

Distribution of Capital Market Products and Services under International Financial Services Centre Authority (Capital Market Intermediaries) Regulations, 2021

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Background

The International Financial Services Centres Authority (**IFSCA**), in furtherance of its mandate to develop and regulate financial products, financial services and financial institutions in the International Financial Services Centres (**IFSC**), has notified the regulatory framework for Distribution of Capital Market Products and Services under IFSCA (Capital Market Intermediaries) Regulations, 2021.

In recognition of the crucial role played by distributors in distribution of capital market products and services, a regulatory framework for distribution activities has been specified. Further, as the unified regulator of a global financial centre, IFSCA has enabled the registered distributors to undertake global distribution from IFSC and offer their services to clients in various jurisdictions. In order to protect the interest of clients, the framework provides for various eligibility requirements, a detailed code of conduct including an advertisement code, other obligations, various permissible activities, responsibilities of issuers and service providers in IFSC, etc.

Distributors may undertake distribution of Capital Market Products (which include a wide bouquet of securities as covered under Securities Contracts (Regulation) Act, 1956) and Capital Market Services – (which include portfolio management services and investment advisory services).

Overview – Distribution of Capital Market Regulations

Definitions

1) Capital Market Products:

- Shares, scrips stocks, bonds, debentures, debenture stock or other marketable securities
- Derivative
- Units or any other instrument issued by any collective investment scheme to the investors in such schemes.
- Security receipt
- Units or any other such instrument issued under mutual fund scheme.

2) Capital Market Services:

- Investment advisory services
- Portfolio management services

3) Regulated financial entity:

An issuer or a service provider set up in India, IFSCs or any foreign jurisdiction, which is registered, authorised, licensed or regulated by any regulatory or supervisory authority of its home jurisdiction for carrying out activities related to asset management, funds management, investment advisory, portfolio management or any other similar activity.

4) Sophisticated Investor:

Such investors from India, IFSC or Foreign Jurisdictions which on the strength of their financial capability or qualification or experience or such other quantitative or qualitative criteria, are deemed to understand the risks of their investments and who or which have a valid special status under financial regulation laws of their respective home jurisdiction, and it includes:

- High-net-worth individuals
- Banks
- Financial institutions
- Large corporations
- Investors termed accredited investors/ expert investors/ professional investors/ qualified investors, etc. in different jurisdiction
- Alternatively, an investor who, irrespective of home jurisdiction, satisfies the eligibility criteria for accredited investors)

5) Client:

A person who avails the services of a distributor for investing in a capital market product or for subscribing to a capital market service

6) Distributor:

A person who for remuneration engages with clients on behalf of an issuer or a service provider to facilitate investment or subscription into capital market products or capital market services.

Eligible Entities

1) Entity desirous of setting-up operations in an IFSC:

- Required to seek registration with the IFSCA.
- Comply with all the norms as applicable under this Regulations, and any other Circular or Guidelines issued by the IFSCA under Capital Market Intermediary regulations from time to time.
- Known as 'Registered Distributors'

2) Entity not desirous of setting up operations in IFSC:

- Not required to seek registration with IFSCA.
- Comply with the Code of Conduct (as specified in Annexure-I by IFSCA in the said Circular)

3) Associate Distributor:

- Not required to seek registration with IFSCA.
- Comply with the Code of Conduct (as specified in Annexure-I by IFSCA in the said Circular)
- Entities having collaborations with Registered Distributors

Provisions applicable to Registered Distributors

1) Registration with IFSCA:

An entity desirous of obtaining a certificate of registration for carrying out activities as a registered distributor shall submit an application form to the Authority along with the application fees.

2) Legal Form of Applicant:

Registered distributor shall be required to be present in an IFSC by establishing.

- a branch
- a company
- limited liability partnership
- partnership firm
- proprietorship firm.

3) Net Worth:

Registered distributor shall always maintain a net worth of at least USD 50,000.

4) Fees:

Application Fee - USD 750
Registration Fee- USD 7,500
Annual Fee- USD 2,000

5) Qualification & Experience:

An entity desirous of becoming a registered distributor shall have at least 1 person designated as Principal Officer who shall have:

- Specified professional qualification.
- Experience of at least 5 years in related activities in securities market/ financial products/ financial services

6) Permissible Activities:

- Distribution of capital market products and/or services to sophisticated investors or any client in IFSC or foreign jurisdiction.
- Distribution of capital market products and/or services to sophisticated investors or any client in India

7) Collaboration with Associated Distributor:

A registered distributor may further engage or tie up or collaborate or in any manner enter into an arrangement (except that of employment) with any person (hereinafter referred to as 'associated distributor') for various permissible activities. Registered distributor shall ensure the following:

- It carries out an assessment for every entity it plans to enter into an arrangement with as an associated distributor that the later has the capability to ensure compliance with the IFSCA prescribed Code of Conduct. It shall also maintain records of such assessment.
- It ensures compliance of the associated distributors to the IFSCA prescribed Code of Conduct, in so far as those permissible activities are concerned which are carried out as part of the arrangement.

8) Distribution through digital mode:

Registered distributor may enter into an arrangement with issuers, service providers or associated distributors for sale of capital market products and/or services through any digital mode.

Under this framework, distributors of capital market products can register with the IFSCA and undertake global distribution from IFSC and offer their services to the clients in various jurisdiction. A comprehensive code of conduct has also been prescribed to ensure that the distributor maintain high standard of integrity, and fairness in their dealings with clients. This framework provides good platform to the distributors to go globally from GIFT IFSC.



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