EDITORIAL

It is our great pleasure to bring to you our eleventh edition of India Insights.

During the last quarter The Research, Advocacy and Standards committee of CFA Society India responded on SEBI’s consultation paper on Association of Regulated Entities with Unregistered Entities. We support SEBI’s stance of curbing the mis-selling on social media by mandating SEBI Registered entities to not associate with unregistered entities. A complete ban on Finfluencer business model could have a negative impact on the access of information availability to people. Hence a twofold solution which mandates finfluencers to come under the regulatory circumference and which focuses on aggressive education campaigns for investors is recommended.

Additionally, we offered comments on Consultation Paper on Performance Validation Agency, Consultation Paper on permitting increased participation of NRIs and OCIs into SEBI-registered FPIs and offered comments on Review of SEBI (Delisting of Equity Shares) Regulations, 2021.

The 17th season of CFA Institute Research Challenge began in the last month. It is an annual global competition that provides university students with hands-on mentoring and intensive training in financial analysis and professional ethics. In this season 230+ students from top 50 B-Schools in India will gain real-world experience of Equity Research while preparing for the challenge.

Season 2 of CFA Society India’s FEMTOR program was launched in the last quarter. The program endeavours to create mentor-mentee relationships between women members at different stages of career to help them achieve their professional goals.

Hope you find this edition of India Insights useful. We will be happy to hear and discuss your suggestions and opinions related to advocacy initiatives.

If you are a member of CFA Society India and wish to volunteer for any of the advocacy initiatives, please drop a message on any of CFA Society India’s social media handles and we will get in touch with you.

Best Regards,
Nimisha Pandit, CFA
ASSOCIATION OF SEBI REGISTERED INTERMEDIARIES / REGULATED ENTITIES WITH UNREGISTERED ENTITIES

In August 2023, SEBI solicited public comments on Consultation Paper on Association of SEBI Registered Intermediaries/Regulated Entities with Unregistered Entities (including Finfluencers). The recommendations put forth in the consultation paper 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 and made following suggestions around making the regulations clearer and more granular to ensure that the objective is met in full spirit.

- This paper aims to eliminate just one of multiple income sources of Finfluencers. To effectively curb mis-selling, efforts should be made to increase investors awareness of the SBI’s available infrastructure of Registered Entities/Advisors and their respective roles. SEBI can utilize the Investor Education Corpus that is accumulated for Mutual Funds (2BPS) for this purpose.
- The definition of finfluencers in the paper largely talks about individuals who have been creating content on social / digital media. However, some more clarity is sought for cases where individuals talk about various financial topics without any compensation from the SEBI Registered entities.
- SEBI should also think about the advice that is given on other forms of media. Substantial amount of influence is exerted by individuals who share their opinions on Television, Print Media and Electronic Media.

Our complete response to SEBI can be accessed here.
• Non-disclosure of conflict of interest amounts to breach of the essence of law.
• Wherever the influencer has a remunerative arrangement with a SEBI Registered entity, such remunerative arrangement should be adequately disclosed.
• Any form of hidden advertisements should be made illegal, and advertisements must be, correctly labelled and clearly identifiable as an advert.
• The law could require the influencers 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 influencer is associated.
• For such exclusive alliances, the influencers can be required to pass certain examinations and acquire required expertise to continue to speak about financial products of the alliance partner.
• Training can also be provided to influencers on acceptable conduct.
• Any evidence of breach or non-compliance should be subject to severe punishment including fines, prosecution, imprisonment and other measures as deemed fit. 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.
In order to reduce the complexity around the delisting of a company through Reverse Book Building mechanism, SEBI has proposed a new method for delisting at a fixed price and sought comments on the consultation paper.

We appreciate SEBI’s effort to improve the process of determining the floor price. Our key comments are summarized below.

- We partly agree with having an additional parameter of "Adjusted Book Value (ABV) as determined by an independent registered valuer" for determining the floor price. However, for frequently traded shares market price is the great indicator of the fair value therefore the addition of ABV may be an unnecessary inclusion.
- We agree that there is a need to have a separate mechanism for delisting of Investment Holding Companies (IHC). Having large underlying values, through classic RBB may not result in the discovery of fair exit price to the public shareholders.
- Instead of voluntary delisting, we believe, in the interest of minority shareholders, there should be a mechanism for compulsory delisting of all IHCs within a defined period of 12-24 months.
- Managements at IHCs manage cashflows without worrying about efficient capital allocation and thereby negatively impacting minority shareholder’s interest even further.
- We suggest that the regulators can relook at IHC as a structure from a corporate governance standpoint.

Our complete response to SEBI can be accessed here.
There has been an increasing demand for channelling more NRI/OCI investments in the Indian markets through the FPI route. Such entities currently have the option of using the Portfolio Investment Scheme route, but this restricts investment through overseas pooled structures.

We appreciate and support the SEBI's effort to boost NRI/OCI investments through the FPI route. Following are our key suggestions:

- Instead of only allowing the relaxation for IFSC funds, SEBI can broaden the base to include a section of FPI Cat 1 Offshore Funds that are managed directly from India by SEBI regulated AMCs under 24(b) SEBI regulations and Section 9A of the Indian Income Tax Act. This should also be available to SEBI regulated Mutual Fund Schemes through the launch of a USD / EUR / GBP direct and regular plans in existing mutual fund schemes with full repatriation option.
• The rationale that only IFSC funds securities are kept in safe keeping/custody by SEBI registered custodians may not be consistent. Currently, all FPI Cat 1 overseas funds have their securities in custody (or kept in safe keeping) with SEBI approved custodians in India. Such custodians have back-to-back agreements with the depository of such fund in the overseas market.

• We recommended that SEBI allow certain FPI Cat 1 offshore funds (managed by SEBI regulated Indian AMCs from India) to also benefit from the removal of 50% rule. Providing the relaxation to only IFSC funds would end up differentiating SEBI regulated FPI Cat 1 funds, despite similar commercial / investor onboarding process by such global banks / intermediaries.

• We recommend that FPI Cat 1 Offshore Funds that are yet to start operations, and managed or sub managed by SEBI regulated asset management firm (India based entity) under section 9A and that are desirous of having more than 50% aggregate contribution from NRIs / OCIs, may opt to do so by submitting similar declarations for NRIs.

• We recommend that Existing SEBI regulated MF schemes to be allowed to launch additional multi-currency direct and regular plans dedicated for NRIs / OCIs (from foreign bank accounts) and achieve the objectives of this consultation paper for investor KYC, local custody and reducing AML risks.
SEBI has proposed an independent body called Performance Validation Agency (PVA) to independently verify the performance related claims made by SEBI registered intermediaries. We appreciate SEBI's effort to bring in more transparency in the performance related claims. There are gaps in performance measurement, uniform presentation, and advertisements, but a validating agency may not be able to fill all the gaps. Issues with claims and performance-related matters vary widely across various entities and a single entity may not be able to cater to them. We requested SEBI to provide further clarity on the objective and role of PVAs.

Following are our key suggestions on the proposal:

- Assigning this task to only 1-2 entities may result in some drawbacks. We believe that having multiple agencies acting as PVA may be a better way forward.
- Pre-validation of performance data may be very difficult to implement, as the performance numbers need to be published by the registered entities within a tight deadline. There may be a post validation of performance and till that time the performance is showed as 'Unverified'.
- The approach of only allowing a wholly owned subsidiary of MII or a jointly supported entity by multiple MIs may need to be rethought.
- It may be better for SEBI to have a conceptual framework to let the license be open for multiple agencies who are not necessarily mandated to be funded by MIs.
• Risk and return both should be part of the performance reporting.
• Client specific claims should not be verified and even allowed to be published and marketed. The performance should be calculated at a group level, there may be criteria to bifurcate client groups, but the verification should be as a group, not at individual level.
• We agree with SEBI that there is a need for SEBI to establish a committee with market participants, which can lay down the performance measurement principles. We believe that the principles laid out in GIPS may be a great starting point to lay down these principles.