



To,
Securities and Exchange Board of India
Via email to: consultation_iara@sebi.gov.in

6th Nov, 2023

Sub: Suggestions to working group on SEBI Regulations for Registered Investment Advisors (RIAs)

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our suggestions to the **working group on SEBI Regulations for Registered Investment Advisors (RIAs)**

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 our response below are with the view to not only simplify, ease, and reduce cost of compliance within the advisory industry but also deepen and promote the growth of the RIA industry.

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:

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C. Suggestions / Comments:

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Sr. No.	Paragraph	Suggestion/Comments	Rationale
1.	7(1)(b): Principal Officer to have an experience of at least five years in activities relating to advice in financial products or securities or fund or asset or portfolio management	Reduce the required number of years of experience for a Principal Officer to enable ease of entry into the profession for newer IAs	<p>We understand the importance of experience in delivering the fiduciary duty that IAs are supposed to deliver.</p> <p>However, a minimum experience of 5 years in a related industry makes it difficult for new IAs to enter the industry.</p> <p>Given that India currently has very few IAs as opposed to the need for more people rendering quality advice, it is imperative to enable new IAs to enter the industry with requisite qualifications and a reduced threshold of requisite experience in a related industry</p>
2.	7(1c) Persons associated with investment advice shall meet the following minimum qualifications, at all times – (i) a professional qualification as provided in clause (a) of sub-regulation (1) of regulation 7; and (ii) an experience of at least two years in activities relating to advice in financial products	<ol style="list-style-type: none"> 1. Allow hiring of employees for client facing role on the condition that they are graduates and have cleared NISM XA, XB examinations. Onus of advice given by such employees should rest on the Principal Officer. 2. Freshers (those without the required experience) 	<p>We understand the idea behind the need for having requisite qualifications and experience for any individual dealing with client advice.</p> <p>However, availability of individuals who want to work with existing IAs and have a post graduate degree</p>



	<p>or securities or fund or asset or portfolio management:</p>	<p>and students under going education for professional courses (Examples CFP / CFA) who intend to be in the profession of providing investment advice to clients either on their own or under an existing IA should have to mandatorily undergo an internship of a specified tenure to gain practical experience. Accordingly, requirement of minimum 2 years of experience in a related industry should be removed and existing IAs should be allowed to hire such individuals for full time roles who have fulfilled the criteria for the mandatory internship</p> <p>3. We understand that it is important to uphold the fiduciary relationship with the client and therefore the onus of advice being rendered to any client should ultimately rest with the Principal Officer. The principal officer should be given the discretion to identify individuals in his team who they feel are capable of rendering a part or whole of this job.</p>	<p>is limited. This makes it difficult for IAs to build a team and therefore build a more robust IA practice.</p> <p>Also, we believe that NISM XA and XB are extremely good exams to test both the theoretical and conceptual knowledge and therefore these can be sufficient criteria for employees associated with investment advice.</p> <p>Further, the concept of internship / training period has proven to be very useful for other professions such as CA and the same can be replicated in the IA profession. This will enable the following –</p> <p>A) Freshers and students who are undergoing education relevant to the field of IAs will get a hands-on practical exposure which will help them to make their learning more robust</p> <p>B) It will make it easier and more cost effective for existing IAs to build a team if they can hire graduates for full time roles and freshers / students as interns. Improved affordability in terms of building a team will help the IA to build a more robust practice and invest more in tools and techniques which further the overall purpose of client interest.</p>
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			<p>C) The pool of individuals who have the requisite qualifications and practical exposure will be higher. These can be hired by IAs for a full-time role and at the same time ensure that the employees have the requisite experience required for rendering investment advice</p>
3.	<p>7(2): Provided that fresh certification must be obtained before expiry of the validity of the existing certification to ensure continuity in compliance with certification requirements</p>	<ol style="list-style-type: none"> 1. Launch CPE Programs coupled with CPE hours and encourage RIAs to complete them to stay updated and abreast with latest knowledge. These CPE Programs can be around areas which have undergone change / update in syllabus. All IAs can be mandated to complete a specified number of hours and IAs can accordingly choose which programs / events they would like to attend to facilitate the same 2. Accordingly, remove the mandatory condition of re-certification before expiry of validity and make CPE hours sufficient requirement for continuity 3. Other conferences / learning programs conducted by other entities such as IRDA, CFA, ARIA and other such organizations can be included as part of the required CPE – these programs can be approved by SEBI 	<ol style="list-style-type: none"> 1. Mandatory re-certification of NISM XA-XB poses a business continuity risk. For IAs who have received the license basis the requisite qualifications and experience should not be subject to the risk of business continuity since their skills and ability is well demonstrated through their practice. 2. However, we understand the need for professional upgradation, especially in an industry which is constantly improvising. This need can be met through a structured continuous learning program. Such programs can cover a vast range of topics and every IA can choose topics which are relevant to their business and practice. 3. Taking the full XA and XB examination will also have a lot of content overlaps which will not add any material value to the IAs but will



			<p>require considerable amount of time, effort and mental bandwidth from them. This has a direct impact on their business.</p> <p>4. Effective advisors can be expected to build an appreciation for multiple aspects which are related to the personal finance journey. Therefore, the recommended continuing education programs could be conducted by institutes such as Institute of Chartered Accountants of India (ICAI), Institute of Actuaries of India (IAI), The Bar Council of India, CFA Society (India) and self-regulatory organizations for sectors with access to the retail savings and investment pool.</p> <p>5. CPE Programs / Continuous learning structures are very common and have been working well amongst other professions such as CFA, CA and even Doctors.</p>
<p>4.</p>	<p>8(1) Investment advisers who are non-individuals shall have a net worth of not less than fifty lakh rupees.</p>	<ol style="list-style-type: none"> 1. Reduce the threshold substantially for it to become feasible for more entities to enter IA profession 2. Have graded increases in net worth basis revenue / AUM of RIA 	<ol style="list-style-type: none"> 1. The genesis of a net worth requirement lies in the fact that those who manage money directly need to have a sufficient net worth in the interest of investors. Since IAs do not manage money directly and engage in only rendering of advice, a steep net



			<p>worth requirement may not be necessary. With the same logic, some other professions which operate on advisory capacity do not need to have a stated net worth.</p> <p>2. In the interest of financial inclusion, threshold should be reduced to make it easier for people to become Non individual RIAs. For example, MFDs which are facing a client outflow because of investors wanting to invest in direct funds can take up an RIA license and shift those clients on an advisory model. This would expand the advisory industry and will bring more entities under the ambit of regulation.</p> <p>3. Graded increase in net worth will enable ease of doing business for small scale IAs / new entrants. It is easier to gradually increase the net worth once a certain scale has been established. Further, this can bring equity to all participants who are willing to come forward and become RIAs</p>
5.	22 (1) An individual investment adviser shall not provide distribution services.	We understand that it is important to ensure that an IA is not dual charging a client in terms of fee charged and distribution income earned therewith.	1. A client / investor who first approaches an IA or an MFD some times is not clear in terms of what type and what depth of advice they need to help them with their investment



		<p>However, a non-individual RIA is permitted to have a distribution business and an advisory business in parallel as long as client level segregation is maintained.</p> <p>We believe that the same level of segregation maintenance can be done by Individual IAs and therefore individual IAs should be permitted to take both distribution and advisory clients as long as client level segregation is maintained and they do not earn both distribution income and advisory fee from the same client.</p>	<p>planning. This segment comprises a large number of young working population who are earning an income and thinking of about savings and investments for the first time. By enabling individual IAs to also become MFDs, the client can exercise their own choice of whether they want to opt for the MFD route or an IA route. Currently, by segregating these two practices, both an MFD and an individual IA is forced to push their own practice. This sometimes may not be in the best interest of the investor.</p> <ol style="list-style-type: none"> 2. A lot of young / first time investors need advice. A lot of this advice ends up pertaining to just mutual funds. If starting investment sizes are low, the IA ends up losing a potential long - term client just because the fee is not conducive for the IA (coupled with client limit for individual IAs). Further, the choice of whether an investor wants to pay the MFD or pay an RIA should be with the investor 3. Individual IAs are likely to form the bulk of the IA profession going forward. By allowing them to run both advisory and distribution
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6.	<p>13 (e) Individuals registered as investment advisers whose number of clients exceed one hundred and fifty in total, shall apply for registration as non-individual investment adviser within such time as may be specified by the Board</p>	<p>The number of clients before compulsory transition from individual to non – individual advisor should be relaxed to include both number of clients and revenue as a benchmark.</p>	<p>1. A lot of IAs cater to clients who are looking for financial advice at an early stage of their career / young age. Such clients do not have a high investible surplus but like to have a plan and a structure to their savings. Since Individual IAs have a capping on the number of clients they can take as an individual, they are forced to either over-charge these clients with a high minimum fee or not take the client. In both cases, they end up losing a good long term client to whom they could have added value had they not been constrained by business driven limits.</p> <p>We believe that this segment of the market is highly under-served</p>



			<p>and individual IAs could make a substantial impact to these investors who are in need for good quality unbiased advice.</p> <p>Therefore, having both clients and revenue as a threshold will ensure that compulsory transition to non – individual RIA setup happens at a certain scale.</p> <p>This will further enable small scale / new IAs to build the profession gradually, cater to all segments of the market (as opposed to targeting the HNIs only) and move to a non-individual RIA setup once they have a strong financial footing.</p>
7.	22(A)(2) Investment adviser shall provide implementation services to its advisory clients only through direct schemes/products in the securities market – MUTUAL FUNDS	<p>SEBI has been focused on reducing TER for mutual fund schemes. A part of this surplus profit pool from AMCs and MFDs could be directed towards building the advisory ecosystem in the following fashion</p> <ol style="list-style-type: none"> 1. A separate advisory plan could be launched with expense lower than the the direct plan. Only an investor with SEBI registered RIA should be allowed to invest through this plan. 2. Investors should be allowed to migrate to the advisory plan (or even the direct plan) of the same 	<ol style="list-style-type: none"> 1. We believe that a direct plan is best reserved for well-healed and risk-aware investors taking their own decisions (institutions, HNI, or highly financially literate) and a distribution plan is for prospects and retail investors who need to be pursued to become financial markets savvy and also help develop market penetration across the country and demography. Currently there is no version which incentivizes an investor to pay for advice



		<p>mutual fund scheme without any tax incidence when another (potentially higher expense regular plan or direct plan) plan is not enabling the investor to receive the right kind of service or advice. To ensure business interests are properly aligned, a threshold of 5 year could be considered before allowing investors to migrate from one plan to another in the same mutual fund scheme.</p> <p>3. Additionally, we believe that AMCs should be allowed to charge some expense extra for direct funds, which they can use to promote Advisors or RIAs. There may be a case of using these funds to run campaigns such as "Advisor jaroori hai"</p>	<p>2. Also letting direct plan flourish without a competing force would mean that managers could over-invest in marketing and branding to "shadow advice" vulnerable investors to buy their schemes under direct. This may not suit the client's risk appetite or overall life investment plan. An advisor plan which is at a discount to Direct Plan would create the incentives for investors to appoint RIAs and eventually lead to a sizeable industry aum getting advised by Sebi-regulated advisors.</p> <p>3. Given the small number of RIAs in India, the awareness amongst investors of regulated advisors is very limited. This leads to investors resorting to unregulated sources of advice and in turn burn their fingers. Allocating a certain budget from AMCs and utilizing it for campaign around advisors will help create more awareness for IAs and facilitate a much better and much more regulated investment eco-system</p>
8.	22(A)(2) Investment adviser shall provide implementation services to its advisory clients only through direct schemes/products in the securities market – PRODUCTS OTHER THAN MUTUAL FUNDS	1. Bring pricing parity between direct and distribution versions of all products which are under the purview of SEBI – Mutual Funds, PMS and AIF.	1. Currently, direct plans of PMS and AIF products are priced higher than the distributor version minus the distribution commission. This is not the case with mutual



		<ol style="list-style-type: none"> 2. More clarity is sought on dealing with products not under SEBI and with no Direct Equivalent. We believe that products not under the purview of SEBI and not having a direct version should be allowed on commission structure to RIAs and such AUM should be excluded from the fee-based AUM computation 3. Further, any commission revenue earned from products outside of SEBI purview must be disclosed to client and that asset cannot be added to AUM so that is no dual charge 	<p>funds. Pricing parity between the direct and distribution versions of all products will ensure that interests of all stakeholders are aligned.</p> <ol style="list-style-type: none"> 2. A full scale financial planning exercise is expected to be complete and exhaustive. To that extent, including products beyond the purview of SEBI is necessary
9.	<p>15 (7) An investment advisor shall not enter into transactions on its own account which is contrary to its advice given to clients for a period of fifteen days from the day of such advice. Provided that during the period of such fifteen days, if the investment adviser is of the opinion that the situation has changed, then it may enter into such a transaction on its own account after giving such revised assessment to the client at least 24 hours in advance of entering into such transaction.</p>	<ol style="list-style-type: none"> 1. The aforementioned restrictions should be lifted for products where IA does not have any direct control such as mutual funds, PMS and AIF 	<ol style="list-style-type: none"> 1. The rationale for purchase or sale of a certain product where the IA does not have any direct control can be different for different individuals. As such a contrary position can be permitted for such products
10.	<p>Others: Advertisement: Mandatory approval process for every advertisement by BASL</p>	<ol style="list-style-type: none"> 1. Reconsider the approval process for every advertisement to BASL – introduce a code of conduct / guidelines and penalize advisors who do 	<ol style="list-style-type: none"> 1. The cost is prohibitive and adds financial constraint to advisors who are building their practice 2. Adds a layer of compliance which



		not comply with the guidelines	prevents ease of doing business.
11.	Others: Advertisement: Prohibition on showcasing past track record	<ol style="list-style-type: none"> 1. Standardize the track record reporting format and remove the current restrictions 2. Expedite the launch of performance validation framework and ensure that it is minimal on compliance and reporting. The framework should be simple and scalable 	<ol style="list-style-type: none"> 1. Complete restriction on performance reporting restricts RIAs from showcasing their track record, build credibility and scale up business 2. New clients experience trust deficit when unable to see past performance
12	Others: Extensive compliance / compliance over load	<ol style="list-style-type: none"> 1. There can be graded compliance requirement basis the scale of business to enable smaller scale participants to thrive. Such scale can be defined basis the AUA / revenue of the IA 	<ol style="list-style-type: none"> 1. New entrants should not be scared of the compliance burden and should be given an opportunity to build their business before adding compliance burden and cost
13.	Others: Verification of RIA license by customer	<ol style="list-style-type: none"> 1. Board shall maintain a database which is easily accessible by normal consumers / Clients to verify the antecedents of a particular RIA license. 	<ol style="list-style-type: none"> 1. Similar to the IRDAI / SEC portal allowing verification of an Insurance broker/ agent license, there has to be an internet portal maintain under the supervision of the Board.
14.	Platform for RIAs to report fraudulent entities	<ol style="list-style-type: none"> 1. Have a single email address where current RIAs can report fraudulent entities / unregulated entities under the guise of advisory 	<ol style="list-style-type: none"> 1. Existing RIAs have more visibility of what is happening where because of regular client conversations

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,
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