

# Will MF agents, RIAs have separate self-regulators?

Sebi has asked if there should be multiple SROs for MF distributors and RIAs

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The Securities and Exchange Board of India (Sebi) wants to put in place a self-regulation organization (SRO) for mutual fund distributors and registered investment advisers (RIAs) since they have now become a large part of the mutual fund industry. SRO is a structure used by most regulators globally to form a first line of regulation. Sebi has invited public comments on a consultation paper (read: [bit.ly/2UrxVG4](http://bit.ly/2UrxVG4)) for the amendment of the Sebi (Self-Regulatory Organizations) Regulations 2004. We explain the key functions of the SRO.

## WHAT WILL THE SRO DO?

Sebi has divided SRO's functions into four broad categories. First, the SRO will have a development role covering training and education of its members and investor awareness. Second, it will have a regulatory role, granting membership and laying down a code of conduct for its members. Third, it will have a grievance redressal role, resolving disputes between members and investors and between members themselves.

Finally, it will have a disciplinary role, wherein it can take action against members for violation of the code of conduct or regulations. The SRO will have the power to suspend individuals and entities from their membership or remove them altogether but not to impose monetary penalties. It would have the power to resolve disputes between members and between investors and members. However, the SRO for mutual fund distributors will not have the power to handle disputes between its members and mutual funds.

Sebi's earlier attempts to set up an SRO ran into rough weather when the Financial Planning Stan-

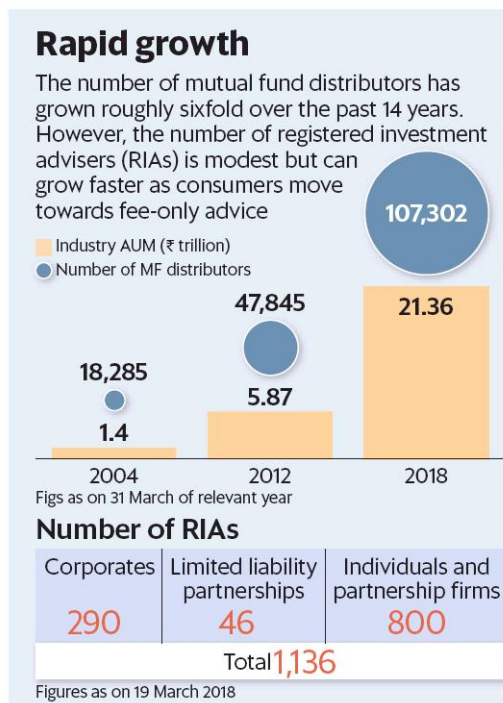


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Source: Securities and Exchange Board

dards Board (FPSB) India challenged its decision to appoint the Association of Mutual Funds in India-promoted body, Institution for Mutual Fund Intermediaries (IMFI), as the SRO.

FPSB India moved the Securities Appellate Tribunal (SAT) against Sebi's decision. From SAT, the case went all the way to the Supreme Court, which ruled that Sebi can call for applications for SRO again.

Sebi has neatly sidestepped the problem of appointing the SRO by handing over the job to a nomination committee that will be led by a retired high court or Supreme Court judge. "A nomination committee headed by a retired high court or Supreme Court judge is likely to be impartial and select an SRO on its merits," said Dhruv Mehta, president, Foundation of Independent Financial Advisors (FIFA).

## SINGLE OR MULTIPLE SROs

A key question Sebi has asked in the SRO proposals is whether there should be one SRO or multiple SROs for the two different types of intermediaries—mutual fund distributors and RIAs.

Experts have different opinions on the issue. "There should be a single SRO since both types of intermediaries serve the same customers," said Mehta.

## Sebi seems to have missed out the issue of self-regulation for robo advisors and fintech companies

Vishal Dhawan, founder and CEO, Plan Ahead Advisors Pvt. Ltd, a financial planning firm, said distributors and advisers have different regulatory needs. "There is also a need to differentiate the two in the minds of investors. Hence there should be two SROs," he said.

However, Sebi's consultation paper seems to have missed out the issue of self-regulation for robo advisors and fintech companies. As

per the current Sebi paper companies will come under the two SROs. Srikanth Meel chief operating officer, Fudia.com, suggested that a separate panel be formed to draw up lines for robo advisors and fintech companies.

Another challenge for Sebi to address is if banks that sell will come under the SRO. Mining by banks continues to be an issue and the consultation paper is silent on the jurisdiction of the SRO over bank intermediaries. S Sadagopan, founder, Lac Financial Advisories, said which are distributing mutual funds will come under the SRO. How any other distributor. How exactly they will be regulated remains to be seen.

Retail investors are pumping ₹8,000 crore a month into equity through the systematic investment plan route, and it is up to the regulator to ensure that the fiduciary duty is understood and accepted in the intermediary industry.