To,

8th September, 2023

Deputy General Manager,
Division of Policy II
Market Intermediaries Regulations and Supervision Department
Securities and Exchange Board of India
Via email to: consultationMIRSD@sebi.gov.in

Sub: Comments on Consultation Paper on Association of SEBI Registered Intermediaries / Regulated Entities with Unregistered Entities (Including Finfluencers)

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 Association of SEBI Registered Intermediaries / Regulated Entities with Unregistered Entities (Including Finfluencers).**

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 on association of SEBI Registered Entities with unregistered entities is a positive step to curb mis-selling and works in favour of the investors' interest. We support and appreciate SEBI's effort to de-link the existing relationship between SEBI Registered entities with unregistered entities such as finfluencers but we also have certain suggestions around making the regulations clearer and more granular to ensure that the objective is met in full spirit.

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
4. **Postal address:** 702, 7th Floor, A Wing, One BKC Tower, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051

B. Key Contributors:

Ashwini Damani, CFA	Shruti Agrawal, CFA	Mohit Beriwal,CFA	Digant Mittal, CFA
Hansi Mehrotra, CFA	Shamit Chokshi, CFA	Pankaj Sharma, CFA	Kshitiz Jain, CFA

C. Suggestions / Comments:

Name of Entity/Person: Indian Association of Investment Professionals (CFA Society India)
Contact Number & Email Address: +91 99021 17087 (Ravi Gautham, CFA) ; advocacy@iaipirc.org

Sr. No.	Paragraph	Suggestion/Comments	Rationale
1.	4. Limiting association of SEBI Registered entities with unregistered entities: 4.1. Besides undertaking enforcement action against unregistered finfluencers who breach SEBI Regulations, this paper proposes to disrupt the revenue model for such finfluencers, so that the perverse incentives in the eco-system reduce 4.2 No SEBI Registered intermediaries / regulated entities or their agents / representatives shall, directly or indirectly, have any relationship / association of any form, whether monetary or non-monetary, for any promotion or advertisement of their services/ product, with any unregistered entities (including finfluencers)	We appreciate SEBI's effort to reduce mis-selling under the guise of content and power of influence by unregistered entities. There have been numerous incidences in the recent past where investors have burnt their fingers by following advice given by the finfluencers. Further, the underlying incentive to promote specific products, platforms and services is most cases hasn't been disclosed, thereby amounting to mis-selling important financial advice. We therefore support SEBI's stance that curbing the mainstream revenue sources by mandating SEBI Registered entities to not associate with unregistered entities will curb the mis-selling and further drive the importance of requisite qualifications and expertise on the subject matter. However, finfluencers normally earn from multiple sources and this paper amounts to eliminating just one of them. In order to further curb mis-selling we need to ensure that investors themselves are more	Finfluencers have gained popularity in the recent past due to proliferation of use of social media. While they started with operating like content creators, many of them have now started engaging in commercial arrangements with organizations dealing in financial products and services. They in turn have started creating engaging content on specific products and encouraging their viewers to follow their link to invest, register or subscribe. In most cases, the viewers were not aware of the commercial incentives behind the content and therefore the decision making cannot be called "informed" The retail investors currently tend to follow anybody and everybody through various channels because knowledge and awareness of various SEBI Registered Entities is very limited. For example, very few individuals know about RIAs, thereby leading to unregulated investment advisory floating

		aware of the available infrastructure of SEBI Registered Entities / Advisors and their respective roles. The reason a lot of investors resort to following unregistered entities is also because they are not aware of what exists. The low number of RIAs is a case in point. We therefore strongly believe that we need to significantly increase the awareness of existence of various SEBI Registered Entities and their respective objectives for the retail investor to make an informed decision. SEBI can look to take a concerted effort in this direction. Further, SEBI can utilize the the Investor Education Corpus that is accumulated for Mutual Funds (2BPS). SEBI can look at hiring an influencer o educate about RIAs and other regulated channels for consumers.	around. If sufficient campaigning and awareness related marketing is done for different SEBI Registered Entities, investors are likely to be better informed in terms of who should they be approaching for the right advice.
2.	3. Finfluencers Financial influencers, commonly called "finfluencers", are persons who provide information, and / or advice on various financial topics such as investing in securities, personal finance, banking products, insurance, real estate investment etc. through social / digital media platforms / channels, and have the ability to influence the financial decisions of their followers. Thus, the activities of finfluencers may deal in areas regulated by financial sector regulators such as SEBI, RBI, PFRDA, and IRDA	The definition of finfluencers in the paper largely talks about individuals who have been creating content on social / digital media. We agree with SEBI that given their nature of being unregulated, we need a mechanism to curb the amount of influence they exert on their followers and viewers. 1. However, some more clarity is sought for cases where individuals talk about various financial topics in the absence of any compensation from the SEBI Registered entities. There can be two cases here –	Individuals who publish content / write on social media platforms and / or express views through various channels purely out of personal interest without any form of compensation from any entity whatsoever and without any intention to solicit business / promote a particular entity are uncertain if they can continue to freely express their personal opinions. The intention of this paper is to curb mis-selling where incentives are mis-aligned and not to curb freedom of opinion and speech.

		A) Individuals who talk about financial topics on social media out of passion, personal interest and personal experience but not for any form of compensation from any entity, whether in cash or kind. Clarity is sought if these cases are beyond the purview of this paper. If they are beyond the purview of this paper, they can be encouraged to make adequate disclosures that they are expressing personal opinion and not seeking any form of commercial engagement B) Individuals who talk about personal finance topics and are compensated for their content from the social media platform and not from a SEBI Registered entity. 2. We feel that SEBI should consider including close relatives under the definition of finfluencers. Further, the definition of "close relatives" should be defined in a granular manner. 3. We also think that substantial amount of influence is exerted by individuals who put forth their opinions on Television, Print Media and Electronic Media. While this paper seeks to curb the unregulated nature of advisory given by finfluencers, SEBI should also think about the advice that is given on other forms of media.	Further, while SEBI cannot regulate the unregulated, aggressive campaigning for spreading awareness of SEBI Registered Entities can help the investors become more cautious about following or not following finfluencers. Further, the definition of "finfluencers" should include all kinds of channels from which influence can be created. Extensive PR activities which are paid for also do not highlight the remuneration that backs the features that some entities receive. While the proliferation of social media has led to the rise of a category of influencers called "finfluencers", we would like to highlight that a lot of content in print and electronic media / conventional media channels is also paid for and highly influential. We often see ads, opinions and coverage in newspaper and electronic media about products and services in a manner that does not make it clear to the viewer about the publication being a sponsored article. A lot of these publications are renowned names in the media and therefore tend to play a significant role in influencing the followers Also, a lot of retail investors tend to follow stock tips given on TV channels We are also concerned that in order to find a way around the

			regulation, finfluencers might accept benefits in the names of their close relatives or in kind.
3.	3.4 Not being formally subject to a financial sector regulator's code of conduct, they may not disclose any potential conflict of interest such as their association with or interest in the products, services, or securities that they promote.	Non- disclosure of conflict of interest amounts to breach of the essence of law. We therefore have two suggestions in this regard – A) Wherever the finfluencer has a remunerative arrangement with a SEBI Registered entity, such remunerative arrangement should be adequately disclosed. B) Any form of hidden advertisements should be made illegal and advertisements must be, correctly labelled and clearly identifiable as an advert C) Further, the law could require the finfluencers to have an exclusive association with one single SEBI Registered entity and the onus of advisory being within the purview of regulatory compliance should rest on the entity with whom the finfluencer is associated. Adequate disclosures should be made in this regard also. D) For such exclusive alliances, the finfluencers can be required to pass certain examinations and acquire required expertise to continue to speak about financial products of the alliance partner E) Training can also be provided to finfluencers on acceptable conduct	A complete ban or disruption of Finfluencer business model is not a solution, such a measure could have a negative impact on the quality or access of information availability to people. Hence the solution can be a two fold one – one which mandates finfluencers to come under the regulatory circumference through disclosures and required certifications and second, which focuses on aggressive education campaigns for investors. Adequate disclosures which can be worded, positioned and placed in a manner where the viewer, reader can be aware can enable the ecosystem to function while at the same time enforcing the principle of "Let the buyer beware". Further, if the onus is on the entity engaging such finfluencer / media channel / professional, a lot of content is likely to be designed within the regulatory circumference. Requirement of professional expertise on the part of the finfleuncers will also bring them under the regulatory umbrella.

		F) Any evidence of breach or non-compliance should be subject to severe punishment including fines, prosecution, imprisonment and other measures as deemed fit. G) Certainty of being caught is more powerful deterrent than the punishment by itself and hence there is a need to have an effective surveillance system in place.	

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.

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