

Consultation paper

Draft Circular on Frequently Asked Questions (FAQs) related to regulatory provisions for Research Analysts

1. Objective

- 1.1. The objective of this paper is to seek public comments on the draft circular providing details/clarifications on various regulatory provisions applicable to research analysts (RAs) in the form of Frequently Asked Questions (FAQs).

2. Background

- 2.1. The SEBI (Research Analysts) Regulations, 2014 (“RA Regulations”) came into effect from December 01, 2014. FAQs providing clarifications/details on the various provisions of RA Regulations were published on SEBI website on December 09, 2014 for the purpose of providing guidance to RAs (available on SEBI website at link-https://www.sebi.gov.in/sebi_data/faqfiles/jan-2017/1485860192812.pdf).
- 2.2. SEBI has recently reviewed the regulatory framework for research analysts and has notified SEBI (Research Analysts) (Third Amendment) Regulations, 2024 on December 16, 2024. Pursuant to these amendments, SEBI has also issued a circular dated January 08, 2025 on guidelines for research analysts.
- 2.3. Given the above, it is proposed to make suitable changes to the existing FAQs and include additional FAQs to reflect the consequential and regulatory changes emanating from the aforesaid amendments to RA Regulations, circular (s) issued thereunder and other relevant policy decisions. The consolidated FAQs are proposed to be issued as a circular.

3. Public Comments

- 3.1. The draft circular on Frequently Asked Questions (FAQs) related to regulatory provisions for Research Analysts is placed at Annexure A. Comments are invited on the proposed FAQs and clarifications/details mentioned in the Draft Circular. The comments/ suggestions should be submitted latest by June 30, 2025 through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

- 3.2. In case of any technical issue in submitting your comment through web based public comments form, you may write to consultationMIRSD@sebi.gov.in with the subject: "Comments on Draft Circular on Frequently Asked Questions (FAQs) related to regulatory provisions for Research Analysts"

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Encl: Annexure A

DRAFT CIRCULAR

SEBI/HO/MIRSD/ MIRSD-PoD/P/CIR/2025/

June XX, 2025

To,

All registered Research Analysts**BSE Limited (Administration and Supervisory Body for Research Analysts- RAASB)**

Sir / Madam,

Sub: Frequently Asked Questions (FAQs) related to regulatory provisions for Research Analysts

1. Securities and Exchange Board of India (SEBI) has notified SEBI (Research Analysts) (Third Amendment) Regulations, 2024 on December 16, 2024. Pursuant to these amendments, SEBI has issued a circular dated January 08, 2025 on guidelines for research analysts.
2. SEBI is in receipt of representations from Research Analysts (RAs) requesting to provide clarifications on certain regulatory provisions.
3. In this regard, in order to provide guidance for compliance by RAs with the regulatory provisions, the details/clarifications are provided as part of the frequently asked questions (FAQs) at **Annexure A-1**. For full particulars of laws governing the Research Analysts (RAs), please refer to the Acts/ Regulations/ Guidelines/ Circulars, etc. appearing under the Legal Framework Section of SEBI website. For an interpretation of a specific provision of the Regulations, informal guidance may be sought as specified under SEBI (Informal Guidance) Scheme 2003.

4. Based on the representations received from RAs, RAs/research entities shall now ensure the compliance with the following-
 - i. Persons associated with research services shall obtain the relevant certification from NISM as specified by SEBI within one year from the date of this circular.
 - ii. Consent by signature on the terms and conditions including most important terms and conditions (MITC) shall not be mandatory for the clients who are institutional investors or qualified institutional buyers. However, RAs/research entities are required to disclose the terms and conditions of research services including MITC to these clients.
5. This circular is issued in exercise of powers conferred under section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 33 of Securities and Exchange Board of India (Research Analysts) Regulations, 2014 to protect the interests of investors in securities market and to promote the development of, and to regulate the securities market.
6. This circular is available on the SEBI website at www.sebi.gov.in under the category "Legal →Circulars".

FREQUENTLY ASKED QUESTIONS (FAQs)**1. How are research analysts regulated in India?**

The SEBI (Research Analysts) Regulations, 2014 (“RA Regulations”) came into effect from December 01, 2014.

The RA Regulations specify conditions for registration, certification, limitations on trading by research analysts, limitations on compensations of research analyst, various disclosures to be made during public appearance and during making recommendations through public media, code of conduct, records to be maintained, manner of conducting inspection, etc. The RA Regulations (as amended from time to time) are available on the SEBI website www.sebi.gov.in.

2. Whether the individuals employed as research analyst with an entity are required to obtain registration certificate under RA Regulations?

No. Individuals employed as research analyst with an entity are not required obtain registration certificate from SEBI. The research entity which employs individuals as research analysts is required to obtain registration certificate under the RA Regulations. The individuals employed as research analyst by research entity are required to comply with qualification and certification requirements as specified in the regulations. The trading limitations prescribed under the regulations are applicable to them.

3. Whether the personnel involved in publication activities like marketing and editing are covered under the definition of Research Analyst under RA Regulations.

The personnel engaged in clerical activities/marketing activities, back office assistance, support services, etc, in relation to publication and/or distribution of research report are not covered under the definition of research analysts. These personnel are also not considered as persons associated with research services if they have no client contact.

4. What are all the communications excluded from the definition of research report?

"Research report" does not include the following communications: -

- i. comments on general trends in the securities market ;
- ii. discussions on the broad-based indices;
- iii. commentaries on economic, political or market conditions;
- iv. periodic reports or other communications prepared for unit holders of Mutual Fund or Alternative Investment Fund or clients of Portfolio Managers and Investment Advisers;
- v. internal communications that are not given to current or prospective clients;
- vi. communications that constitute offer documents or prospectus that are circulated as per regulations made by SEBI;
- vii. statistical summaries of financial data of the companies;
- viii. technical analyses relating to the demand and supply in a sector or index;
- ix. any other communication which SEBI may specify from time to time.

5. Whether technical analysis is exempted from the purview of the RA Regulations?

Making buy/sell/hold recommendation on individual stocks based on the technical analysis is not exempted from the purview of the RA Regulations. However, technical analyses relating to the demand and supply for a particular sector or index is exempted from the purview of RA Regulations.

6. What are all communications excluded under periodic reports as per definition of research report?

Periodic reports such as sending financial account statements, annual reports and any other communication as required under the specific regulations prepared for unit holders of Mutual Fund or Alternative Investment Fund or clients of Portfolio Managers and Investment Advisers are excluded from the definition of research report under RA Regulations.

7. Does RA Regulations cover only equity and equity linked securities?

No. RA Regulations cover all securities as defined under clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956.

8. Which intermediaries are covered under the definition of ‘Research Entity’?

SEBI registered Stock Brokers, Merchant Bankers and other intermediaries except those who are exempted from making application under RA Regulations are required to make application for grant of registration under RA Regulations, if they are engaged in issuance of research reports or research analyses. Such intermediaries are covered under the definition of ‘research entity’.

9. Who is an independent research analyst?

"Independent research analyst" means a person whose only business activity is research analysis or preparation and/or publication of research report and includes individuals engaged in providing research services without being employed with any research entity(intermediary) and entities other than SEBI registered intermediaries who are engaged in research activities.

10. Whether proxy advisers are required to obtain registration under RA Regulations?

Yes. Proxy Advisers are required to obtain registration from SEBI under RA Regulations.

11. What are the requirements to be fulfilled by proxy adviser?

All the provisions of Chapter II, III, IV, V and VI of RA Regulations shall apply mutatis mutandis to the proxy adviser.

The proxy adviser shall be required to additionally disclose the following:

- i. the extent of research involved in a particular recommendation and the extent and/or effectiveness of its controls and procedures in ensuring the accuracy of issuer data;

- ii. policies and procedures for interacting with issuers, informing issuers about the recommendation and review of recommendations.

Proxy adviser is required to maintain the record of his voting recommendations and furnish the same to SEBI on request.

12. Who is required to make an application to get registration under RA Regulations?

No person shall act as a research analyst or research entity or hold itself out as a research analyst unless he has obtained a certificate of registration from SEBI on and from the commencement of RA Regulations unless an exemption specifically applies to such a person.

An applicant who intends to engage in providing research services such as issuance of research report or research analysis is required to make an application for registration under RA Regulations.

13. What is the procedure of obtaining registration as a research analyst from SEBI?

Application is required to be made in Form A as specified in the RA Regulations with necessary supporting documents to the RAASB.

RAASB shall, after scrutiny of the application, recommend the application to SEBI for grant of registration as RA.

A section by the name "Research Analyst" has been created on the SEBI website where the details/circulars/press releases pertaining to RA regulations are being uploaded on a periodic basis.

14. Who are exempted from making application for grant of registration under RA Regulations?

Investment Advisers, Credit Rating Agencies, Asset Management Companies and Fund Managers (i.e. Fund Managers of a mutual fund or alternative investment fund or venture capital fund or portfolio manager) are not required to be registered under RA Regulations.

However, in case such intermediaries issue/circulate/distribute research reports to public or general investors and/or if they or their directors or employees make public appearance, they shall be required to comply with Chapter III of the RA Regulations.

15. Whether any application fee is required to be paid at the time of making application for grant of registration under RA Regulations and What is the amount to be paid for grant of registration/renewal registration as research analyst?

Yes. Application fees must be paid along with application form for grant of registration. The details of the applicable fees to be paid to SEBI are as below:

| <i>S. No.</i> | <i>Category</i> | <i>Application Fee</i> | <i>Registration Fee (for the first five years of registration)</i> | <i>Renewal Fee (for subsequent five years)</i> |
|---------------|---|------------------------|--|--|
| <i>1</i> | <i>Individual and Partnership Firms</i> | <i>Rs. 2,000</i> | <i>Rs. 3,000</i> | <i>Rs. 1,000</i> |
| <i>2</i> | <i>Proxy Advisers</i> | <i>Rs. 2,000</i> | <i>Rs. 3,000</i> | <i>Rs. 1,000</i> |
| <i>3</i> | <i>Body Corporate including Limited Liability Partnership</i> | <i>Rs. 20,000</i> | <i>Rs. 30,000</i> | <i>Rs. 5,000</i> |

Further, the RAs are required to be enlisted with the RAASB and to pay administrative fees as specified by RAASB.

16. What is the capital adequacy requirement for a Research Analyst?

There is no capital adequacy requirement applicable to an RA. However, an RA is required to maintain a deposit with RAASB in accordance with their number of clients in the manner specified by SEBI. The applicable deposit requirements are as under:

| <i>No. of clients</i> | <i>Deposit</i> |
|--------------------------------|-------------------|
| <i>Up to 150 clients</i> | <i>₹ 1 lakh</i> |
| <i>151 to 300 clients</i> | <i>₹ 2 lakhs</i> |
| <i>301 to 1,000 clients</i> | <i>₹ 5 lakhs</i> |
| <i>1,001 and above clients</i> | <i>₹ 10 lakhs</i> |

17. Can a sole proprietor make an application to get registered as a research analyst?

A sole proprietor can make an application to get registered as an independent research analyst. The proprietor of the sole proprietorship firm is required to fulfil eligibility conditions applicable to individual under RA Regulations.

18. What is covered under ‘public media’?

Public media means any media source available to the general public and includes a radio, television, internet, web or print media.

19. What are the disclosures required for making recommendations in public media?

When any person including a director or employee of an investment adviser or credit rating agency or asset management company or fund manager, makes a public appearance or makes a recommendation or offers an opinion concerning securities or public offers through public media, all the provisions of regulations 16 on limitations on trading and 17 on limitations on compensation shall apply mutatis mutandis to him and he shall disclose his name, registration status and details of financial interest in the subject company at the time of:

- (i) making such recommendation or offering such opinion in personal capacity;
- (ii) responding to queries from audiences or journalists in personal capacity;
- (iii) communicating the research report or substance of the research report through the public media.

20. Whether journalists who are on the payrolls of media organizations such as newspaper or television are required to get registered with SEBI?

No. The journalists who are on the payrolls of media agency such as newspaper or television are not required to get registered with SEBI. However, if they make recommendations or offer an opinion concerning securities or public offers through public media, all the provisions of regulations 16 on limitations on trading and 17 on limitations on compensation shall apply mutatis mutandis and they shall disclose their name, registration status and details of financial interest in the subject company.

21. Whether a person located outside India can issue research reports under RA Regulations?

Yes. Any person located outside India, engaged in issuance of research report or research analysis in respect of securities listed or proposed to be listed on a stock exchange in India shall enter into an agreement with a research analyst or research entity registered under the RA regulations.

22. Is it mandatory for research analysts to include the words ‘research analyst’ in their name?

Research analysts registered under the RA regulations shall use the term "research analyst" in all their correspondences with clients. Part-time research analyst registered under the RA regulations shall use the term ‘part-time research analyst’ in all correspondences with clients.

23. In case of a partnership firm, who is required to fulfil qualification and certification requirement under regulation 7 of RA Regulations?

The partner/s engaged in research services shall be required to fulfil qualification and certification requirement under regulation 7 of RA Regulations.

24. How long does the certificate of registration remain valid under RA Regulations?

The certificate of registration under RA Regulations remains valid till it is suspended or cancelled. However, the validity of the registration shall be subject to payment of applicable fees every five years.

25. Who are all required to monitor the personal trading activities of the individuals employed as research analysts?

Research analysts/Research entities who employ individuals as research analysts are required to monitor and record the personal trading activities of the individuals employed as research analyst with them.

26. What are trading restrictions imposed under RA Regulations?

Research analysts, part-time research analysts, individuals employed as research analyst or their associates shall not deal or trade any securities that the research analyst recommends or follows within 30 days before and 5 days after the publication of a research report on the subject company.

Research analysts, part-time research analysts, individuals employed as research analyst or their associates shall not deal or trade directly or indirectly in securities that he reviews in a manner contrary to his given recommendation.

Research analysts, part-time research analysts, individuals employed as research analyst or their associates shall not purchase or receive securities of the issuer before the issuer's initial public offering, if the issuer is principally engaged in the same types of business as companies that the research analyst follows or recommends.

27. Whether the limitations on trading prescribed under regulation 16 of RA Regulations are applicable to research entity?

The trading limitations prescribed in the RA regulations are applicable to the individuals employed as research analyst, individuals registered as research analyst, independent research analysts, research entities and their associates.

28. Whether the limitations on trading applicable to research entity or its associates, if it has segregated its research activities from other activities?

The limitations on trading prescribed under regulation 16(2) to 16(4) are not applicable to a research entity or its associates, if such research entity has segregated its research activities from all other activities and maintained arms-length relationship between such activities.

29. Who are required to appoint a compliance officer under RA Regulations?

A non-individual research analyst or research entity is required to appoint a compliance officer who shall be responsible for monitoring the compliance in respect of the requirements of the Act, RA regulations and circulars issued by SEBI. A non-individual research analyst may appoint an independent professional who is a member of ICAI or ICSI or ICMAI or member of any other professional body as may be specified by the SEBI, provided such a professional holds a relevant certification from NISM, as may be specified by the SEBI.

30. Whether the existing compliance officer of a Brokerage Firm/Merchant Banking Firm, etc. can act as a compliance officer of research entity under RA regulations.

Yes. The existing compliance officer of intermediary can be appointed as a compliance officer of a research entity under RA Regulations.

31. Whether the research services provided by intermediaries such as brokers or merchant bankers (research entities) as value added services to their clients are considered as research services ‘for consideration’ for the purpose of RA Regulations?

In case of intermediaries such as brokers or merchant bankers who provide research services as value added services to their clients, the brokerage/merchant banking charges/ tariff consideration include the consideration for the research services though it may not be separately identified/attributed to the research services.

Thus, research services provided to these clients are considered as research services ‘for consideration’ under RA Regulations even though no separate fee for research services is received by these intermediaries directly from the clients.

32. Whether services such as brokerage services or merchant banking services provided by research entity are considered as distribution activity?

The purpose of regulation 26C of RA Regulations is to address the inherent concerns on potential conflict of interest of RA when it provides both the research and distribution services to its client that may not be in the interest of client.

This purpose is clearly applicable in case of distribution of mutual funds since commission in MFs is received from Asset Management Company (AMC) and not from the client and thus a client may not be aware of commission being earned from it.

However, in case of intermediaries such as brokers or merchant bankers (research entities) who provide research services to their clients, brokerage services or merchant banking services provided by them are not considered as distribution activity for the purpose of regulation 26C of RA Regulations. This is because the nature of services is not exactly akin to distribution and there is no conflict as fee for all services is received from the client itself.

33. Whether RAs/research entity can provide distribution services on the products/securities on which they are not providing research services/brokerage/merchant banking services to their clients?

Is client level segregation (i.e. at group level, same client cannot be provided both research as well as distribution service) required if distribution and research services are provided on different categories of securities?

An RA is expected to provide independent, unbiased, and objective research on securities. It is important to ensure that there is no conflict of interest between the research activity and other activities of the RA. Purpose of the regulation 26C of RA Regulations is to address the inherent concerns on potential conflict of interest of RA when it provides both the research and distribution services to their client that may not be in the interest of client. Thus in terms of the regulatory intent, RA/research entity cannot provide research services for the securities/products in case it also provides distribution services for such securities/products.

Thus, in alignment with the intent of the regulation, in exercise of power under regulation 33 of RA Regulations, it is clarified that RA/research entity can provide distribution services on products/securities provided they are not providing research services on such products/securities being distributed and are providing such distribution services through separately identifiable department or division or business unit within the same entity or through a separate entity on an arms' length basis.

Some clarifications with illustrations are given below:

- i. Client level segregation of research and distribution services is not required if RA/research entity distributes mutual funds/PMS schemes/AIF products but provides research services only on individual stocks and is not providing research services on mutual funds/PMS schemes/AIF products.
- ii. The RA/research entity is required to maintain client level segregation at family/group level in case it is engaged in providing research services on mutual funds and is also engaged in distribution of mutual funds.
- iii. RA/research entity may carry out distribution of other products (such as banking products) not under purview of SEBI to their clients at family/group level. Any grievances related to such products shall not come under purview of SEBI.

34. Is NISM certification mandatory for the sales staff, support staff, customer support team or other client-facing staff not involved in research?

As per the explanation to regulation 2(ne) of the RA regulations, all client and public facing persons such as analysts, sales staff, service relationship managers, client relationship managers, etc., by whatever name called, shall be deemed to be persons associated with research services, but shall not include persons who discharge clerical or office administrative functions where there is no connection with research services and they have no client contact. Accordingly, the sales person/relationship manager or other client-facing staff, even though not involved in research, are required to obtain NISM Certification.

Persons associated with research services shall obtain the relevant certification from NISM as specified by SEBI within one year from the date of this circular or within the timeline as may be specified by SEBI.

35. Whether the following compliance requirements are also applicable in case of non-fee paying clients including institutional investors? -

- i. Disclosure of terms and conditions of research services including Most Important Terms and Conditions (MITC) and signing/taking consent of client on these terms and conditions**
- ii. KYC Requirements**
- iii. Maintenance of records of interactions with clients such as call recordings, emails, sms**

- i. MITC is primarily intended for investors who may not have necessary resources to gather necessary information to take informed decision. Institutional investors/Qualified institutional Buyers (QIBs) are sophisticated investors who have necessary skills, knowledge and means to protect their interests and take informed decisions. Hence, in exercise of power under Regulation 33 and for ease of doing business, it is proposed that consent on the terms and conditions including most important terms and conditions (MITC) of research services shall not be mandatory for the clients who are institutional investors or QIBs. However, RAs/research entities are required to disclose the terms and conditions of research services including MITC to these clients.
- ii. RAs/research entities are required to follow the KYC procedure for clients paying fees directly for research services.
- iii. The requirement of maintenance of records of interactions with clients such as call recordings, emails, etc. is applicable for fee-paying as well as non-fee paying clients whereas non-fee paying clients are the clients receiving research services as a value added service along with other services availed from the research entity or any other entity at family/group level on payable basis. For the purpose of abundant clarity, it

is to be stated that call recording is not required if the interaction with client is made through means such as email, etc. for which digital footprint is available.

The purpose of the records of the client interaction is to document the interaction to cater to potential client grievances related to research services provided by the research analyst/ research entity. Access to an effective grievance redressal mechanism is a basic right of every investor irrespective of the nature of the investors i.e. individual/ HUF/ institutions etc. Hence, RAs/research entities shall ensure compliance with the provision for maintenance of records of interactions even in case of their clients who are institutional investors or QIBs.

36. Whether non-fee paying clients are considered ‘clients’ of research entity?

Whether number of such non-fee paying clients shall be considered as clients for the purpose of periodic reporting and determining the deposit amount to be lien marked to RAASB?

Whether research entity is required to disclose and take consent on the terms and conditions for research services from these clients?

The term ‘consideration’ under RA regulation is defined as any form of economic benefit including non-cash benefit, received or receivable, directly or indirectly, in any form whether from client or otherwise for providing research services.

Non-fee paying clients are the clients receiving research services as a value added service along with other services availed from the research entity or any other entity at family/group level on payable basis. This is also highlighted in response to question 31 above where ‘consideration’ is received indirectly by research entity.

Thus, the number of clients of RA/research entity shall mean total of fee-paying clients and non-fee paying clients of RA/research entity.

RA/research entity is required to report this number of clients (fee-paying and non-fee paying clients) in periodic reporting format and shall also form basis for determining the requisite deposit amount applicable to the RA/research entity.

The research entity is required to ensure the compliance with the requirement of disclosure of terms and conditions of research services to all such clients and to take their consent thereupon except for clients who are institutional investors/QIBs for whom there shall be no requirement of seeking their consent to terms and conditions.

37. Whether the exemption to compliance with client level segregation of research services and distribution activities is allowed to all entities offering services to Institutional clients and not only to entities providing research services exclusively to institutional clients.

As per the existing provisions, exemption on compliance with client level segregation of research services and distribution activities is given to only entities providing research services exclusively to institutional clients if the client signs a standard waiver.

Institutional clients are sophisticated investors who have necessary skills, knowledge and means to protect their interests and take informed decisions. Accordingly, in exercise of power under Regulation 33 of RA Regulations and for ease of doing business, it is clarified that even in case where research service is not exclusively provided to institutional clients, all research analysts/entities are exempted from 'client level segregation of research and distribution activities' for their institutional clients/QIBs if such a client signs a standard waiver as mentioned in SEBI circular on "Guidelines for Research Analysts" dated January 8, 2025. However, such exemption shall not be applicable in case of their clients other than institutional clients/QIBs.

38. Whether an RA in addition to providing services for consideration, can also provide services for no consideration?

Classification as an RA is at an entity level and not at activity level.

If an RA is providing research services for consideration, then any other research services being provided by the RA to the same or different client without consideration would also get classified as a research activity/service.

It may also be noted that the term ‘consideration’ shall mean any form of economic benefit including non-cash benefit, received or receivable, directly or indirectly, in any form, whether from client or otherwise, for providing any research services. Hence, if an RA provides research services without charging fees from the client however there are some economic benefits received/receivable to the RA in some other form such as payments from social media platforms, brand building of the RA etc. Such benefits are akin to indirect consideration and the research services such provided shall be deemed as ‘for consideration’ under the RA Regulations.

39. For technical recommendations, whether a mere technical chart with a time stamp shall suffice as a research rationale?

Research analyst or research entity are required to maintain the rationale for arriving at research recommendations. They are required to have adequate documentary basis, supported by research, for preparing a research report and shall ensure that recommendations in the research report are corroborated by relevant data and analysis forming the basis for such research service. Thus, a mere technical chart will not suffice as a research rationale and needs to be supported by analysis forming the basis for research service.

40. Whether RAs can provide/showcase the past performance of their recommendations?

SEBI has put in place a framework for recognition and operationalisation of Past Risk and Return Verification Agency (PaRRVA) through a circular dated April 04, 2025. RAs shall be able to showcase their performance as verified by PaRRVA on prospective basis once the framework is operationalised.
