

SEBI releases Consultation Paper on Review of Regulatory Framework for Investment Advisers (IA)

SEBI constituted a Working Group to examine the model of client level segregation of advisory and distribution activities, highlight the risks in the model and mitigating factors for each risk and review of Investment Advisers (IA) Regulations. The Working group has released a consultation Paper including the below mentioned issues and proposals related to IAs. The proposals provided are intended to strengthen the regulatory framework for IA as well as empower the IA to effectively discharge their responsibilities towards the investors who are the clients of IA.

- **Issue:** Client Level Segregation of Advisory & Distribution Activities

Proposal: There should be clear segregation between the two services provided to the client i.e. investment advice and distribution of the investment products. For non-individual entities it is proposed to have client level segregation at a group level i.e. the same client cannot be accepted for offering both advisory and distribution services within the group of the non-individual entity. A client can either be an advisory client where no distributor consideration is received at the group level or distribution services client where no advisory fee can be collected from the client at the group level.

Further, for Investment Advisers who are individuals, to have a level playing field, it is proposed that individuals may also be allowed to provide both IA services and

distribution services provided client level segregation is adhered to. To enable IAs to distribute, they may obtain appropriate distribution registration. To address the issue of conflict of interest, a client can either be an advisory client where no distributor consideration is received at the family level or distribution services client where no advisory fee can be collected from the client at the family level, where "family" shall include individual, spouse, dependent children and dependent parents.

- **Issue:** Implementation of Advice (Execution)

Proposal: Implementation services in securities market maybe allowed to IAs. However, IAs shall ensure that while providing implementation services to the advisory clients, no consideration (including any embedded/indirect/in kind commission or referral fees by any name) is received directly or indirectly at IAs group/family level. IA shall provide implementation services to its advisory clients only through direct schemes/direct code in the securities market

- **Issue:** Terms and Conditions of Investment Advisory Services

Proposal: IAs to provide a document to the client detailing the terms and conditions of the investment advisory services offered to the client. IAs shall ensure that neither any investment advice is rendered nor any fee is charged until consent is received from the client on the terms and conditions. Further, the SEBI has proposed minimum mandatory terms that shall be included in the said document.

Along with aforementioned issues, the Consultation Paper also includes other issues and corresponding proposals such as fees, eligibility criteria for IAs, maintenance of record, discontinuation of Continuing Professional Education (CPE) program for validity of the registration as Investment Adviser and compliance audit requirements.

At this background, SEBI has invited comments on the proposals mentioned in the

Consultation Paper. You are requested to send your comments in the following format (if any) at kritika.bhasin@phdcci.in or research@phdcci.in

Name of entity/person/intermediary/organization:			
S. No.	Proposal	Comments/Suggestions	Rationale
	Page No. Para No.		

The detailed Consultation Paper has been enclosed for your kind perusal.

Please contact for any query related to this mail to Ms Kritika Bhasin, Research Officer at kritika.bhasin@phdcci.in with a cc to Dr S P Sharma, Chief Economist at spsharma@phdcci.in and Ms Surbhi Sharma, Associate Economist at surbhi@phdcci.in, PHD Chamber of Commerce & Industry.

Regards,

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