Guidelines for Research Analysts – January 08, 2025

The Securities and Exchange Board of India (SEBI) issued a circular, introducing comprehensive guidelines for Research Analysts (RAs) to enhance transparency, accountability, and professionalism in the securities market.

The latest guidelines for RAs are part of SEBI's ongoing efforts to strengthen the regulatory framework governing research activities in the financial sector.

The updated guidelines specify that new individual RAs and non-individual research entities must meet revised qualification standards. The existing professionals, including principal officers and partners already engaged in research services, are exempt from this mandate. The non-individual RAs are required to appoint an independent compliance officer who is a member of professional bodies such as ICAI, ICSI, or ICMAI and holds certifications in relevant NISM exams. If they are utilizing Artificial Intelligence (AI) tools must ensure data security, confidentiality, and integrity and the clients must be informed about the extent of AI usage at the service onboarding stage. The SEBI has capped the annual fee chargeable to individual and Hindu Undivided Family clients at ₹1,51,000, excluding statutory charges. To avoid conflicts of interest, RAs must segregate research and distribution activities at the client level. The RAs have to disclose detailed terms and conditions of their services to clients before initiating any research services or charging fees and they are required to implement robust Know Your Customer procedures and maintain interaction records with clients, including emails, phone recordings, and SMS, for a minimum of five years. SEBI mandates annual compliance audits for RAs to ensure adherence to all regulations.

SEBI's new guidelines represent a robust regulatory framework that balances client protection with operational flexibility for RAs. By emphasizing compliance, transparency, and ethical practices, SEBI aims to elevate the credibility and efficiency of research services in India's financial ecosystem. RAs and entities must prioritize aligning their practices with these updated standards to foster trust and innovation in the industry.

To access the circular, click here.

Guidelines for Investment Advisers – January 08, 2025

The SEBI issued a circular detailing updated guidelines for Investment Advisers (IAs) to enhance regulatory compliance and investor protection.

Individual IAs and principal officers of non-individual IAs are required to possess a professional qualification or a postgraduate degree/diploma (minimum two years) in fields such as finance, accountancy, business management, commerce, economics, capital market, banking, insurance, or actuarial science. The IAs are mandated to maintain a deposit with SEBI, the amount of which is determined by the number of clients served. The non-individual IAs are required to appoint a compliance officer responsible for ensuring adherence to regulatory requirements. SEBI provides flexibility in the modes of charging fees to clients. The IAs can opt for various fee structures, including fixed fees or fees based on assets under advice, ensuring transparency and fairness in their compensation models. The IAs who utilize AI tools or offer products not regulated by SEBI must adhere to specific disclosure norms. They are mandated to conduct annual compliance audits to verify adherence to SEBI regulations. All IAs are required to maintain a functional website that provides clients with essential information about their services, fee structures, and disclosures.

SEBI's updated guidelines for IAs aim to strengthen the regulatory framework, promote transparency, and protect investor interests. IAs are encouraged to familiarize themselves with these guidelines and ensure timely compliance to uphold the integrity of the advisory profession.

To access circular, click here.

Consultation paper on proposal to increase the size criteria (set to guard against potential circumvention of Press Note 3 stipulations) in the additional disclosure framework – January 10, 2025

The SEBI has released a consultation paper proposing an increase in the size threshold for additional disclosure requirements under the Foreign Portfolio Investors (FPI) framework. This initiative aims to prevent potential circumvention of Press Note 3 (PN3) stipulations.

In August 2023, SEBI introduced an additional disclosure framework requiring FPIs with equity Assets Under Management exceeding ₹25,000 crore to provide detailed information about their investors and stakeholders on a look-through basis. This measure was designed to prevent the circumvention of PN3 guidelines, which pertain to foreign investments from countries sharing land borders with India.

SEBI's analysis indicates a significant growth in market activity, with the average daily turnover in the capital market segment of the National Stock Exchange increasing by 122% from ₹53,434 crore in FY 2022-23 to ₹1,18,757 crore in FY 2024-25 (up to December 2024). Given this substantial market expansion, SEBI proposes raising the disclosure threshold to ₹50,000 crore to align with the current market dynamics. This adjustment aims to ensure that only FPIs with substantial market influence are subject to these enhanced disclosure requirements.

SEBI invited public comments on this proposal to ensure comprehensive stakeholder engagement. Interested parties are encouraged to submit their feedback by January 31, 2025, through SEBI's official website.

By proposing to raise the disclosure threshold, SEBI seeks to balance the need for regulatory oversight with the realities of a growing market. This initiative reflects SEBI's commitment to maintaining market integrity while adapting to evolving market conditions.

To access the consultation paper, click here.

Circular on Revise and Revamp Nomination Facilities in the Indian Securities Market – January 10, 2025

The SEBI issued this circular to enhance the nomination process for investors and reduce unclaimed assets.

SEBI has identified that incomplete or absent nominations contribute significantly to unclaimed assets in the securities market. To address this, SEBI has undertaken measures to streamline the nomination process, aiming to facilitate smoother transmission of assets to nominees or legal heirs.

To simplify the nomination and output process SEBI introduced the standardized form which ensures uniformity across the industry and investors have to either nominate a beneficiary for their securities holdings or formally declare their decision to opt out of nomination. An electronic nomination facility has been implemented to allow investors to submit their nomination details online, enhancing convenience and reducing paperwork. Investors can now appoint multiple nominees for their securities and specify the percentage allocation for each nominee. In the event of the investor's demise, the transmission process of securities to the nominee(s) has been simplified to ensure a hassle-free experience for the beneficiaries.

All market participants, including depositories, asset management companies, and intermediaries, are required to implement these revised nomination facilities by June 30, 2025. SEBI's revamped nomination framework aims to protect investors’ interests by ensuring that their securities holdings are seamlessly transferred to their chosen nominees, thereby reducing the incidence of unclaimed assets in the Indian securities market.

To access the circular, click here.

Consultation Paper on Review of Framework for Social Stock Exchange – January 20, 2025

The SEBI released a consultation paper proposing revisions to the framework governing Social Stock Exchanges (SSEs). This initiative aims to enhance the effectiveness and inclusivity of SSEs in mobilizing capital for social enterprises. The introduction of the SSE framework is to facilitate funding for social enterprises by connecting them with investors seeking to generate social impact alongside financial returns. The framework provides a platform for both non-profit organizations (NPOs) and for-profit social enterprises (FPEs) to raise capital through instruments such as zero-coupon zero-principal bonds and equity listings.

The paper proposes broadening the scope of activities considered eligible for SSE participation. This includes areas such as environmental sustainability, promotion of art and culture, and support for marginalized communities. The aim is to improve transparency, SEBI suggests more detailed disclosure norms for social enterprises. This encompasses financial statements, impact assessments, and governance structures to build investor confidence. The consultation paper also recommends streamlining the listing process for NPOs and FPEs on SSEs. This involves reducing procedural complexities and associated costs to encourage greater participation.

SEBI proposes the creation of Social Impact Funds under the Alternative Investment Fund regulations. These funds would specifically invest in securities listed on SSEs, thereby channelling more capital into the social sector. This paper emphasizes the need for capacity-building initiatives to assist social enterprises in meeting compliance and reporting standards. This includes training programs and advisory support. SEBI has invited stakeholders to provide their comments and suggestions on the proposed framework.

To access the consultation paper, click here.

Timeline for Review of ESG Rating pursuant to occurrence of 'Material Events' – January 17, 2025

The SEBI issued this circular to establish guidelines for Environmental, Social, and Governance (ESG) rating providers to promptly review and update ESG ratings following significant events that could impact an entity's ESG performance.

As per the circular the Material events are defined as occurrences that may substantially affect an entity's ESG performance. These include, but are not limited to, environmental disasters, significant regulatory actions, major corporate governance changes, or substantial social controversies.

According to the circular the timeline to review starts upon the occurrence of a material event, ESG rating providers are required to initiate a review of the affected entity's ESG rating within five working days, and the review process, including any necessary rating adjustments, must be completed within 30 calendar days from the initiation of the review.

The ESG rating providers must disclose any changes to an entity's rating resulting from the review of the material event. This disclosure should include the rationale for the rating change and be communicated to stakeholders promptly, also the ESG rating providers are obligated to establish robust monitoring mechanism to identify material events in a timely manner. This includes continuous surveillance of relevant information sources and engagement with stakeholders.

The provision of this circular is effective immediately from the date of issuance i.e. January 17, 2025. ESG rating providers are expected to comply with these guidelines forthwith.

To access the circular, click here.