

CIRCULAR

SEBI/HO/MIRSD/ MIRSD-PoD-1/P/CIR/2024/164

December 27, 2024

To,

All Registered Investment Advisers

All Registered Research Analysts

All KYC (Know Your Client) Registration Agencies

BSE Limited (Administration and supervisory body for Investment Advisers and Research Analysts- IAASB/RAASB)

Sir / Madam,

Sub: Prior approval for change in control: Transfer of shareholdings among immediate relatives and transmission of shareholdings and their effect on change in control

In line with clarification provided for certain intermediaries vide circular no. SEBI/HO/MIRSD/DOR/CIR/P/2021/42, the following is clarified with respect to transfer of shareholding among immediate relatives and transmission of shareholding in respect of investment advisers (IAs), research analysts (RAs) and KYC (Know Your Client) registration agencies (KRAs):

1. Transfer /transmission of shareholding in case of unlisted body corporate intermediary:

In following scenarios, change in shareholding of the intermediary will not be construed as change in control:

- a) Transfer of shareholding among immediate relatives shall not result into change in control. Immediate relative shall be construed as defined under Regulation

2(1)(I) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 which inter-alia includes any spouse of that person, or any parent, brother, sister or child of the person or of the spouse;

- b) Transfer of shareholding by way of transmission to immediate relative or not, shall not result into change in control.

2. Transfer /transmission of shareholding in case of a proprietary firm type intermediary:

In case of an intermediary being a proprietary concern, the transfer or bequeathing of the business/capital by way of transmission to another person is a change in the legal formation or ownership and hence by the definition of change in control, such transmission or transfer shall be considered as change in control. The legal heir / transferee in such cases is required to obtain prior approval and thereafter fresh registration shall be obtained in the name of legal heir/transferee.

3. Transfer /transmission of ownership interest in case of partnership firm type intermediary:

Change in partners and their ownership interest of the partnership firm type intermediary shall be dealt in following manner:

- a) **Transfer of ownership interest in case of partnership firm:** In case a SEBI registered entity is registered as a partnership firm with more than two partners, then inter-se transfer amongst the partners shall not be construed to be change in control. Where the partnership firm consists of two partners only, the same would stand as dissolved upon the death of one of the partners. However, if a new partner is inducted in the firm, then the same would be considered as a change in control, requiring fresh registration and prior approval of SEBI.
- b) **Transmission of ownership interest in case of partnership firm:** Where the partnership deed contains a clause that in case of death of a partner, the legal heir(s) of deceased partner be admitted, then the legal heir(s) may become the partner (s) of the partnership firm. In such scenario the partnership firm is

reconstituted. Bequeathing of partnership right to legal heir(s) by way of transmission shall not be considered as change in control.

4. Incoming entities/ shareholders becoming part of controlling interest in the intermediary pursuant to transfer of shares from immediate relative / transmission of shares (immediate relative or not), need to satisfy the fit and proper person criteria stipulated in Schedule II of SEBI (Intermediaries) Regulations, 2008.
5. The provisions of this circular shall be applicable with immediate effect.
6. IAASB and RAASB is directed to:
 - a) bring the provisions of this circular to the notice of the IAs and RAs respectively and also disseminate the same on its website;
 - b) make necessary amendments to the relevant Bye-laws, Guidelines, Standard Operating Procedures, Rules and Regulations for the implementation of the above decision.
7. 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 15(11) and regulation 29 of SEBI (Investment Advisers) Regulations, 2013, regulation 24(3) and regulation 33 of SEBI (Research Analysts) Regulations, 2014 and regulation 7(5) and regulation 17 of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 to protect the interests of investors in securities market and to promote the development of, and to regulate the securities market.
8. This circular is available on the SEBI website at www.sebi.gov.in under the category "Legal →Circulars".

Yours faithfully,

Sudeep Mishra

General Manager

Tel. No. 022-26449365

E-mail: sudeepm@sebi.gov.in