

Consultation Paper on use of liquid mutual funds for compliance with deposit requirement by Investment Advisers and Research Analysts

1. Objective of the consultation

- 1.1. The objective of the consultation paper is to seek comments from public on proposal to provide flexibility to provide units of liquid mutual funds along with the fixed deposit by Investment Advisers (IAs) and Research Analysts (RAs) for compliance with the deposit requirements under SEBI (Investment Advisers) Regulations, 2013 ('IA Regulations') and SEBI (Research Analysts) Regulations, 2014 ('RA Regulations') respectively.

2. Background

- 2.1. In terms of regulation 8 of IA Regulations and RA Regulations, an IA and RA are required to maintain a deposit of a sum as specified by SEBI from time to time. Such deposit is required to be maintained with scheduled bank marked as lien in favour of Investment Adviser Administration and Supervisory body (IAASB) or Research Analyst Administration and Supervisory body (RAASB), as the case may be. The existing IAs and RAs are required to comply with deposit requirements by June 30, 2025.
- 2.2. SEBI is now in receipt of representations from IAs and RAs wherein they have highlighted certain operational difficulties in opening the fixed deposit accounts and lien marking of the same in favour of Administration and Supervisory Body (ASB). Some of the difficulties as cited are as follows:
- i. Non-uniform interpretation of third-party fixed deposit (FD) procedures across different bank branches.
 - ii. Delays in issuance of necessary FD letters/documents by banks and acknowledging a lien
 - iii. Inconsistencies in interest payout options at different branches of banks

Consultation Paper on use of liquid mutual funds for compliance with deposit requirement by Investment Advisers and Research Analysts

iv. Limited awareness among bank staff about the SEBI-mandated lien marking requirements.

2.3. IAs and RAs have represented that in addition to option to maintain the deposit with the bank, they may be allowed to use liquid mutual fund units that may be lien marked in favour of ASB for compliance with the deposit requirement.

3. Proposal for consideration

3.1. The compliance with the deposit requirement is one of the conditions for the registration as IA/RA. This requirement is required to be fulfilled on a continuous basis to keep the registration in force.

3.2. In terms of regulation 8 of IA Regulations and RA Regulations, deposit shall be available for utilization in case the IA/RA fails to pay dues emanating out of arbitration and conciliation proceedings, if any, under the Online Dispute Resolution (ODR) Mechanism or such other mechanism as may be specified by SEBI.

3.3. Liquid mutual fund units are by nature liquid and may be considered low-risk and less volatile instruments. Further, lien can be marked on liquid mutual fund and hence they can be made available for utilisation under the ODR mechanism.

3.4. The operation of lien and invocation of lien on units of liquid mutual fund remains within the securities market ecosystem bringing in more efficiency.

3.5. Mutual fund folios can be opened and operated digitally as well as in demat. Asset Management Companies (AMCs) provide such facilities on their websites and apps that can be accessed through internet on mobile phones/computers.

3.6. Accordingly, considering the representations of the IAs and RAs, it is proposed to accept lien marked liquid mutual fund units as deposit for compliance with the deposit requirement under IA Regulations and RA Regulation. Lien on such units of mutual fund shall be marked for at least one year. These units of liquid mutual can be in the form of Statement of Account (SOA) or in the demat at an option of IA/RA.

3.7. The mutual funds units are valued based on the Net Asset Value (NAV) of the mutual fund unit. It is proposed that the eligible amount of deposit for lien marking shall be the

Consultation Paper on use of liquid mutual funds for compliance with deposit requirement by Investment Advisers and Research Analysts

value of units of liquid mutual fund reduced by such haircut as may be decided by ASB and applicable exit load.

3.8. The value of the mutual fund units for calculating the eligible amount of deposit shall be reviewed every year as per the guidelines for deposit requirement. In case of any decrease of value of mutual fund below the threshold deposit requirement or the deposit requirement increases due to increase in the number of clients, IA/RA shall be required to replenish the deposit amount within a specified period of such a review by marking the lien on the additional units of the liquid mutual funds proportionate to the additional deposit requirement in favour of ASB.

4. Proposal

4.1. It is proposed that –

- (i) For the purpose of compliance with the deposit requirement under IA Regulations and RA Regulations, as an option, IAs and RAs may be allowed to provide units of liquid mutual fund marked as lien in favour of ASB. Lien on such units of mutual fund shall be marked for at least one year. These units of liquid mutual can be in the form of Statement of Account (SOA) or in the demat at an option of IA/RA.
- (ii) For the purpose of calculation of deposit amount, the eligible amount of deposit for lien marking shall be value of liquid mutual fund units reduced by such haircut as may be decided by ASB and applicable exit load.
- (iii) The value of the mutual fund units for calculating the eligible amount of deposit shall be reviewed every year as per the guidelines for deposit requirement. In case of any decrease in value of mutual fund below the threshold deposit requirement or the deposit requirement increases due to increase in the number of clients, IA/RA shall be required to replenish the deposit amount within a specified period of such a review by marking the lien on the additional units of the liquid mutual funds proportionate to the additional deposit requirement in favour of ASB.



5. Public Comments

5.1 Comments are invited on the proposals mentioned in the consultation paper. The comments/ suggestions should be submitted latest by May 29, 2025, through the following link:

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

5.2 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: *"Consultation Paper on use of liquid mutual funds for compliance with deposit requirement by Investment Advisers and Research Analysts"*.

General Manager

Division of Policy

Market Intermediaries Regulations and Supervision Department

Securities and Exchange Board of India

SEBI Bhavan II, Plot No. C-7, "G" Block, Bandra Kurla Complex

Bandra (East), Mumbai - 400 051

Issued on: May 09, 2025