



Contact details: United Forum, Office Address: 16A, 16th floor, Nirmal Building,
Nariman Point, Mumbai 400021

Email id: unitedforumindia@gmail.com; Phone #: +91-22-491202019

Deputy General Manager
Investment Management Department
Securities and Exchange Board of India
SEBI Bhavan, Plot No. C4-A, 'G' Block,
Bandra Kurla Complex, Bandra (East),
Mumbai - 400 051

31st July 2017

Dear Sir/Madam,

Sub: Comment letter on the Consultation Paper - June 2017 on Amendments/ Clarifications to the SEBI (Investment Advisers) Regulations, 2013

1. We, **United Forum**, a forum of several national, local and regional associations of Distributors & Independent financial advisors, write on behalf of our members, with reference to the invitation for comments on the Consultation Paper dated June 22, 2017, on Amendments/ Clarifications to the SEBI (Investment Advisers) Regulations, 2013 ("**Consultation Paper**"). We thank you for giving us the opportunity to submit our feedback on the Consultation Paper. Before we provide our comments, a brief introduction about us would give a little context to our expertise and locus in the subject.
2. United Forum is a forum of various distributor associations across the country comprising of national, local and regional associations, representing distributors at an all-India level and across several states, including Madhya Pradesh, Maharashtra, Gujarat, Orissa, West Bengal, Tamil Nadu etc. United Forum is presenting a common view representing the whole distribution community to the regulators and the government. United Forum has been engaged in undertaking various activities for the development of the mutual fund industry and the distribution community. Given a large coverage, we represent a common voice of the distribution community in India.

3. Our comments on the Consultative Paper have been appended hereto as Annexure I and II.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "H. Mehta".

For United Forum

Enclosed:

Annexure I - Overview of comments

Annexure II - Para wise comments

Annexure III - Supporting Evidence and Data points

Annexure I

OVERVIEW OF COMMENTS

1. While the proposals in the Consultation Paper purport to bring in uniformity in the standards applicable to all intermediaries and address regulatory gaps, we believe that many of the proposals would be detrimental to the interest of investors and not be in accordance with the orderly development of the securities market. We submit our comments with the following rationale which is backed up with further details below:

- Will compromise the current success of domestic capital and current success of the Indian investor's ability to convert passive savings into active investments.
- Goes against the explicit advice of SEBI's own International Advisory Board
- International experience for the proposed model recommends against the model - UK
- Sumit Bose Committee Report strongly advises against it
- Impossibility of segregation of advice from distribution
- Role of distributor is not selling alone – proposal will result in mandatory fraud on investor
- Subsidiary model hurts investors and protects the distributor
- Corporatization will enhance conflict, reduce accountability and introduce a cap on liability of distributors
- A distributor is so much more than a seller of financial products
- Distributors are already disclosing fees at various levels and are highly regulated. Total cost to the investor is capped. Upfront commission is capped. Conflict, if any only minimal.
- Proposal will reduce the number of investors entering the market
- Likely to increase cost to investors
- Orphaning of existing investors – advice gap
- Significant regulatory changes have made MF industry most transparent and investor friendly.

Will compromise the current success of domestic capital and current success of the Indian investor's ability to convert passive savings into active investments.

2. News item dated 30th July 2017 shows an increase of 46% of mutual fund asset base from the smaller towns¹. Much of this success is attributable to the hard work of the small town distributors who follow the path less trodden. This success will be short circuited if the current proposal is brought to fruition. This will hurt the mutual fund industry and the wider economy. While these may be acceptable costs if the benefits are even larger, we submit that there are in fact no benefits which can be expected from the proposed regulations. Introducing these will not achieve even a minimal benefit to investors and would harm

- the economy and domestic capital mobilization²
- the regulated investment universe in India
- investors
- distributors.

Goes against the explicit advice of SEBI's own International Advisory Board

3. The International Advisory Board³ of SEBI, which brings vast international experience and wisdom, itself has cautioned⁴ against a sudden move towards a segregated model.

¹ See <http://economictimes.indiatimes.com/markets/stocks/news/mf-asset-base-from-small-towns-rises-46-to-rs-3-5-lakh-crore/articleshow/59829664.cms>

² For the first time since the early 1990s the amount of domestic savings entering the equity markets directly and through mutual funds – is registering a significant increase.

³ “The IAB however advised that the proposed migration needs to be calibrated. The IAB made the following observations in this regard:

- “Commission based as well as fee based approach to investment advisory can co-exist for the time being. The transition from commission to a fee based approach has to be gradual. Such transition has to happen in tandem across regulatory segments to have uniformity in regulatory stringency across competing segments like securities market, insurance and pension businesses.
- Regulators need to keep in mind the financial viability and the business model of the advisory business. Proper due diligence before transition in regulatory regime is essential.
- Distinction between retail and sophisticated investors should be clear. There is a felt need for greater awareness among investors on cost of commission versus fees based advisory.
- More transparency is required on distributors' commission in all financial products.
- Before undertaking any effective steps, SEBI may consider undertaking a study of migration to fee-based advisory model under RDR, FOFA and robo-advisory models.
- Promote ETF investments as they entail low investment management costs.”

International experience for the proposed model recommends against the model

4. The international experience from the one country (UK) which has attempted this model, has resulted in poor consequences for investors. Read Annexure III (iv) (a). The regulator's own study backs this up. It shows a) an advice gap of those being previously serviced by distributors being left orphaned of advice b) only the largest investors have gained from the model c) steep reduction of advisors in fact d) increase in total cost for investors. While this may sound counter intuitive, the basis of this letter which demonstrate why this has happened and will happen again in India if the model is introduced. The following were observed in 2016 by the FCA following the transition in 2013:
 - Advice gap was observed. In other words, those clients being serviced under the commission model are no longer being serviced under the fee model.
 - The minimum investible amount for an investor to be serviced by an adviser has gone up substantially – leaving retail investors un serviced.
 - Steep reduction in the number of advisers.
 - Increase in total cost to investors (MF expenses + Fees paid directly).
5. Another study conducted by FIFA of 25 countries showed that countries with fee dominated model had a higher expense ratio than countries with a commission model. This study has been shared with SEBI previously.

Sumit Bose Committee Report strongly advises against it

6. The present consultation paper advocates something which the high powered committee strongly recommended against:

“The Indian Market also suffers from a lack of Market for advice. Retail customers are not accustomed to paying for holistic advice. A body of financial advisors capable on advising on the entire portfolio of products is also not available. It was; therefore, felt that a complete ban on commission in such an environment would be counterproductive.”
(page no. 56 of the report)
7. The committee arrived at a view that what was required was rationalisation of commissions and disclosures mandates across all financial products, such that products become comparable and provide reasonable and comparable remuneration.

⁴ See Press Release dated 14 Jan 2017 of SEBI on the 7th IAB meeting.

Impossibility of segregation of advice from distribution

8. A distributor is like a chemist. He is required to undergo some training, though not the full training of a doctor. But forcing a chemist to sell medicines, prohibiting him from providing any advice whatsoever, would harm patients, rather than help them. Distributors, sell financial products, and sales without a bundle of other services including advice is impossible and would result in harm to the end investor.

Role of distributor is not selling alone – proposal will result in “mandatory fraud” on investor

9. Historically, SEBI has always imposed an obligation on the distributor to provide advice and gauge suitability of products. SEBI has also defined lack of suitability to be a fraudulent act by a distributor or other intermediary. With the present action, SEBI will mandate that intermediaries commit fraud on their clients as selling without suitability (which itself implies advice) will naturally result in mis-selling. In addition, the role of a distributor is not merely selling. We believe that the essence of advice is very important for any financial distribution activity, lest the product may have harmful effects on the investor. Further, regulatory norms make it mandatory for distributors to sell only appropriate products after conducting the requisite process for assessing suitability of the products to the client’s age, profile, pension aim and risk profile. A product appropriate for an upper middle class salaried person may be wholly unsuitable to a lower income person with a small shop. Pursuant to SEBI’s circular dated August 22, 2011, distributors are duty bound to sell only suitable products to clients after a detailed profiling and assessment of the income, expenditure, wealth and risk appetite, retirement plan, time horizon for investments, taxation, goals etc. Removal of the advisory element would not only unreasonably limit the role of distributors but also expose investors to investments in unsuitable products. If distributors are not permitted to provide investment advice, as an activity necessarily associated with their distribution function, they may sell products without a check on the investor’s risk profile and product suitability. This move is clearly harmful to investors as the proposed regulation is reducing the obligations and level of service of the distributor.

Subsidiary model hurts investors

10. The Consultation Paper proposes that advisory services can be provided only through a separate subsidiary. If existing IFAs were to register under the IA Regulations, it would become impossible for such individual distributors to undertake both distribution and advisory functions as the current proposal prohibits that. In addition, it would be a death knell to expect a small distributor in Nagpur or Itawah to set up two separate companies one for advisory and the other for distribution functions. (it has been SEBI's unstated but clear position that an individual cannot do both functions. Further an individual cannot have a subsidiary). An IFA provides a composite service and it will be impractical to expect him to segregate the two functions. Since, both entities would be run by the same person, even where such corporate entities are set up, the additional requirement does not solve any problems of conflict.

11. In the current paper the proposal may force many of the Banking players to close the MF Distribution business. Banking is a very strong Distribution channel for the growth and financial inclusion of investors in the MF Industry, Banks cannot provide Mutual Funds as an investment product without an element of advice . It is not practical for them to set up another subsidiary to run the distribution activity. Today, the distribution of products is done by thousands of employees spread across the smallest district of India. Several branches may have only one or two employees, of which one may be engaged in multiple activities including distribution of financial products. To mandate a separate company to provide advice and one probably to provide distribution apart from the banking company, to mandate Chinese walls in a small two employee branch in a small district of UP, to mandate NISM certification from this employee, these will all effectively stop not just new businesses but even push banks to shut their distribution of mutual funds, as it's neither practical nor cost effective.

Corporatisation will enhance conflict, reduce accountability and introduce a cap on liability

12. It would be appropriate to mention that converting a sole proprietorship into two companies does not reduce conflict of interest but will enhance conflict, reduce accountability and minimise financial restitution in the event an investor sues the distributor. This cannot be a regulatory goal. If a person were to set up two private (or One Person) companies, he would wear two juristic masks, but be able to completely control and run both companies. The question of reduction of conflict of interest does not arise. In contrast, in the absence of fraud, no court can lift the veil of the companies. Thus an investor suing the distributor company will be left with the limited resources of the company, while currently the personal networth of the distributor is available in a civil suit against such distributor. Setting up companies would also not be viable for a small distributor in a small village.

A distributor is so much more than a seller of financial products

13. A distributor is not only responsible for marketing and selling mutual fund products, but also provides a range of services, both at the time of onboarding and on an ongoing basis, which greatly benefits investors, especially in the retail category. Distributors reach out to investors in small and large towns, make investors aware about their needs and goals, schemes of mutual fund houses and help them understand the effectiveness of mutual fund schemes for investments. Distributors help investors undertake transactions relating to switching, redemption and guide them periodically on the performance of their investments. Distributors monitor and review client portfolios to ensure that their investments suit their financial abilities and risk profile, and match with their overall financial goals. Further, distributors provide services to investors relating to their funds, such as aiding in nomination, calculation of taxation etc. They even help semi-literate and non-sophisticated persons in filling forms and informing them of risks of the market.
14. The role of a distributor includes:
 - Travel and reaching out to those who are unaware of financial products
 - Make an unfamiliar and complex product easy to understand.
 - Bridging the advice gap.
 - Providing an all inclusive product with full disclosure of how much commission is being paid to the distributor at several places. This is important as a pure financial advisor will not provide advise for Re. 1 for a monthly SIP of Rs. 500.

- Providing basic tax advice to small retailers and the like.
- Help guide the investor to the only free lunch in financial markets – diversification.
- While advisors gravitate towards HNIs and rich clients, distributors fill the gap by providing service to the smallest investor and doing so at scale. They would be able to service thousands of investors each willing to invest a few hundred rupees a month.
- Provide financial advice for instance - keeping money in unproductive assets and bank FDs would reduce their long term wealth after inflation.

Distributors are already disclosing fees and are highly regulated

15. SEBI's answer to other intermediaries who could benefit from a conflict of interest has been full disclosure of interest and enforcement action against the intermediary. . Total cost to the investor is capped. Upfront commission is capped. Conflict, if any only minimal. SEBI already imposes a full set of disclosure norms on distributors to investors which disclose the commissions each distributor is making and also the price of the fund if the investor were to go and directly purchase mutual fund units. After imposing the latter standard last year, investors have continued and in fact increased investment via distributors. Clearly, investors see a huge value attached to the service provided by distributors.
16. It may also be noted that of the 700 registered investment advisors, may be a dozen provide investment advice without an affiliated distribution business. This should be indicative of the fact that as of today, investment advice is not a viable standalone business. Any forced registration of distributors as advisors would have the ricocheting effect of even the current advisors de-registering themselves as advisors. This position may change in another 10 years or so, and the issue may be revisited then.

Proposal will reduce the number of investors entering the market

17. FIFA (another industry body of distributors) has conducted a study (through a reputed agency) which shows: "Evidence has begun to emerge, however, that when regulatory agencies seek to increase transparency by outright prohibiting embedded products from the industry-thus forcing current and potential investors to evaluate and negotiate the terms (scope of fees) of their advisory services- many investors either draw from the market or never enter." This study has previously been submitted to SEBI.

Likely to increase cost to investors

18. While it may sound counter-intuitive, but a segregation of fees and commission will in fact increase the total costs to investors. Studies have shown this to happen and the UK experience has shown this to happen in practice. Even assuming, the split roles/entities are viable for some of the distributors, expecting an advisor to charge say Rs. 5,000 as advisory fees for the year would make little sense for a small investor who wishes to invest say a monthly SIP plan of Rs. 1,000. The advisory fee would be an astronomical number for such an investor and a rational small investor would abandon such a market altogether. To put this in perspective, the national average of SIP investment per month is only Rs. 2,900 (Source: amfiindia). The median payment per month is substantially lower and so is the mean/median payment per month in smaller B15 cities and even lower in small towns.

Orphaning of existing investors – advice gap

19. Only HNIs and richer investors will have access to financial advice. With an increased cost to investors, law of economics will ensure that fewer will invest, and fewer will invest right. This will indirectly also push people into unregulated products which will be pushed to them by unscrupulous persons in the form of Ponzi schemes or chit funds. This will be the opposite of the regulatory goal SEBI is seeking to achieve through the paper.

Significant regulatory changes have made MF industry highly transparent and investor friendly

20. A number of steps have been taken by the regulator over the years to regulate the mutual fund industry, including:

- Capping the total expense ratio (TER) that can be charged by the scheme. Globally the TER is not capped by regulators.
- Abolishing of entry load. Out of the 25 countries studied by Morning Star in the GFIE report 2015, India is the only country in which entry load is banned.
- Introduction of EUIN for all employees distributing mutual Funds.
- Disclosure of commissions on the AMFI website as well as on the website of individual AMC's for specified distributors; maybe the only country to have such a disclosure.
- AMFI has introduced a cap on upfront commissions w.e.f. 1.4.2015.
- Disclosure of scheme wise commissions paid along with the TER of the scheme in the periodic CAS statements.
- Restrictions on multiple schemes by the same fund house which are similar. This again is not seen in any other country.
- India has one of the world's lowest TER across 25 countries according to a study by FIFA (the study has been shared with SEBI).
- Finally, an investor gets to see the scheme with distribution expense separately listed and also the price of the mutual fund product if invested directly.

Conclusion

21. We believe that the proposal to make registration mandatory for distributors providing any advice is based on certain misplaced assumptions, such as, financial intermediaries like distributors would not act in the interest of customers. It is also based on a fallacious premise that creating two corporate entities will solve some of the problems which plague the markets today. It is our humble suggestion that the proposed regulatory changes in the Consultation Paper be relooked at.
22. We also recommend 'Advisory Plans' be introduced to encourage at least some distributors to migrate to RIA model as a means of nudging the pure advisors to transition instead of outlawing distributors from providing advice.
23. India can adopt a hybrid model like US to make multiple advisory models flourish and allow commission based advisors migrate to fee based services over the next decade.

Annexure II

COMMENT LETTER ON THE CONSULTATION PAPER ON AMENDMENTS/ CLARIFICATIONS TO THE
SEBI (INVESTMENT ADVISERS) REGULATIONS, 2013

Name of entity: United Forum

Sr. No.	Pertains to Point No.	Suggestions	Rationale
1.	Generally	We believe the current proposals will be against investor interest and will dramatically alter the financial landscape for the worse without providing any benefit to any class of investors.	<p>We have provided our comments on the following themes in Annexure I and the same may be incorporated by reference here:</p> <ul style="list-style-type: none">• Will compromise the current success of domestic capital and current success of the Indian investor's ability to convert passive savings into active investments.• Goes against the explicit advice of SEBI's own International Advisory Board• International experience for the proposed model recommends against the model - UK• Sumit Bose Committee Report strongly advises against it• Impossibility of segregation of advice from distribution• Role of distributor is not selling alone – proposal will result in mandatory fraud on investor• Subsidiary model hurts investors and protects the distributor• Corporatisation will enhance conflict, reduce accountability and introduce a cap on liability of distributors

			<ul style="list-style-type: none"> • A distributor is so much more than a seller of financial products • Distributors are already disclosing fees and are highly regulated • Proposal will reduce the number of investors entering the market • Likely to increase cost to investors • Orphaning of existing investors – advice gap • Significant regulatory changes have made MF industry most transparent and investor friendly
2	1 (i) – Segregation of advisory and distribution/ execution activities and entity providing advisory prohibited from offering distribution/ execution services.	Segregation for Banks and Institutions must be enforced by including clear and robust guidelines on maintaining factual segregation, including requirement of undertaking activities through separately identifiable departments or divisions (“SIDDs”), instead of simply imposing a blanket ban on an advisory entity from undertaking distribution/ execution services. Several investors	<p>We believe that a blanket ban on an investment adviser entity from undertaking distribution/ execution services will not serve the purpose due to the following reasons:</p> <ol style="list-style-type: none"> a) Just by forcing the advisory services and the distribution/ execution services to be in separate entities, it would not serve the purpose of ensuring segregation if these services are being rendered by two closely knit group companies. Such a requirement would be based on a fallacious premise that creating two corporate entities will solve problems of conflict. Contrary to perception, it will create a legal fiction of segregation and SEBI will not be able to penetrate the corporate veil, absent fraud. This will in fact increase factual conflict by cloaking it beneath a veneer of corporate identity. b) Additionally, a vast majority of distributors are small single person businesses. Forcing them to create two companies would add complexity and cost to their operations, which ultimately will need to be borne by the investor. If the additional costs are not offset by any benefit with respect to conflict as discussed in the previous paragraph the exercise will be one of anti-development while not advancing any regulatory goal. c) Robust segregation measures between the two activities are required along with measures to record compliance with such requirements, to ensure segregation would serve the purpose adequately. Such measures can be enforced under current SIDD rules. d) an IFA provides a composite service and it will be impractical to expect him to segregate the 2 functions . e) Finally, if the new format increases costs of corporate compliance for an individual distributor, the market will shrink in size and other unregulated products like chit funds and illegal deposits can capture market share.

		<p>have been expressing a desire to their investment advisors to also execute the trade through them.</p> <p>Segregation for IFAs, small and medium firms and individuals is not feasible as the same Individual would be offering advice and doing the execution.</p>	
3	<p>1 (ii) - Omission of provisions currently applicable to banks, NBFCs and body corporates providing advisory through SIDDs.</p> <p>1 (iii) - Banks, NBFCs and body corporates currently providing advisory through SIDDs to be provided 6 months to segregate</p>	<p>We suggest that the provisions regarding segregation through SIDDs must be retained, along with introduction of more clear and robust guidelines on maintaining such segregation. Creation of separate subsidiaries provides no regulatory benefit as described above.</p>	<p>We believe that this proposal is counter intuitive and goes squarely against what is required in the interest of investors. Segregation is important to minimise conflict of interest and these requirements must be made more robust. On the contrary, the Consultation Paper proposes to do away with the requirement applicable to banks, NBFCs and body corporates providing advisory services, which includes the requirement of segregation. The Consultation Paper suggests that the advisory services be rendered through a separate subsidiary.</p> <p>As stated in the rationale to serial no. 2, segregation into a separate subsidiary will not ensure mitigation of conflict of interest and may increase it because of the legal fiction of a juristic entity even where the same person is running two corporate entities. This can be better ensured in SIDDs, provided clear and robust guidelines on maintaining such segregation are introduced. Further, it must be noted that the advisory business is in its formative stages and an advisory fee model will take a significant amount of time to meet the expenses of a separate advisory entity. It would be difficult to run or justify setting up an entirely new company with a pure advisory function with very long if any break-even point. Fee based advice is simply not viable in today's environment. Perhaps</p>

	<p>through a separate subsidiary.</p>		<p>this may change in another 10 years, but mandating a pure advisory mode will damage both distribution and advisory businesses as of today.</p> <p>Further, specifically with regard to banks, RBI guidelines state that banks may offer investment advisory services through a separate subsidiary. RBI's objective in introducing this provision is not to remove conflicts of interest or safeguard clients' interest, but to protect banks from investors' claims about deficiency in service being provided/ unsuitable products and therefore impact the balance sheet of the bank. The same logic cannot be extended to all corporate entities. The current RBI circular does not prohibit banks from distributing financial products with such advice (it only requires them to offer investment advisory services through a separate subsidiary) The Consultation Paper goes beyond this and suggests that banks cannot even offer incidental advice. The Consultation Paper's proposal may force many of the banking players to close their mutual fund distribution business. RBI has a regulatory dislike to too many subsidiaries created by banks. Banking is a very strong distribution channel for the growth and financial inclusion of investors in the mutual fund industry. It may not be practical for them to set up another subsidiary to run the distribution.</p>
4	<p>1 (iv) – Registration requirement for advisers providing holistic advice/ financial planning on products across multiple categories.</p> <p>1 (v) – Advice solely on non-securities outside purview of SEBI (IA) Regulations.</p>	<p>All financial advice must by definition be holistic. Where such advice is not holistic, it runs the risk of being unsuitable. As per SEBI's FUTP regulations, unsuitable advice is considered fraudulent.</p> <p>For instance investment advice must necessarily address investment across asset</p>	<p>More clarity is required in order to determine when the registration requirement is triggered and when it is not. It is unnecessary for SEBI to mandate the requirements of other regulators. There may be other regulators which do not require any registration, for instance pension investments. This may be advice regarding the amount of emergency fund to be maintained in a bank or to have a term insurance.</p> <p>Regulation 2(h) of the IA Regulations does define "financial planning" to "include analysis of clients' current financial situation, identification of their financial goals, and developing and recommending financial strategies to realise their goals". Unlike the definition of 'investment advice' which is restricted to advice in relation to 'securities or investment products', this definition is very broad and is not limited to securities. Although the Consultation paper states that advice solely on non-securities shall not come under the IA Regulation's purview, the definition of financial planning still remains wide. Further, there is no definition of 'holistic advice' and there is no clarity on whether holistic advice relating to non-securities would be covered. As a matter of financial prudence, there should be no distinction between holistic and non-holistic advice. All advice must</p>

		<p>classes and even diversification within a particular asset class. In finance the only 'free lunch' available is diversification. Free lunch in the sense, diversification increases returns while at the same time reduces risk. For a regulator to mandate advice in only one sector would force advisors and distributors to take away that free lunch and suitable advice from the investor. This would not achieve the regulatory goal of investor protection and would hurt their financial well being in the short and long run.</p>	<p>necessarily be holistic for it to be suitable. And all holistic advice must necessarily advise investment in different asset classes, different time horizons and different assets within each asset class for it to qualify as being suitable in investor interest. This remains true whether such advice is provided by an advisor, a distributor or other persons who provide advice. Non holistic advice is by definition inappropriate and against investor goals and investor interest. A regulator's goal cannot be to encourage non suitable advice.</p> <p>While SEBI may not have the power to go beyond the securities markets, it should recognize diversification of assets within the securities space and recognize its 'free lunch' status. The corollary is that SEBI should avoid banning the free lunch and allow a holistic advice, whether it is the advisory business, broking business, PMS business or the distribution business.</p>
5.	2 – Distributors can only explain/describe the features,	The proposed regulation would be contrary to basic financial	MFD's not only sell mutual fund products, but must necessarily provide advice in relation to such products. As discussed in greater detail in the rationale in serial no. 6 herein below and in serial 4 above, such advice is intrinsically connected with the nature of their work. Distributors have to

material facts and associated risk factors of mutual fund schemes of which they are distributors and distribute them while ensuring suitability of the scheme to the investors.

principles and SEBI's own well thought out regulations. The law if passed would mandate selling unsuitable products if one is a distributor. The recommendation is based on the premise that selling is possible without a suitability check. It is not.

For a distributor to ensure suitability he has to be allowed do a financial evaluation /planning of/for the investor and give the necessary advise

provide advice for understanding customers' risk profile and suggesting suitable products for meeting their financial goals. Right selling can be a regulator's goal, mandating blind selling without understanding the needs of the client would almost always be mis-selling. To take a simple example selling a 80% equity oriented mutual fund scheme may be wholly unsuitable to a 75 year old (in most circumstances) or even a 55 year old (if such person's risk appetite is low because of volatility of income).

With almost 2500+ MF schemes across multiple categories and asset classes, it is difficult for the customer to understand these schemes and decide which scheme best fits his/her requirement. In addition to the open ended schemes, there are many close ended schemes, fund of funds, NFOs ETFs as well. The underlying scheme name, objective, investment manager composition of the portfolio, benchmarks, exit load, taxation, etc. keep changing from time to time. There is no standardization in the manner of reporting data. Historical returns may be reported on a point-to-point basis absolute returns, annualized returns, rolling returns, CAGR or XIRR Investors are unable to understand all these on their own and they need someone to hand hold them from time to time during the entire investment journey. It is the distributors who through regular interaction with the Investment Managers, their analysts and other team members - try to understand the scheme in greater detail based on which they are able to determine the suitability. This is only mutual funds. Distributors and advisors are in fact duty bound to also advice holistically regarding the long term well being of the investor, whether it is purchase of real estate or medical insurance and life insurance.

Describing the product specification is merely the introduction of the product. However, if distributors are allowed to merely provide product features, material facts and associated risk factors, the existing large population of retail investors would be adversely affected, since it would not be feasible for anyone to service them. It will do more disservice to the investor than a service. No person would want a mere courier of providing products. Distribution entails some form of advice being given by a distributor. Some advice will be required to be given by distributors to guide investors on various aspects including the amount to invest, the asset class based on risk appetite and financial goals.

			<p>Further, the proposal is contrary to SEBI's circular dated August 22, 2011 which requires distributors to perform risk profiling and comply with the requirement of appropriateness and suitability of the product. Thus a distributor is obligated to sell only the right product after understanding the client's profile, including finding out age, family, income stream, goals etc.</p> <p>In the case of banks, basic filters like Risk Profiling, Asset allocation appropriateness of the product for a goal, as well as matching the benefit of the product with the need of a specific set of clients, based on level of awareness of financial products gives the intermediaries the means to target the right set of clients for a product rather than exposing or allowing every customer of the bank to purchase a product without checking suitability. Mutual funds in India are now a financial inclusion investment vehicle due to the transparency and low cost they offer. Not allowing advice on product suitability would hamper proper allocation of funds and can lead to increase in risk in a customer portfolio than is suitable.</p> <p>The research published by the Investment Fund Institute of Canada (November 2015) suggests that investors with advisers (there is no difference in Canada between an IA and a distributor) are in a better position. The research is attached herewith. It clearly states that over a 15 year period, investors with advisers have grown their investments 2.7 times more than investors who were acting on their own. Read Annexure III point ii (a)</p>
6	2 (i) – Distributors not to provide any investment advice.	Distributors must not be prohibited from providing investment advice in respect of mutual fund products. Further, it should not be mandatory for AMFI - registered mutual fund distributors to be registered as	<p>It may appear that making registration under the IA Regulations mandatory for all mutual fund distributors providing advice, would help regulate them better. However, such a measure would not only unreasonably disrupt the activities of distributors (independent distributors, national distributors and banks selling financial products) and compromise financial inclusion, it would also be against the interests of investors as described in the previous few paras.</p> <p>Mutual fund distributors provide a wide range of services to investors.</p> <ul style="list-style-type: none"> a) They travel to remote towns and even villages at their own cost to reach out to potential investors. b) To get investors in the Mutual funds, they have to convince them on product superiority, work on the customer's goals, plans, risk profiling

investment advisers under the IA Regulations while providing such investment advice in respect of mutual fund products.

- and eventually asset allocation based on suitability analysis. Many surveys and research have proven that without a Distributor, investors would not have considered meeting nor met their financial goals.
- c) Distributors do the entire legwork of getting KYC done for new customers, facilitating subscription, redemption and any customer services related issues sorted out with the AMC.
 - d) Distributors also handle the customers in good and bad times of the markets besides advising them on what asset class, product class and the funds to invest in. The rebalancing of portfolios based on changing life goals, incomes, events and other related things are also handled by them. Many studies and analysis have clearly proven the alpha generated by the Distributor's advice has added significant value to customer portfolios.
 - e) Have successfully converted savers with negative net returns (post inflation) into investors in Mutual funds and other asset classes. The current folio count of 5.82 crores (estimated 2.00 cr unique investors have come due to the persistent efforts of the Distribution sales force. Of the equity investments, nearly 90% of products are distributed (Figures from AMFI website). The current consistent monthly inflows of close to Rs. 4744 crs through about 1.45 crore live systematic investment plans (SIPs) is a live example of the same. Even the comparison of the FII flows versus flows coming through domestic mutual funds shows that it is the Distributors who are bringing in financial savings of Indian investors in the capital markets through Mutual funds. In the last financial year 2016-17 MF net Sales were Rs 3.43 lac crs which was much more than double of FY 2015-16 number of Rs 1.34 lac crs. Read Annexure III point (i)

Thus distributors not only sell mutual fund products, but also provide advice in relation to financial products, their suitability based on client profile and principles of diversification. This is intrinsically connected with the nature of their work. Distributors have to provide some advice for understanding customers' risk profile and suggesting suitable products for meeting their financial goals.

Removing the exemption for advice will adversely affect investors. The proposals if implemented would force a considerable proportion of the distributor community, to mandatorily mis-sell or sell blindly as they are no

allowed to meet suitability requirements by law.

Additionally, distributors may be unable to meet the eligibility criteria required for registration and would opt to give up their advisory role to avoid falling within the scope of the IA Regulations or being subject to its compliance requirements. This will lead to large amount of disservice to existing investors who will be orphaned on handholding in their portfolio; and also new investors will not be brought to the Industry. The existing assets of the Industry will also be at risk since they can go in other alternate non suitable and non regulated products. Finally, investors may take irrational decisions given lack of advice.

As a result, they would not be under any obligation to recommend suitable products as per the client's risk appetite. A regulatory requirement to push unsuitable products will be the unintended consequence of this proposal.

Given that mutual funds are still a push product, the role of distributors is critical for ensuring penetration of the mutual fund industry, especially in B 15 towns. It would become extremely difficult for a distributor to distribute mutual fund products and allay the perceived high risk of investing in mutual funds, without actually explaining the benefit of such products responding to clients' queries and providing advice as a means of fulfilling client's suitability needs.

Rarely does a client approach an advisor for investment in mutual funds and is usually satisfied using a distributor under a regular plan. Investment advisers usually cater to more sophisticated investors like HNIs, corporate and institutions. As discussed in the first query, India is not yet ready for a pure advisory model (not being viable as a stand alone business) and mandating a clear advisory model will ensure that even the existing advisors would deregister. Perhaps this may be relooked at later, when such advisory business does become viable.

Further, the proposal is contrary to SEBI's circular dated August 22, 2011 which requires distributors to perform risk profiling and comply with the requirement of appropriateness of the product. A product appropriate for an upper middle class salaried person may be wholly unsuitable to a lower income person with a small shop. Thus a distributor is obligated to sell only the right product after understanding the client's profile, including finding

			<p>out age, family, income stream, goals etc.</p> <p>There are adequate measures already in place to regulate different aspects of functioning of the mutual fund industry, including measures to check conflict of interest or adequate disclosures.</p> <p>Further, the purpose of the proposal would be defeated. The Consultation Paper wants distributors to get registered as IAs if they want to provide advisory services, in addition to their distribution business. However, under the IA Regulations, only corporate entities registered as investment advisers can offer execution or distribution services, and IAs can take fees only from the client and no other source. Individual IAs cannot be engaged in distribution/execution business. In such a case, individual distributors who are now receiving commission from fund houses, distribution and advisory related fees from clients would only be permitted to receive advisory fees. This will cause many smaller individuals to stop functioning. Even those willing to create two legal entities would not be avoiding conflict of interest but rather provide cover for naked conflict of interest in the name of a corporate veil (which may not be lifted except where fraud is involved).</p>
7	2 (ii) – Distributors to offer suitable schemes out of all schemes distributed by them.	This is a welcome re-affirmation of the presently applicable provisions. However, distributors must be permitted to continue rendering advice.	Same as rationale in serial no. 5 and 6 above.
	2 (iii) – Distributors not to offer financial planning which requires risk profiling, financial goal setting, etc.	Distributors must be permitted to continue rendering advice, and as a part of this, must also undertake basic risk profiling and	<p>Basic risk profiling and financial goal setting will ensure suitability of product and prevent mis-buying of products thereby preventing disservice to the investors.</p> <p>We believe that the essence of advice is very important for any financial distribution activity, lest the product may have harmful effects on the investor.</p>

		<p>financial goal setting.</p>	<p>Further, regulatory norms make it mandatory for distributors to sell only appropriate products after conducting the requisite process for assessing suitability of the products to the client’s age, profile, pension aim and risk profile.</p> <p>A product appropriate for an upper middle class salaried person may be wholly unsuitable to a lower income person with a small shop. Pursuant to SEBI’s circular dated August 22, 2011, distributors are duty bound to sell only suitable products to clients after a detailed profiling and assessment of the income, expenditure, wealth and risk appetite, retirement plan, time horizon for investments, taxation, goals etc. Removal of the advisory element would not only unreasonably limit the role of distributors but also expose investors to investments in unsuitable products. If distributors are not permitted to provide investment advice, as an activity necessarily associated with their distribution function, they may sell products without a check on the investor’s risk profile. This move is clearly harmful to investors as the proposed regulation is reducing the obligations and level of service of the distributor.</p>
9	<p>2 (iv) – Distributors to use nomenclature of “Mutual Fund Distributor” as opposed to “financial advisor” or “independent financial advisor”.</p>	<p>Distributors should continue to be allowed to use the name ‘independent financial adviser’, ‘financial advisor’ or ‘wealth adviser’ without registration as investment advisor.</p>	<p>There is already a requirement under the IA Regulations for a registered IFA to use the term ‘investment adviser’ in its name or correspondences with clients, depending on whether it is a corporate entity or an individual. The term IFA has been used over the last several decades by the industry and investors are aware of the term. Forcing the industry to change the nomenclature would create some confusion in mind of investor – as to whether the service he is going to be offered will be different. Refer Annexure III point vi</p> <p>Further, in entities such as banks, the Relationship Manager provides various other services including banking, payments, loans, FX, etc. They also</p>

			distribute MFs to help meet the client's investment requirements. Hence where the individual provides multiple services, it would be incorrect to only use the nomenclature 'mutual fund distributor'.
1 0	2 (v) – Distributors to refrain from mis-selling of mutual fund schemes and strict enforcement and supervision in this regard.	These proposals are appropriate and strict action must be taken in the event of mis-selling.	Strict enforcement of the already applicable norms will go a long way in ensuring mitigation of fraudulent mis-selling.
1 1	2 (vi) – Additional disclosures by distributors: a. list of mutual funds distributed. b. commission earned/ to be earned. c. suitability of product sold. d. disclaimer that the distributor may not be acting in the best interest of the investor.	We are agreeable to all the proposed disclosures except the second and fourth one. The fourth disclosure is completely uncalled for given the role being played by Distribution currently and in past Disclosures before each and every investment means for every transaction is uncalled for	Commission is already being disclosed on AMFI Website is also being disclosed on Individual AMC Websites. Moreover Commission is being regularly disclosed on a six-monthly basis in the CAS at a scheme/ folio level. Transaction wise disclosure might create a logistics nightmare for distributors for the transactions done on BSE/NSE kind of platforms. . It is incorrect to state that the distributor may not be acting in the best interest of the investor. The purpose behind rendering advice and ensuring suitability of products is to ensure that the investor's interest is given precedence and is protected. Further, requiring a distributor to include a disclaimer that the distributor may not be acting in the client's best interests is defamatory to the professionals who act as distributors and has to be appropriately redrafted No distributor would want to continue as a distributor if such a disclaimer is required which incites distrust between investors and the distributor.
1	2 (vii) – Trail	Distribution/	As above.

2	commission for products already distributed by advisers and no further distribution.	execution activities must be permitted through SIDDs and such SIDDs must be allowed to continue receiving trail commission.	
1 3	3 (i) – Intermediaries, such as stock brokers and portfolio managers, giving investment advice to their clients incidental to their primary activity shall need to register with SEBI as an investment adviser. On registration, they shall not be allowed to provide any distribution/ execution services.	Intermediaries, such as stock brokers and portfolio managers, giving investment advice to their clients incidental to their primary activity, should continue to be exempted from registering as an investment adviser under the IA Regulations.	SEBI registered intermediaries such as stock brokers and portfolio managers would be providing advice to their broking and portfolio management clients, respectively, as an auxiliary service to their primary activity. These intermediaries are already subject to eligibility requirements under the applicable regulations and are even required to comply with the obligations and responsibilities under Chapter III of the IA Regulations. There is no necessity for such persons to be registered under the IA Regulations as there are sufficient safeguards to ensure mitigation of conflicts of interest. The purpose of regulation is not to create multiple paperwork and multiple registrations of the same entity, specially where the code of conduct is made applicable to such other services. The regulatory goal will be adequately met if the substantial requirements of the IA regulations are met for all players.
1	3 (ii) –	Advice must	Same as rationale in serial no. 4 above.

4	Registration requirement for those providing holistic advice/ financial planning.	necessarily be holistic to be in investor interest.	
1 5	4 (i), (ii) and (iii) – Relaxation in registration requirements.	We are agreeable with these proposals.	This is a welcome move as some of the requirements, such as the mandating high net worth, was unnecessary. One requires smart advisors, not necessarily rich advisors. An IIM graduate with no network is likely to provide better advice than a rich shopkeeper with a large network.
1 6	5 – Regulation of ranking of mutual funds.	We are agreeable with these proposals.	If entities undertaking ranking of mutual fund schemes are regulated distributors would be better placed to use such rankings while rendering such advice. Further down the road, this may allow mutual funds to advertise their rankings. Therefore, this is a welcome move.

Annexure III

Supporting Evidence and Data points

I. Role of Distributors in Industry growth

- Have successfully converted savers with negative net returns (post inflation) into investors in Mutual funds.

Month & Year	AuM	Equity AuM
March 2003	INR 0.79 lac crs	0.14 lac crs
March 2017	INR 17.54 lac crs	INR 4.82 lac crs

Source: Industry websites

- Industry has grown significantly with the contribution from Distributors in bring a large amount of financial savings in the MF Industry as evident from above data especially retail and individual investors.

Date	Number of SIPs	Monthly value of SIPs
March 2010	23.27 lacs	INR 498 crs
March 2017	145 lacs	INR 4,744 crs

Source: AMFIINDIA

- In last 7 years input-value of SIP has grown from 498 crores to 4,744 crores a phenomenal growth which clearly states the quality work done by distributors
- Distributors also handle the customers in good and bad times of the markets besides advising them on what asset class, product class and the funds to invest in.

- Distributors do the entire legwork of getting KYC done for new customers, facilitating subscription, redemption and any customer services related issues sorted out with the AMC.
- To get investors in the Mutual funds, they have to convince them on product superiority, work on the customers goals, plans, risk profiling and eventually asset allocation based on suitability analysis. Many surveys and research have proven that without a Distributor investors would not have considered meeting financial goals.
- Retail investors would become largely under serviced.
- 'AMFI CRISIL Factbook 2017 - Quantum Leap beckons' Distribution suggestions

The geographic composition of the distributor base shows their services are more or less evenly distributed among the eight zones in the country, covering 10,500 places based on PIN code.

The geographic spread benefits investors, of course, but also generates employment opportunity.

Currently (as on May 31, 2017) the total number of "Feet on Street" in respect of number of mutual fund distributors stood at 190,811 comprising of 81,843 individual mutual fund distributors and 108,968 employees. AMFI sees that this number could potentially go up by five times in the next five years with suitable measures towards distribution expansion.

Clearly, the industry needs distributors to continue playing a big role in creating awareness about the products and boosting off-take, especially in underpenetrated regions. And a quantum leap in

II. Empirical Evidence

a) Canada study

- Last years' research published by the Investment Fund Institute of Canada (November 2015) suggests that investors with advisers (no difference in Canada between IA and distributor) are in a better position. Refer Annexure III. It clearly states that over a 15 year period, investors with advisers have grown their investments 2.7 times more than investors who were on their own.
- The research published by IFIC (Investment Fund Institute of Canada) in October 2015 suggests that investors with advisers (no difference in Canada between IA and distributor) are much better off. The detailed research is given below. It clearly states that over a 15 years period investors with advisers have grown their investments 2.7 times more than investors who were on their own. By disallowing distributors to advice it will be a big disservice to customers. Key highlights:
- Use of Advisor for Purchasing Mutual Funds In 2016, the overwhelming majority of mutual funds – nine out of ten - were purchased through a financial advisor. As recently as 2011, this proportion was eight out of ten. Clearly, purchases of mutual funds on-line or through customer service

representatives have never made significant inroads into the market and are currently just one-half of what they were in 2011.

- Investors would have very limited confidence choosing mutual funds without the help of an advisor. The majority (56%) say they would feel not very confident or not confident at all.
- Investors who used an advisor to purchase a mutual fund have consistently reported that he or she discussed whether that fund suited the investor's objectives. This proportion has not fallen below 85% over the last ten years of tracking and stands at 90% in 2016.

b) FIAI 2014 Survey findings:

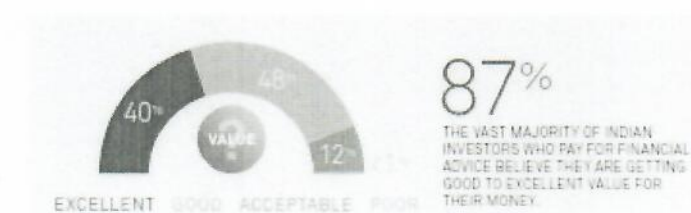
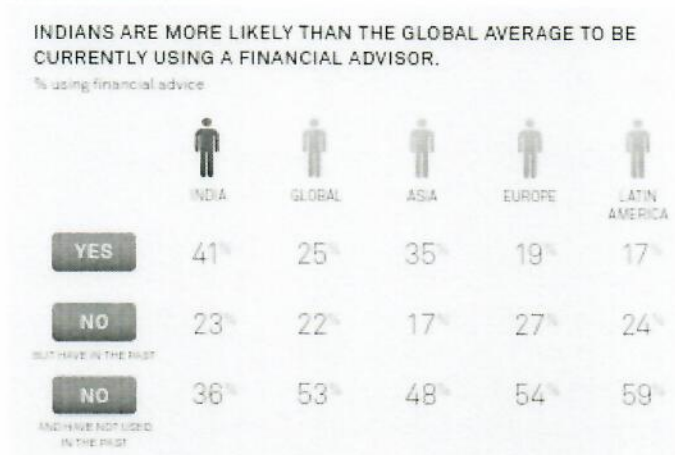
- 86% of the customers are either satisfied or Neutral about their investments in MF
- 62% of customers are in the High satisfaction bucket (4/5) w.r.t. Advisor/Distributor performance. Only 9% of the customers using Advisors/Distributors are not happy

c) FIAI CRISIL 2014 Report:

- The financial distribution industry in India is expected to see tremendous growth in the coming decade as a galloping economy boosts employment and raises incomes, and the much-vaunted demographic dividend drives investments into the capital markets. India is expected to log high GDP growth, which will push up household incomes and savings significantly. This will catalyse household investments of a 'young' nation where the number of households having annual income in excess of Rs 5 lakh is estimated to rise from around 6.24 crore in 2014 to around 12.14 crore by 2020.
- Within the financial products universe, mutual funds have the potential to grow the fastest as investors move away from traditional products and explore market-linked ones for long-term wealth creation. The mutual fund industry has potential to grow at 23% annualised over the next six years to an asset size of Rs 37 lakh crore (\$591.57 billion). This is likely to be supported by distribution channels, which are estimated to grow at around the same pace. The pace will be aided by an increase in penetration in order to meet the financial aspirations of the rising middle-class as well as capital market performance. Banks, both private and PSUs, are in a sweet spot to capture the large middle class population across geographies. Independent financial advisors (IFAs) and national distributors (NDs) through technology-enabled sub-broker models are expected to expand their reach and presence in the B-15 cities (non-metros) to capture the biggest chunk of this growth opportunity.

d) DSP BR Investor Survey 2015:

- Financial advice in India is widespread. 41% currently use the services of a financial advisor—much higher than the global average of 25%—and a significant proportion (23%) have used a financial advisor in the past but no longer do so. The relationship many have with their financial advisor is an ongoing one—54% speak to their financial advisor on a regular basis. Reliance on financial advisors is higher than the global average—a large proportion say they rely on their financial advisor for all of their investment decisions (39%). Satisfaction levels are also high—more than half (55%) are very satisfied with the service they receive. They are also willing to pay for it: 78% of Indians who use a financial advisor say that they are charged a fee for either the advice or the transaction.



e) Natixis Survey

- Natixis’s latest survey says Advisors in developed countries believe that fee based advisory model will left retail investors unadvised. The Natixis’s latest survey says that eight out of 10 advisors believe that the fee based advisory model could limit access to financial advice for clients with low-ticket size. Natixis is a France-based asset management company.
- Since most of the developed nations are mulling over the implementation of fee based advisory service, advisors expressed reservations about the implications of these regulations for individual investors. “More stringent

regulations could limit access to financial advice for lower balance and mid-tier clients.”

- Answering to the question, ‘what if the respective regulators do away with commission model to implement fee based model’, seven in 10 advisors say that they will make at least some changes in their business model. Close to 48% advisors feel that they will need to completely change their business model to sustain business growth. While 38% advisors say they will stop dealing with low-ticket size clients, 29% plan to increase the use of passive strategies for such clients. Similarly, 12% advisors say they will outsource a portion of their investment management to comply with the regulations. Surprisingly, 9% of advisors plan to quit advisory business.

III. Distributor Advice alpha analysis highlights:

a) FIAI Distribution Alpha Analysis Report 2016

- Our Distributor alpha analysis study done last year in Oct 2017 focuses on the inflows in top performing funds vs bottom performing funds for the last 3 years period
- Across all fund categories for a 3 years period, the top performing schemes have seen large quantum of positive sales as compared to significant outflows in the bottom performing funds (except on two occasions, there also the proportion was very small)
- For example, in Balanced funds category for the year 2013-14, the top performing 25% funds contributed 341% of total sales (of last three years) as compared to -145 crs outflow in bottom 25% funds
- Another example, in Large cap funds category for the year 2014-15, the top performing 25% funds contributed 208% of total sales (of last three years) as compared to -7233 crs outflow in bottom 25% funds
- Across all categories in the 3 year time horizons in 12 different scenarios the top performing fund sales were much higher in % & absolute terms than bottom performing funds clearly depicting the role of Distributor in choosing best performing & redeeming poorly performing funds

Comparison of top performing funds vs bottom performing funds - Three years comparison										
Fund category	Time period ->	3 year period for 2013-14			3 year period for 2014-15			3 year period for 2015-16		
	Funds based on Returns	No. of funds	Net flows	% contribution	No. of funds	Net flows	% contribution	No. of funds	Net flows	% contribution
Diversified	Top 25 %	37	10415.86		34	21377.06	89%	34	23599.76	64%
	Bottom 25 %	34	-7373.30		34	-2263.92		34	-996.17	
	Total	135	-10077.50		135	24061.29		135	37026.65	
	Funds based on Returns									
Large Cap	Top 25 %	7	2506.79		7	7805.18	208%	7	11518.22	68%
	Bottom 25 %	6	-3667.30		6	-7232.92		6	-316.67	
	Total	25	-12316.48		25	3752.81		25	16865.35	
	Funds based on Returns									
Mid Cap	Top 25 %	9	2210.74	65%	9	7421.28	46%	10	16166.14	70%
	Bottom 25 %	9	-1968.38		9	-1091.70		9	2665.42	12%
	Total	34	3398.39		34	16057.48		34	23112.99	
	Funds based on Returns									
Balanced	Top 25 %	8	2290.06	341%	8	12275.07	55%	8	15415.46	35%
	Bottom 25 %	8	-144.76		7	403.04	2%	8	-630.12	
	Total	32	671.05		32	22288.66		32	44128.83	
	Funds based on Returns									

b) Value of Good advice report - A study by Wealth Forum 2017

- The study measures the value an MF intermediary adds in the financial life of an average Indian saver. That number has been measured as 4.95% p.a. It is the first report in India that showcases to how the MF intermediary can help the average Indian saver enhance his/her returns by upto 80% - if you are allowed to simply do the job, if the tribe of intermediaries is encouraged to grow, and if the quality bar for financial intermediation is raised
- The report tries to answer why clients should think again before switching to direct: 1% savings vs. 4.67% gain

IV. Global Case Studies & context:

a) UK RDR Impact

Impact of UK RDR

1. Guidance Gap

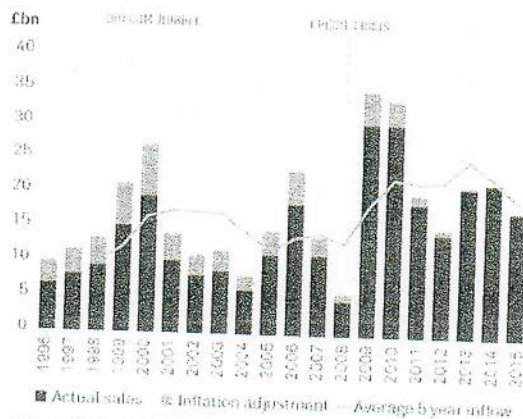
The evidence from the U.K. indicates that rules changes that ban commissions will have the unintended consequence of increasing the "guidance gap".

Professor Andrew Clare of London's Cass Business School has been the principal author the study: "The Guidance Gap"

The study found clear evidence that the RDR would increase the "guidance gap," or the numbers of individuals operating without financial advice but lacking confidence to be do-it-yourself investors. They estimated that 43 million of the 50 million U.K. adults would fall in this guidance gap because of insufficient assets, an unwillingness to pay the level of fees advisors charge and advisors being driven out of the business (higher qualifications, loss of commission charging).

The average 5 year inflow of retail sales has fallen from 2013 till 2015, confirming the lack of confidence among retail investors and suggests existence of the "guidance gap".

NET RETAIL SALES (1996-2015)



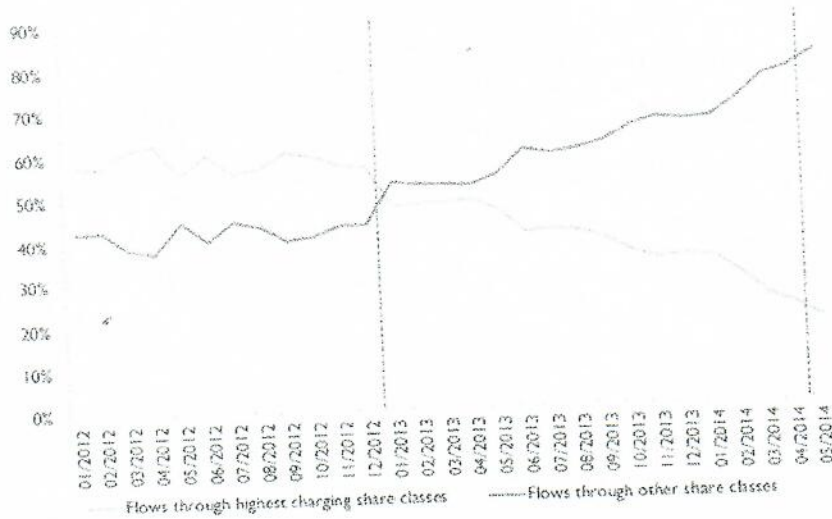
Source: The Investment Association

Thus the author forecast a bifurcation of financial advice in the U.K.

- Upscale clients will receive improved service from a smaller force of better-qualified and less-conflicted advisors.
- But an unintended consequence of RDR will be that the guidance gap will expand to 85% of the adult population.

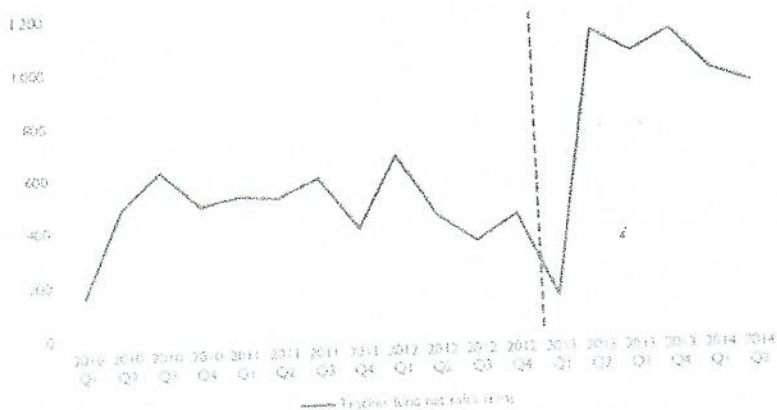
2. Change of Product Mix

RDR was successful in achieving the objective of eliminating bias towards investments with higher commissions. The gross retail flows through highest-charging class shares declined significantly after the RDR implementation.



Source: The Investment Association

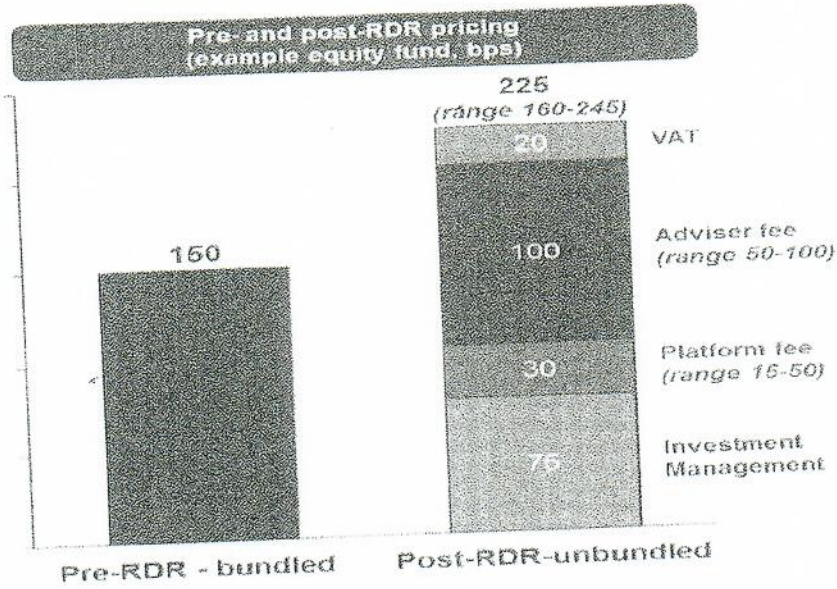
But it did impact the product mix of product manufacturers. The low expense tracker funds sales took off after RDR implementation. Even though the overall AUMs grew, but margins came under pressure due to changing mix.



Source: The Investment Association

3. Cost

Unbundling may not reduce costs at all.



Source: M&G Investments.

b) India MF under penetration data

POOR SHOW

MF penetration in India remains abysmally low

Country	AUM to GDP ratio (%)
Australia	114
US	91
France	70
Switzerland	63
Canada	53
UK	51
Germany	49
Brazil	38
Japan	30
Korea	23
China	11
Taiwan	11
Mexico	9
India	7

Sources: EFAMA, Oxford Economics, EY.
Data is for 2015

V. Objectives and Principles of Securities Regulation, IOSCO:

Principle No. 23: Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.

Information about Customers: A firm should seek from its customers any information about their circumstances and investment objectives relevant to the services to be provided. Policies and procedures should be established which ensure the integrity, security, availability, reliability and thoroughness of all information, including documentation and electronically stored data, relevant to the firm's business operations. Where the activities of an intermediary extend to the giving of specific advice, it is of particular importance that the advice be given upon a proper understanding of the needs and circumstances of the customer: a matter generally encompassed in the rule of conduct that the intermediary must "know your client."

VI. Definition of Independent Financial Adviser (IFA)

Independent Financial Advisers or IFAs are professionals who offer independent advice on financial matters to their clients and recommend suitable financial products from the *whole of the market*. The term was developed to reflect a United Kingdom (UK) regulatory position and has a specific UK meaning, although it has been adopted in other parts of the world, such as Hong Kong.

The term "Independent Financial Adviser" was coined to describe the advisers working independently for their clients rather than representing an insurance company, bank or bancassurer. At the time (1988) the UK government was introducing the polarisation regime which forced advisers to either be tied to a single insurer or product provider or to be an independent practitioner. The term is commonly used in the United Kingdom where IFAs are regulated by the Financial Conduct Authority (FCA) and must meet strict qualification and competence requirements.

Typically an Independent Financial Adviser will conduct a detailed survey of a client's financial position, preferences and objectives; this is sometimes known as a 'factfind'. The adviser will then recommend appropriate action to meet the client's objectives; and if necessary recommend a suitable financial product to match the client's needs.

Individuals and businesses consult IFAs on many matters including investment, retirement planning, insurance, protection and mortgages (or other loans). IFAs also advise on some tax and legal matters.



Contact details:

United Forum

Office Address: 16A, 16th floor, Nirmal Building,
Nariman Point, Mumbai 400021

Email id: unitedforumindia@gmail.com