



To,

27<sup>th</sup> May , 2023

Securities and Exchange Board of India

Via email to: a) Ritesh Nandwani, DGM ([riteshn@sebi.gov.in](mailto:riteshn@sebi.gov.in)), b) Pawan Kumar Chowdhary, AGM ([pawanc@sebi.gov.in](mailto:pawanc@sebi.gov.in)) c) Rohan Shukla, Manager ([rohan@sebi.gov.in](mailto:rohan@sebi.gov.in)), d) Barun Gurani, AM ([barung@sebi.gov.in](mailto:barung@sebi.gov.in))

**Sub: Comments on Consultation paper on REGULATORY FRAMEWORK FOR MICRO, SMALL & MEDIUM REITs (MSM REITs)**

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our comments to the **Consultation paper on REGULATORY FRAMEWORK FOR MICRO, SMALL & MEDIUM REITs (MSM REITs)**.

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 6000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 170,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

The recommendations put forth in the consultation paper for Micro, Small and Medium REITs - Regulatory Framework is a positive step. We realize that regulations are a must for the growth of the real estate sector and investor protection. Bringing the Fractional ownership platforms under the regulatory ambit is a positive step. These platforms are plugging a gap in the existing infrastructure and there is a need to encourage such innovation. A well-designed regulatory framework will be a positive for the end users and the whole ecosystem which is currently in nascent stages. We have some suggestions on refining the proposed mechanism, which we have put forth in our comments.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

**A. Details of our Organisation:**

- 1. Name:** Indian Association of Investment Professionals (CFA Society India)
- 2. Contact number:** +91 99021 17087
- 3. Email address:** [advocacy@iaipirc.org](mailto:advocacy@iaipirc.org)
- 4. Postal address:** 702, 7th Floor, A Wing, One BKC Tower, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051



**B. Key Contributors:**

Prakash Bhawnani, CFA

Sivananth  
Ramachandran, CFA

Kshitiz Jain, CFA

**C. Suggestions / Comments:**

<p><b>Name of Entity/Person:</b> Indian Association of Investment Professionals (CFA Society India)  <b>Contact Number &amp; Email Address:</b> +91 99021 17087 (Ravi Gautham, CFA); <a href="mailto:advocacy@iaipirc.org">advocacy@iaipirc.org</a></p>			
<p><b>Category:</b> Association of Investment Professionals</p>			
Sr. No.	Paragraph	Suggestion/Comments	Rationale
1.	<p><b>7.1.1. Provision for registration and regulation of FOPs under REIT Regulations:</b>                      It is proposed that any person or entity (including FOPs) which facilitate or have facilitated fractional investment in real estate by any structure whatsoever shall be required to register with SEBI for operating as MSM REIT in the manner specified by SEBI, and shall apply for registration to SEBI in the specified format</p> <p><b>7.1.5. Mandatory SEBI registration:</b>                      7.1.5.1. No person shall act as a MSM REIT or establish or do activity which is eligible to be done as MSM REIT unless it is registered</p>	<p>We appreciate the SEBI's effort to design a regulatory framework for the MSM REITs to incorporate FOPs in the regulatory ambit.</p> <p>We strongly believe that licensing of such platforms should be made mandatory, as this will bring all the players under the purview of SEBI.</p> <p>This will help to bring the platforms on a level playing field. Further, will bring more transparency to the market infrastructure.</p> <p>This will also help platforms to grow as a SEBI regulated entity would be more trustworthy for investors.</p>	<p>Licensing requirement of these Fractional real estate platforms/entities is important for investor protection and growth of this nascent market.</p> <p>Any mishap or unwarranted incident at this stage, can actually push back the growth of this sector by decades.</p>



	with the Board under the REIT Regulations.		
2.	<p>d) Whether net worth of Sponsor of INR 20 crores is adequate?</p> <p>Whether the requirement on sponsor holding at least 15% of the total number of units of the MSM REIT on post initial offer basis for a period of atleast three years post listing of units adequate?</p>	<p>We believe that the current capital requirement will lead to challenge of low ROE for sponsors, at least initially.</p> <p>The sponsor will need to make a substantial commitment and the ROE will come to 7-8% range post-tax, that too if they also act as investment managers.</p> <p>We understand the ROE may increase eventually, once the rental yields increase in a decade or so or when capital appreciation happens.</p> <p>We would suggest that SEBI needs to relook into this, maybe link the net worth requirement to also % of the fund size. This will ensure level playing field and the regulation will not end up only supporting larger players.</p>	<p>The current regulation may push for sponsor and investment managers to be clubbed together to generate some ROE.</p> <p>We understand that higher commitment ensures skin in the game, but the structure needs to be attractive for more players to come in.</p>
3.	<p>7.1.5.27. At least ninety-five percent of the schemes AUM shall be invested in completed and rent generating real estate properties at all times.</p> <p>The balance five percent can be deployed in liquid assets which are unencumbered. Liquid Asset shall be an asset that can easily be converted into cash in a short amount of time, including cash, money market instruments, Government Securities, T-bills and Repo on Government Securities.</p>	<p>SEBI can look to allow properties wherein possession is yet to be taken but the OC has come, can also be made part of the structure with certain threshold to ensure early entry.</p> <p>Further in liquid assets, SEBI can look to include overnight and liquid Mutual funds, which is a safe and well-regulated product.</p>	<p>This just ensures better yields can be generated by entering early in a property transaction.</p> <p>Further, liquid mutual funds are a well-regulated product so that can be utilized.</p>



	The schemes of MSM REIT shall not be allowed to invest in under construction or non-rent generating real estate properties.		
4.	i) Whether minimum subscription should be mandated to INR ten lakhs?	<p>We support the minimum subscription amount of INR 10 lakhs, as it will help investors access the market. A higher amount may have led to exclusion of many retail investors.</p> <p>We would also recommend that SEBI also allows various relaxations on criteria if the REIT is only available to accredited investors. Something similar to a PMS vs MF. If the REIT is only for accredited investors, SEBI can adopt a light touch regulation.</p> <p>This dual approach can help develop the accredited investor route.</p>	The differential approach for retail and accredited investor is a must to grow a market for sophisticated products and to bring in more stringent regulations for retail plans.
5	7.5. To further safeguard the interest of the investors, it is proposed that SEBI will specify the cap on total expense ratio for MSM REITs.	We would request that regulator may need to ensure that the total expense ratio caps are kept too low, so that competitive forces of market decide the cost of the product and not the regulator.	Over regulation can kill the nascent market and make it unviable.

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Ravi Gautham, CFA at +91 99021 17087 or at [advocacy@iaipirc.org](mailto:advocacy@iaipirc.org).

Sincerely yours,  
Ravi Gautham, CFA  
Chairperson - Research and Advocacy Committee  
Indian Association of Investment Professionals, Member Society of CFA Institute

Indian Association of  
Investment Professionals



A member society  
of CFA Institute