

Name of the person/entity proposing comments	Indian Association of Investment Professionals (CFA Society India)
	Key Contributors : Satpal Saini, Vijayanand Venkataaraman, Ashutosh Dabake, Srivathsan Ramachandran, Ashish Kela, Siddharth Gupta, Ramkumar Mahadevan, Muruganandam D, Srinivasan N G
Category ( Listed Entity / MII / Market Intermediary / Professional / Investor / Academician / General Public etc.)	Indian Association of Investment Professionals
Email id	<a href="mailto:advocacy@iaipirc.org">advocacy@iaipirc.org</a>
Contact no.	91 8080565484 Shreenivas Kunte, CFA, CIPM, PHD

Sr. No.	Proposal	Confirmity to Proposal	Comments	Rationale	
1	Whether there are any suggestions on the proposed draft MF Regulations	Not Agree	While the current proposal seeks to introduce comprehensive amendments to the SEBI (Mutual Funds) Regulations, 1996, we wish to highlight certain reservations and provide feedback on specific proposals listed under the section <b>“Transparency and Investor Protection”</b> .	The concerns outlined are based on prevailing industry experience, investor behaviour, and the practical implications of the proposed amendments. Historically, investor complaints in the mutual fund industry have not pertained to expense ratios. Instead, such complaints largely arise during periods of market underperformance, indicating that TER levels have not been a material source of investor grievance. In this context, the need for a comprehensive restructuring of the TER framework warrants reconsideration, particularly from an investor-protection standpoint. Further, the proposed reduction of 15 basis points in TER appears disproportionate to the actual statutory costs being shifted outside the TER construct. For a meaningful proportion of schemes, this adjustment may impose undue pressure on fund economics and potentially affect operational efficiencies, thereby impacting product viability and long-term sustainability.	
3.1.2 (2)	Revised expense ratio slabs with statutory levy over and above the expense ratio limit. (Reg. 52)	Not Agree	<p>Based on the discussion, we respectfully submit that the proposed amendments may not fully align with practical industry experience or investor behaviour. Investor complaints in the mutual fund industry rarely pertain to expense ratios, and are instead typically driven by phases of market underperformance. This raises a fundamental question on whether TER restructuring is an area that requires regulatory intervention at this juncture. Further, the proposed 15 bps reduction appears disproportionate to the actual statutory costs being shifted outside the TER framework and may place undue pressure on fund economics across several schemes.</p> <p>It is also important to note that the current disclosure framework already provides granular cost breakdowns in scheme annual reports, ensuring adequate transparency. Introducing multiple cost components—such as base TER, statutory levies, and other charges—may inadvertently increase complexity for investors, who generally prefer a single consolidated “all-in” cost figure. From an investor communication standpoint, this could reduce clarity rather than enhance it.</p> <p>Additionally, clarity is needed on whether similar regulatory practices exist globally, particularly with respect to excluding statutory levies from TER while simultaneously reducing TER slabs. Overall, while the objective of increasing transparency is well-intended, the proposed structure may not materially advance this objective and could instead introduce operational and interpretational challenges for both asset managers and investors.</p>	From a transparency perspective, the existing disclosure requirements already mandate detailed cost breakdowns in annual scheme reports. These disclosures ensure sufficient transparency for investors who seek to understand cost structures. Introducing multiple cost elements—such as base TER, statutory levies, and other segregated charges—may inadvertently increase complexity, especially for retail investors who generally prefer a single consolidated “all-in” cost number. Such a shift could reduce the clarity of fee communication rather than strengthen it.	
3.1.2 (3)	Brokerage and Transaction charges over and above the TER limit (Reg. 52)	Not Agree	We appreciate SEBI's continued efforts to enhance transparency and ensure fair cost structures for mutual fund investors. However, we would like to submit the following observations and recommendations regarding the proposed changes to brokerage and transaction charges:	<p><b>1). Impact on Small- and Mid-Cap Research Coverage:</b> International experience shows that when the ability to pay for research is constrained, corporates are often compelled to finance their own research coverage. This creates potential conflicts of interest and significantly reduces the likelihood of objective ‘sell’ or negative recommendations. Such a shift is expected to reduce independent sell-side coverage, particularly for small- and mid-cap companies, ultimately affecting the alpha-generating potential and outperformance of mutual funds and portfolio managers.</p> <p><b>2). Prescribing Brokerage Rates is Not Aligned With Global Practice:</b> Presently no major global regulator specifies brokerage rates, including Europe, the UK, and the US. Brokerage is universally determined through market competition, not regulation. SEBI's proposal to prescribe exact numerical limits (2 bps / 1 bps) diverges from international norms.</p> <p><b>3). Market forces already ensure competitive and efficient brokerage levels:</b> While the current regulation permits brokerage and transaction costs of up to 0.12% of the trade value in the cash market segment, most mutual funds are already paying charges in the range of 5 to 12 bps (as noted in the SEBI paper). This indicates that competitive market dynamics are effectively driving pricing efficiency. Prescribing a fixed rate of 2 bps unnecessarily interferes with a market mechanism that is functioning efficiently.</p> <p><b>4). Recommendation: Introduce an Upper Cap, Not Fixed Numbers:</b> It is recommended that SEBI prescribe a broader upper cap for brokerage rather than specifying exact rates, similar to the retail brokerage framework—where a cap of 2.5% exists, yet actual pricing is competitively driven, with many brokers charging zero or near-zero brokerage. Allowing mutual funds similar flexibility to negotiate brokerage based on market dynamics will preserve transparency without creating unintended distortions in pricing. This approach ensures investor protection while maintaining the efficiency of competitive market forces.</p>	<p>International regulatory experience—particularly from the implementation of MiFID II in Europe—demonstrates that strict unbundling of research and execution costs significantly reduced the economic viability of independent research coverage. As asset managers were restricted in their ability to pay for external research, many sell-side firms curtailed coverage of smaller and mid-sized companies due to limited commercial incentives.</p> <p>This led to a structural decline in independent research availability for small- and mid-cap companies, compelling many corporates to sponsor or pay for their own research. Such issuer-paid research models present inherent conflicts of interest, limiting the likelihood of critical, negative, or “sell” recommendations. As a result, market participants lose access to balanced, objective research inputs essential for efficient price discovery.</p> <p>In the Indian context, where over a thousand listed companies fall within the small- and mid-cap universe, reduced independent research coverage may impair market efficiency and negatively impact fund managers' ability to identify opportunities, assess risks, and generate alpha. This, in turn, could constrain overall market depth, liquidity, and investor outcomes.</p> <p>Given these global learnings, it is important to ensure that any regulatory changes do not inadvertently weaken the research ecosystem that supports informed investment decision-making and healthy market development.</p>
				Globally, brokerage pricing is determined by competitive market forces rather than prescriptive regulatory limits, with no major regulator—including those in the US, UK, or Europe—specifying exact brokerage rates. Competitive dynamics, technological efficiencies, and market transparency naturally drive costs downward without regulatory intervention. SEBI's proposal to prescribe fixed numerical limits (2 bps / 1 bps) diverges from these international norms and risks distorting a pricing mechanism that is already functioning efficiently in India. A mandated rate could reduce flexibility for mutual funds to negotiate execution quality, research access, and liquidity provision based on their investment strategies, potentially affecting overall market efficiency. Aligning with global best practices by allowing market forces to determine brokerage costs would support innovation, maintain competitiveness, and avoid unintended consequences arising from over-regulation.	
				The data presented in SEBI's own analysis demonstrates that market competition is already ensuring efficient brokerage pricing, with most mutual funds negotiating rates significantly below the permissible limit of 0.12% and operating in a narrow band of 5 to 12 bps. This reflects a well-functioning market mechanism where price discovery, competitive intensity, and scale efficiencies naturally regulate costs without the need for prescriptive intervention.	
				Introducing a fixed rate of 2 bps risks disrupting this equilibrium by imposing an artificial constraint on a system that is already delivering cost efficiency. Allowing market forces to continue determining brokerage levels would preserve flexibility, maintain competitive pricing, and prevent unintended distortions in execution quality and service arrangements.	
				A broad upper cap, rather than prescriptive fixed brokerage rates, aligns with established regulatory practice in other segments of the Indian securities market, such as retail brokerage, where a cap of 2.5% exists but actual pricing is determined by competitive forces. This model has proven effective in driving prices down organically—often to zero or near-zero—without regulatory intervention. Extending a similar framework to mutual funds would maintain flexibility for asset managers to negotiate execution quality, research support, and liquidity services based on their strategic and operational needs. A fixed numerical rate risks creating pricing distortions, reducing service quality, and limiting innovation in brokerage models. By setting only an upper limit and allowing market dynamics to determine actual rates, SEBI can ensure transparency and investor protection while preserving the efficiency and competitiveness of the brokerage ecosystem.	

3.1.2 (5)	Differential expense ratio (new regulation)	Agree	<p>We welcome SEBI's proposal to introduce a differential, performance-linked expense ratio on an optional basis. It is important that this framework remains voluntary for AMCs, as concerns around fund managers taking undue risk arise only when the entire fee structure is variable. As long as AMCs retain flexibility to choose between fixed and variable components, such risks can be effectively mitigated. The industry broadly supports the concept provided it remains a choice-driven framework, allowing market dynamics and investor preferences to determine the proportion of assets that adopt a variable-fee model.</p> <p>Implementation feasibility suggests that performance-linked fees may be introduced through an additional plan within existing schemes—similar to the structure of regular vs. direct or growth vs. dividend plans—thereby removing the need to launch entirely new schemes. However, clarity is required on the operational treatment of NAVs under this model. Divergent views exist on whether separate NAVs will be required for fixed-fee and variable-fee plans or whether a single NAV can be maintained. Given the significant operational implications, detailed guidance on NAV computation, disclosure norms, and investor communication will be essential.</p> <p>As SEBI intends to finalise the detailed framework separately, we expect comprehensive guidance covering the fee model, performance calculations, risk safeguards, operational mechanics, and disclosure requirements.</p>	<p>Introducing a performance-linked expense ratio can offer meaningful alignment between fund performance and investor outcomes; however, such a framework must remain optional to prevent unintended behavioural risks. Fund managers may be incentivised to take excessive risk only when compensation is entirely variable. By ensuring that AMCs have the flexibility to adopt a balanced structure combining fixed and variable components, SEBI can safeguard against these risks while still encouraging innovation.</p> <p>From an implementation standpoint, the industry's preferred approach is to introduce variable-fee structures through an additional plan within existing schemes. This mirrors current practices (such as regular versus direct plans) and avoids the operational and regulatory burden of launching new schemes. Crucially, the treatment of NAVs under differential fee structures requires explicit regulatory guidance. The possibility of different NAVs for different plans, or alternatively maintaining a single NAV, carries significant implications for system architecture, investor reporting, and disclosure practices. Clarity on these mechanics is essential to ensure consistency, accuracy, and investor confidence. Given SEBI's intention to develop the detailed framework separately, it is important that this framework comprehensively covers key elements such as performance measurement, fee calculation methodology, risk safeguards, transparency standards, and operational protocols. These details will determine the practical viability and investor friendliness of the model.</p> <p><b>US &amp; UK Norms:</b> US: Performance fees permitted under Advisers Act (e.g., fulcrum fees, high-watermarks) for eligible clients. UK: FCA permits performance fees with rules on symmetry, benchmarks, and clear disclosure.</p>
2	Whether there are any provisions that may require further clarification, consolidation,	Agree		
3	€ Whether there are any existing provisions that should have been retained but appear	Agree		
4	Whether there are any suggestions on the current three tier structure of the mutual funds i.e. the requirement of a Sponsor, Trustee and AMC?	Agree	The existing three-tier structure of the mutual fund ecosystem—comprising the Sponsor, Trustee, and AMC—continues to function efficiently and remains robust. This framework provides clear accountability across all levels, and at present, we do not see a compelling need for any modifications or restructuring.	Structure provides checks and balances, with clear segregation of roles and oversight without evident structural inefficiency.
5	Whether there is a need to review the provisions relating to disassociation of	Agree		US & UK Norms: US: Fund Board plus Investment Adviser (two-tier model) with independent directors providing oversight. UK: AIFM plus depositary model—single responsible entity with independent oversight.
6	Whether there are any specific suggestions on the existing provisions relating to MF	Agree		
7	Whether there are any specific suggestions on the existing provisions relating to	Agree		
8	Whether any system or process changes be required by AMCs, custodians, or registrars	No Comment		
9	Whether the guard rails for enabling relaxation of business activity of the asset management company to provide management and advisory to non-broad based funds, as specified in the	No Comment		
10	Whether the provisions on eligibility of sponsor under both Route 1 and Route 2 needs to be reviewed?	Agree	We agree with the proposal and, at present, do not believe there is any need to review the eligibility criteria for sponsors under either Route 1 or Route 2	Criteria already ensure fit-and-proper sponsors; unnecessary tightening could deter credible entrants without clear benefit.
11	Whether there are any suggestions on specifying minimum experience requirement for Chief Executive Officer,	Agree		US & UK Norms: US: No explicit 'sponsor' concept; focus on adviser registration and fitness under SEC rules. UK: FCA applies threshold conditions for authorization, similar in spirit to sponsor suitability tests.
12	Whether the requirement of minimum experience for Chief Executive Officer, Chief Operating Officer, Risk Officer, Chief	Agree		
13	Under the present framework, while the Mutual Fund is registered with SEBI the AMC managing Mutual Fund is required to comply with several responsibilities cast	Agree		
i.	Whether the current structure of registration of Mutual Fund is appropriate			
ii.	Whether a concept of umbrella license for investment management for AMC be			
14	Any other comments or suggestions	No Comment		