier if revised assessment given 24 hours in advance**

SEBI IA Regulations specify: an IA **shall not enter into transactions on its own account which is contrary to advice given to clients for a period of 15 days** from the day of such advice. Exception: if within those 15 days the IA's view changes, they may enter such a transaction on their own account only after **giving the revised assessment to the client at least 24 hours in advance**. This rule prevents front-running and ensures client interests are protected. The IA cannot benefit from their own advice at the expense of clients by immediately taking contrary personal positions.

**4 What is the maximum penalty that SEBI can impose on an Investment Adviser for failure to comply with IA Regulations?**

- a) Rs.25 lakh — fixed penalty per violation irrespective of duration
- b) Rs.50 lakh per incident with an annual cap of Rs.2 crore for repeat offenders
- c) Rs.1 lakh minimum to Rs.1 crore maximum (Rs.1 lakh per day of continuing default)**
- d) Rs.5 crore maximum — enhanced penalty for repeated violations within 3 years

✓ **Answer: c) Rs.1 lakh minimum; Rs.1 lakh per day continuing; maximum Rs.1 crore**

Under **Regulation 15EB of the SEBI Act 1992**, if an investment adviser fails to comply with SEBI regulations or directions, the penalty is: **not less than Rs.1 lakh** but may extend to **Rs.1 lakh for each day during which such failure continues**, subject to a **maximum of Rs.1 crore**. This daily penalty structure is designed to incentivise prompt compliance — prolonged non-compliance is disproportionately expensive. Grounds for action include: contravening any SEBI regulation, failure to furnish information, submitting false/misleading information, non-submission of periodic reports, non-cooperation in SEBI inquiries, or unresolved investor complaints.

**5 Under the Code of Conduct for Investment Advisers (Third Schedule, IA Regs 2013), an IA discovers a conflict of interest with a client's recommended investment. What should the IA do?**

- a) Immediately refuse to advise the client and terminate the advisory relationship to avoid any potential conflict
- b) Proceed without disclosure — minor conflicts are acceptable as long as the advice remains suitable
- c) Disclose the conflict of interest to the client and ensure the client is fairly treated despite the conflict**
- d) Obtain SEBI pre-approval before proceeding with any advice that has a potential conflict of interest

✓ **Answer: c) Disclose the conflict to the client and ensure fair treatment**

The IA Code of Conduct on **Conflicts of Interest** states: "An investment adviser shall try to **avoid** conflicts of interest as far as possible and when they cannot be avoided, it shall ensure that **appropriate disclosures are made to the clients and that the clients are fairly treated.**" This is a core fiduciary principle — transparency over conflicts is mandatory. Additionally, under General Obligations, an IA must act in a fiduciary capacity and **disclose all conflicts of interests as and when they arise**. The IA must also disclose its own holdings/positions in securities being recommended and maintain an arms-length relationship between advisory and other activities.

**6 Under PMLA Section 12, for how long must a reporting entity maintain transaction records and identity records of clients?**

- a) Transaction records: 3 years from transaction date; identity records: 5 years after account closure
- b) Transaction records: 5 years from transaction date; identity records: 5 years after relationship ends or account closed (whichever is later)**
- c) Both transaction and identity records: 7 years from the date of first transaction with the client
- d) Transaction records: 1 year from date; identity records maintained only while the relationship is active

✓ **Answer: b) Transaction records: 5 years from transaction; identity records: 5 years after relationship ends**

PMLA Section 12 specifies two separate retention periods: (1) **Transaction records**: must be maintained for **5 years from the date of the transaction** between the client and the reporting entity — sufficient to reconstruct individual transactions; (2) **Identity records, account files, and business correspondence**: must be maintained for **5 years after the business relationship has ended or the account has been closed, whichever is later**. Enhanced due diligence records under Section 12AA also have a 5-year retention from the date of the specified transaction. All information maintained under PMLA must be kept **confidential** except where disclosure is required by law.

**7 An IA is asked to provide advice on a fixed deposit product offered by a small NBFC. This product is not under SEBI's regulatory purview. What must the IA disclose?**

- a) Nothing — IAs can freely advise on all financial products including those outside SEBI's purview
- b) That the product and the IA's advice on it are outside SEBI's regulatory purview and no SEBI recourse is available for grievances on this product**
- c) The IA must immediately refuse to advise on any product not regulated by SEBI under any circumstances
- d) The IA must obtain special SEBI permission each time they advise on a non-securities product

**✓ Answer: b) Must disclose that the product/advice are outside SEBI purview and SEBI recourse is unavailable**

SEBI IA Regulations specifically address this situation: when an IA provides advisory services on products or services **outside the purview of SEBI**, the IA **must disclose to the client** that such products/services and the IA's advisory services in respect of those products are outside SEBI's regulatory purview, and that **no recourse from SEBI is available** for any grievance arising therefrom. This disclosure requirement protects investors from assuming they have the same regulatory protections for non-SEBI products as they do for SEBI-regulated securities. The IA is also required to take appropriate declaration and undertaking from the client acknowledging this limitation.

**8 What is the role of BASL (BSE Administration and Supervision Limited) in the context of Investment Advisers?**

- a) BASL is the stock exchange platform for MF transactions — BSE StAR MF platform operator
- b) BASL is recognised by SEBI as the Investment Adviser Administration and Supervisory Body (IAASB) responsible for supervising IAs**
- c) BASL operates the SCORES complaint platform on behalf of SEBI for all capital market grievances
- d) BASL manages the CKYCR database on behalf of CERSAI for investment adviser client KYC records

**✓ Answer: b) BASL is SEBI-recognised IAASB for supervising and administering IAs**

**BSE Administration and Supervision Limited (BASL)** has been granted recognition by SEBI as the **Investment Adviser Administration and Supervisory Body (IAASB)**. Its responsibilities include: (1) **Supervision** of IAs — both on-site and off-site; (2) **Grievance redressal** of clients and IAs; (3) **Administrative action** — issuing warnings, referring to SEBI for enforcement; (4) **Monitoring** IA activities through periodic reports; (5) **Submission** of periodic reports to SEBI; (6) **Maintenance** of IA database. For stock exchange to qualify as parent: 15+ years existence, net worth Rs.200 crore, nationwide terminals, ISCs in at least 20 cities.

**9 Under SEBI PFUTP Regulations 2003, does a person need to have made wrongful gains for an act to constitute "fraud"?**

- a) Yes — wrongful gain or avoidance of loss is an essential element that must be proved to establish fraud
- b) No — there may or may not be wrongful gain; the fraudulent act itself (misrepresentation, concealment etc.) is sufficient**
- c) Only if the fraud involved market manipulation affecting publicly listed securities
- d) Only institutional investors are covered by PFUTP — individual investor fraud falls under the Indian Penal Code

**✓ Answer: b) No — wrongful gain is NOT required; the act of fraud itself is sufficient**

SEBI (PFUTP) Regulations 2003 define fraud broadly and specifically state that **wrongful gain or avoidance of any loss is inconsequential** in determining whether fraud has been committed. The fraudulent act itself — misrepresentation, concealment, making false statements, or reckless statements — is sufficient to constitute fraud under these regulations. This is an important principle: it prevents persons from escaping liability by arguing that no one actually profited or that no harm resulted. The regulations cover a wide range of acts including wilful misrepresentation of truth, active concealment of known facts, promises made without intent to perform, and reckless statements.

**10 What does the MITC (Most Important Terms and Conditions) in an IA advisory agreement prohibit the investor from doing?**

- a) Investing in direct plans — MITC requires clients to use distribution services for implementation
- b) Sharing login credentials for trading, demat, and bank accounts with the IA or anyone else**
- c) Withdrawing from the advisory agreement within the first year after paying advance fees
- d) Seeking advice from more than one Investment Adviser simultaneously for the same portfolio

**✓ Answer: b) MITC prohibits sharing login credentials for trading, demat, or bank accounts with the IA**

The MITC (Most Important Terms and Conditions) — a mandatory part of the IA advisory agreement per SEBI — includes several important investor do's and don'ts. The specific prohibition: the IA **shall never ask for the client's login credentials and OTPs** for their Trading Account, Demat Account, and Bank Account, and **the investor must never share such information** with anyone including the IA. Other MITC key provisions: IA cannot hold client funds; no guaranteed returns; no assured returns schemes; IA cannot trade on behalf of client without explicit per-trade consent; fees only via banking channels (CeFCoM optional); SEBI/NISM certification does not guarantee IA performance or returns to client.