

Sebi rules mandate advisors to explain risks involved to investors

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At a conference I attended recently, there was a panel debate about whether Indian clients seek financial advice and among those who do seek financial advice, how many are ready to pay their advisors for financial advice.

There were as many views on the subject. This got me thinking. Why would one be ready to pay a financial advisor or any service provider for that matter? The answer could be when a client (service receiver) perceives that the service provider is acting in full faith, to the best of his/her ability and in the client's best interest.

This, therefore, brings us to another question. How does a client understand then, whether the service provider, in this case a financial advisor, is acting in the client's best interest? In India, the Securities and Exchange Board of India (Sebi) functions as the regulator of the securities market, and promotes and regulates this markets. The main role of Sebi lies in protecting and safeguarding investors' interests.

As a result of this primary role that Sebi has, it has enacted many Acts, rules and regulations to safeguard investors' interests in the securities markets. Information on these is available at www.sebi.gov.in.

One of the recent regula-

tions brought about by the regulator to safeguard investors' interests is the Sebi (Investment Advisors) Regulations, 2013 which governs advisors: Meaning any person, who for consideration, is engaged in the business of providing investment advice to clients. Under this regulation, any person holding himself as an investment advisor has to register with Sebi for grant of a Registered Investment Advisor licence.

This regulation, among other things, specifies a whole host of dos and don'ts for investment advisors. While there is some product-specific communication from the regulator on investor rights and duties, some of the fundamental investor rights that get addressed are:

Right to understand the risks associated with the investment: By ensuring that the advisor does risk profiling and Know Your Customer of the client, this regulation ensures that firstly an advisor is taking the time to understand his/her clients' risk appetite. In addi-

tion the advisor has to explain the risks associated with the suggested investment and whether they meet the clients' stated investment objectives.

Right to understand appropriateness and suitability of product: These regulations mandate that the advisor will establish suitability of product

NEXT WEEK

In our next edition, we will find out how financial planning at the right time can lead to a better life.

for client, thereby establishing to a client the appropriateness of a product / advice from available options.

Right to transparency: The Sebi IA regulations mandate that the advisor disclose to client any material conflicts of interest in suggestions/advice given. This by far is a great step in establishing trust in the client-advisor relationship.

Right of grievance redressal: To address this, these regulations mandate a certain level of capital adequacy before grant

of licence to an investment advisor: In addition they mandate a compliance officer, as well as a process of grievance redressal at the advisor's end.

In addition, these regulations also need the investment advisor to conduct a yearly audit in respect of compliance with these regulations. This ensures that these best practices are followed not only at the time of engaging a client but at all times.

Last but not the least, while investors do have the privilege of expecting these good practices from Sebi registered investment advisors, as duties for the investor, some of the prime ones would be to disclose all material financial information to your advisor and to sign off investment applications after having a detailed understanding of the advice. Another important duty is to be vigilant and informed about their investment and investment advisors.

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