Consultation Paper on Review of Total Expense Ratio charged by Asset Management Companies (AMCs) to unitholders of schemes			
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Category (Whether market intermediary/ participant (mention			Public (CFA Society India)
S. No.	**Para no. in the Consultation Paper**	**Consultation no 1: Comments on Limited purpose membership for AMCs**	**Comments**
1	5.1.2.5 (a)	Whether proposals at paras 5.1.1.9 and 5.1.2.4 are appropriate?	Partially agree

			Total expense ratio charged by AMCs and we believe a strong regulatory framework is a must for the growth of capital market in any country. While the proposals are well intentioned, litrature reviews suggest that interventions on fee structures has not been a policy tool for developed markets. Instead the main catalysts have been tehcnology, innovation and regulatory nudges for end investors to also invest through the capital market. The United States mutual fund space, for example, has had explosive growth. Offerings grew from 68 funds and USD 1bn assets in 1945 to over USD 7tn with 8000 funds in 2019 (Bogle, 2019). The US mutual fund space growth was based on statutes, and various pieces of tax and retirement legislation (Braun, 2020). Specific drivers include the Revenue Act 1936 (allowing mutual funds to pass dividends untaxed), and mainly, retirement legislation: ERISA (1974) "brought riskiness to pension savings", 401(K) DC plans that allowed annual tax-deductible USD 2000 contributions. A complex web of rules makes it difficult for both the end investors and financial specialists too, to understand the rationales fully. In any case, here are specific responses for consideration: Turnover or churn is a part of portfolio strategy, costs associated with churn should be deducted from returns and not included in the expense or TER. Hence, we believe that
		Suggested changes / comments	

		Rationale	The idea of Trustees, investors or the whole investor community to focus on additional costs can be solved by mandating disclosures, so that if there is a sharp increase in brokerage paid, investors or trustees can identify and question. An example of including brokerage paid may not give a true picture of expenses is balanced funds. If we include brokerage in TER balanced funds may move from 30% equity to 60% equity quickly leading to higher churn and resulting higher TER suddenly and if they continue to hold that position, TER can drop again leading to unnecessary volatility in TER without reflecting the true picture.
2	5.1.2.5 (b)	Whether limited purpose membership for AMCs to execute transactions on stock exchange platform, be kept voluntary or mandatory?	Voluntary
		Suggested changes / comments	We believe that this is an operational matter and keeping it voluntary will allow AMCs to move towards it, if it is economically viable depending on various factors. In our view this is a good move, as this will allow AMCs to trade anonymously, letting the pricing be fair and transparent. It also prevents the leakage of trade information, which has been a challenge while trading with intermediaries.

		Rationale	We see that such memberships are already there with platforms such as NDS OM where Mutual funds are directly members and also some of the insititutions trade through banks as associate members.
S. No.	**Para no. in the Consultation Paper**	**Consultation no 2: Additional TER charged to the investors for distribution commission for inflows from B-30 cities**	**Comments**
3	5.1.3.6 (a)	Whether the changes proposed at para 5.1.3.4 are appropriate?	No

			interventions in fee structures are unheard of. As a response to this well meaning proposal, we strongly believe that financial inclusion is a major challenge facing our country. Awareness and literacy, both financial and digital are important. India's mutual fund penetration (AUM-to-GDP) is significantly lower at 15.9% as of March 2022, compared to the world average of 75%; and lower than many developed economies such as the U.S. at 148.9% and the United Kingdom ("U.K.") at 74.8%. Also, as per AMFI data B-30 contributes to only 17% of total MF AUM as of March 2023. We need to take all measures to continue to support and enable distributors, as this is a trust-based industry only with a local presence one can reach investors. If we bring in measures to reduce the distribution expense for B-30, we are making it economically unviable for distributors in B-30 locations to exist and function. We believe that may be the unintented outcome of the proposals here. We believe that (i) and (ii) may be detrimental to increasing penetration of Mutual funds in India.
		Suggested changes / comments	Though we agree with some the measures here, that unnecessary churn just to earn this extra commission is

		Rationale	The rationale is that we need to take all possible measures to promote the financial inclusion so that well regulated investment products i.e. Mutual funds reach the hinterlands and investors do not end up investing in unregulated products due to the lack of availability or distribution presence of Mutual funds in their cities/towns/villages.
4	5.1.3.6 (b)	Whether the payment towards additional distributor commission be made from 1 bps charged to the scheme for investor education and awareness or should it be part of the distribution commission charged to the scheme?	1 bps charged to the scheme for investor education and awareness
		Suggested changes / comments	We need to take all measures to continue to support and enable distributors, as this is a trust-based industry only with a local presence one can reach investors. IEF can be utilised for paying B30 commission and any excess payment can be charged to the scheme.
		Rationale	The rationale is that we need to take all possible measures to promote the financial inclusion so that well regulated investment products i.e. Mutual funds reach the hinterlands and investors do not end up investing in unregulated products due to the lack of availability or distribution presence of Mutual funds in their cities/towns/villages.

5	5.1.3.6 (c)	Should AMCs be mandated to have a policy to pay higher distribution commission for inflows from B-30 cities to promote financial inclusion?	Yes
		Suggested changes / comments	A well defined policy will make management responsible for promoting financial inclusion. AMCs though already have a policy for payment of B30 commissio, so not sure if new policy will help. The max payment is around 2%.
		Rationale	The rationale is that we need to take all possible measures to promote the financial inclusion so that well regulated investment products i.e. Mutual funds reach the hinterlands and investors do not end up investing in unregulated products due to the lack of availability or distribution presence of Mutual funds in their cities/towns/villages.
S. No.	**Para no. in the Consultation Paper**	**Consultation no 3: Additional expenses not exceeding 0.05 per cent of daily net assets due to credit of any exit load to the scheme**	**Comments**
6	5.1.4.5 (a)	Whether the proposal for discontinuing additional charge of 5 bps charged by AMCs for schemes having provision of exit load is appropriate?	Yes

		Suggested changes / comments	As a general background, we refer to literature cited in Consultation 1. As a specific response, we agree: The 5 bps TER can be discontinued and AMCs can be allowed to use the exit load for marketing and distribution expenses
		Rationale	AMCs incur upfront costs for launching, managing and marketing schemes. Exit loads are a form of compensation to AMCs for recovering those costs in case investors exit the scheme before completing twelve months in the scheme. Given India.s low financial inclusion rates as well as that the smaller AMCs are making losses and to encourage new AMCs to enter the industry, the provision for charging 5 bps as additional TER should be continued. If existing investors should not be penalised for the same, the exit load should be allowed to be paid to the AMC for utilisation for marketing and distribution expenses of that scheme.
7	5.1.4.5 (b)	Any other comment on the proposal?	
		Comments	
		Rationale	

S. No.	**Para no. in the Consultation Paper**	**Consultation no 4: Goods and Service Tax (GST) on Investment and Advisory Fees**	**Comments**
8	5.1.5.4 (a)	Whether the proposal at para 5.1.5.2 is appropriate?	Yes

		Suggested changes / comments	We would suggest that TERs should also include Investor STT charges so as to capture all the expenses. There is merit to the principle that the client needs to be aware that the GST is a statutory tax that they need to pay. We favor explicit charges with proper disclosures.
		Rationale	We believe this will make the TER mentioned inclusive of taxes which will give a much clearer picture of costs to investors
9	5.1.5.4 (b)	Any other comment on treatment of GST on investment and advisory fees?	We believe that this change needs to be future proof so that the TER caps automatically increase or decrease if the GST rates are changes by the Finance Ministry.
		Comments	
		Rationale	The rationale is to make sure that change in tax corresponds to change in allowed expenses to investors, so that any change does not lead to impact on AMCs, as that is not the intention of this move.
S. No.	**Para no. in the Consultation Paper**	**Consultation no 5: Review of slab wise TER structure**	**Comments**
10	5.2.6 (a)	Whether the proposal to replace scheme based slab structure with AMC level AUM based slabs is appropriate?	Yes

		Suggested changes / comments	As mentioned in response to consultation 1, there is no literature supporting price controls. As we have seen globally and in India too, technology and innovation are main disruptors for any established competitive order. But if managing competition through regulation is the path that needs to be taken, some of us believe that there is a need to encourage competition among AMCs. The data suggests that the larger AMCs can have good economies of scale while we have seen consolidation or exits among small and mid-sized AMCs as they cannot generate or sustain their profits. There is a need to find a way for larger players to contribute more towards increasing the penetration of MF in India. Logically, this move will allow smaller AMCs that have certain schemes which are performing well, they can charge higher TERs if the performance justifies and use the funds to either increase their reach or invest for future growth. Further, we would request SEBI to find other measures to make the industry viable for more players to come in, as we need more players to further the competitive spirits and also bring in innovations. SEBI can also give some time-bound benefits to encourage new players to come in and grow to viability.

		Rationale	We believe there is a need for us to have more players to join the industry and achieve viability in some years. But, competitive landscape needs to be rethought, capping TERs may not be the only way to do this.
11	5.2.6 (b)	Whether the proposal to segregate slabs based on underlying investment by equity and other than equity products is appropriate?	Yes
		Suggested changes / comments	If the above proposal is to be implemented this may be the right way.
		Rationale	
12	5.2.6 (c)	Any other comment on the proposals made at para 5.2.5?	
		Comments	
		Rationale	

S. No.	**Para no. in the Consultation Paper**	**Consultation no 6: Revised TER limits**	**Comments**
13	5.3.13 (a)	Whether the proposed TER slabs for investment in equity & equity related instruments and for other than equity & equity related instruments is appropriate?	Yes

		Suggested changes / comments	As a general response we draw attention to literature in consultation 1. Here is a specific response. We see that India remains a high cost market and one big problem which remains is that for larger AMCs there is a significant economies of scale which is not being passed to retail investors, so reduction of costs to end investor is important as the market grows. As per our estimate and industry experts view , we believe that the annual expenditure of an AMC in the first five years of operations may be in the range of Rs 25 to 40 crores per annum. Accordingly, the break even AUM for a new AMC will be approx Rs 5000 cos of equity or related assets assuming an AMC rate of 0.75%. Accordingly, we suggest the following slabs: Upto Rs 5,000 cos : 2.75%, Next Rs 2,500 crs : 2.60%, Next Rs 2,500 crs : 2.5%. Thereafter, the slabs can be as per the discussion paper. Further, debt folios have not seen any retail participation and bringing their TERs down considerably may mean that advisors may never sell these schemes. Accordingly, we suggest that retail plans be allowed to be launched in debt schemes which will allow AMCs to market the same to Retail investors. Further, the earlier principle of keeping debt schemes TER lower by 25 bps should be continued and the same can be reviewed once retail AUM in debt schemes is more than 25% of total retail AUM in all schemes. Further, the AUM of overnight as well as liquid schemes should be

		Rationale	and pass on the benefits of economies of scale to end investor. Further, direct plan is best reserved for well healed and risk aware investors taking their own decisions (institutions, hni, or highly financially literate) and distribution plan is for prospects and retail investors who need to be pursued to become financial markets savvy and also help develop market penetration across the country and demography. While, advisor plan best serves the goals for almost all existing investors (including direct plan investors) by getting legitimated unbiased investment advice on product solutions. Also letting direct plan flourish without a competing force would mean that managers could over invest in marketing and branding to “shadow advice” vulnerable investors to buy their schemes under direct. This may not suit the clients risk appetite or overall life investment plan. Hence, market development will be led by investor education funds and distribution, while the advisor plan will ensure that market isn’t abused in connivance by the manufacturer and the distributors (advisors can poach existing investors). The direct plan would act as a hedge against scrupulous distributors as AMCs (manufacturer) can incentivise the client to a lower cost plan. RIAs also are well regulated and incentivised by investors (not by AMCs) to pursue product changes, question

14	5.3.13 (b)	Whether the methodology proposed to arrive at TER for Hybrid and Solution Oriented schemes is appropriate?	Yes
		Suggested changes / comments	
		Rationale	
15	5.3.13 (c)	Whether the glide path for AMCs proposed at para 5.3.12 above is appropriate?	No
		Suggested changes / comments	We disagree with the lowering of TERs so would suggest that SEBI may need to relook on the glidepath. Changes related to B30 should be introduced from the beginning of a new financial year since computation of TER is based on inflows.
		Rationale	
16	5.3.13 (d)	Any other comment on the proposal?	
		Comments	
		Rationale	
S. No.	**Para no. in the Consultation Paper**	**Consultation no 7: Commission/fees paid to distributors**	**Comments**
17	5.4.1.5 (a)	Whether the measures proposed at para 5.4.1.3 are appropriate?	Yes
		Suggested changes / comments	As a general response we cite the literature mentioned in consultation 1. Specific response: Agree.

		Rationale	Agree with idea that considering that the distributors being agents of AMCs should be entitled to remuneration for services rendered only from AMCs
18	5.4.1.5 (b)	Any other comment on the proposal	
		Comments	
		Rationale	

S. No.	Para no. in the Consultation Paper	Consultation no 8: Expense Ratio of Fund of Fund (FoF) Schemes	Comments
19	5.4.2.5 (a)	Whether the measures proposed at para 5.4.2.3 are appropriate?	Partially Agree
		Suggested changes / comments	The proposal to allow higher TER for Fund of Active Funds seems reasonable for FoFs investing in global active funds and active ETFs. It is however advised to cap the overall TER further lower for Fund of Funds investing into underlying global passive ETFs and index funds, considering the significantly lower pricing (for passive ETFs and Index funds) in foreign markets. In USA, there is a distinction between passive (benchmark tracking) ETFs / Index funds and active ETFs (which are like active mutual funds aiming to outperform the BM and are publicly traded). The TERs of FOFs investing in international equities can be included in equity and equity related assets for the purpose of TER.

		Rationale	There is a need to make a distinction between passive and active underlying funds.
20	5.4.2.5 (b)	Any other comment on the proposal?	Yes

		Comments	for offshore funds . UCITs (European Mutual fund regime) which is considered a highly evolved and globally accepted fund regime restricts the ability of any retail UCITs fund from investing its assets into non-UCITs Funds (10% cap on assets into non-UCITs). Why? The purpose is to discourage loss of investment and asset management activity from the home market (EU) to a foreign (non-EU) market, and also have greater control, regulatory oversight, investor protection for the kind of securities that the funds are holding (Feeder and the underlying) In India's case, asset managers are giving up the critical value of the business by investing 100% of the foreign allocation into foreign funds not regulated by SEBI. Impact: 1) a major portion of the TER, employment of investment and research professionals is indirectly delegated upon the underlying foreign fund manager located in foreign jurisdictions. 2) This affects the long term industry competitiveness, and prevents asset managers from building larger global research and investment teams in India, impacts revenues, taxes and AUMs directly managed from India. 3) Consequently, foreign asset managers (not based in India and not registered with SEBI) are encouraged to not take up SEBI MF licenses for retail asset management in India, by

		Rationale	Above changes may incentivise more global professionals to be based in India for managing Indian investor funds, and maybe some foreign asset managers would set up local India operations.
S. No.	**Para no. in the Consultation Paper**	**Consultation no 9: Switch Transactions and Distributor Commission**	**Comments**
21	5.4.3.9 (a)	Whether the measures proposed at para 5.4.3.7 are appropriate?	Partially Agree

		Suggested changes / comments	We agree that mis-selling is a concern but focusing on reducing commissions on switches may not be the way forward, so this change can be implemented for same asset class switches. But, we strongly believe that if such measure needs to be implemented, this should be for when switch happens within same asset class schemes only, otherwise STP from debt to equity or vice versa will get impacted. STP is a great way to invest lumpsum investments of investors to equity in the form of regular investments. Also, given that TERs will move from scheme level to AMC level, then the question of higher and lower commissions to distributors will not arise. Hence, this proposal will not be meaningful if the TER proposals are implemented. Further, investor goals keep changing. They may start investing for a longer duration once they have crossed 35 years of age. At retirement, portfolio re-balancing will be required. And hence it is appropriate that these changes drive investment decisions and distributors should not be calculating their income numbers and get influenced by them before recommending changes to the portfolios.
		Rationale	We agree measures to curb mis selling, but the this move should be limited to only if the switch is within the same asset class.

22	5.4.3.9 (b)	Whether the glide path proposed at para 5.4.3.8 is appropriate?	
		Suggested changes / comments	
		Rationale	
23	5.4.3.9 (c)	Any other suggestions for reduction of churning / mis-selling due to variable trail commission models?	
		Comments	
		Rationale	

S. No.	**Para no. in the Consultation Paper**	**Consultation no 10: Exit Load**	**Comments**
24	5.4.4.4 (a)	Whether the maximum permissible exit load may be reduced from 5% to 2%?	No

		Suggested changes / comments	We again believe that the regulatory cap should be there so as to protect investors, but they should be set higher so that the levels are decided by competition and not regulation. Also, as discussed above, exit load should be given to the AMCs so the max cap should not be reduced. In principle, exit loads promote long-term. The impact on non-exiting clients can vary from scheme to scheme and from amount of redemption. A smaller AUM scheme with a large exit would have a significant effect on clients who wish to continue with the scheme. So, fixing a high number and allowing fund manager and competitive forces decide the eventual load may be the way forward.
		Rationale	
25	5.4.4.4 (b)	Any other comment on the issue of charging exit load?	
		Comments	
		Rationale	

S. No.	Para no. in the Consultation Paper	Consultation no 11: Issue and Redemption expenses of the scheme	Comments
26	5.4.5.8 (a)	Whether the proposed clarifications at paras 5.4.5.2 and 5.4.5.6 are appropriate?	Yes
		Suggested changes / comments	We agree with the proposed changes.

		Rationale	A scheme which is being wound up still needs to be run properly and the AMC will have to continue incurring expenses not only for managing the scheme but also incur additional winding up expenses. Hence all these expenses should be allowed to be charged to the scheme subject to max TER limits
27	5.4.5.8 (b)	Any other comment on the proposed changes?	
		Comments	
		Rationale	
S. No.	**Para no. in the Consultation Paper**	**Consultation no 12: Performance based TER**	**Comments**
28	5.4.6.10 (a)	Whether Mutual Funds should be provided with an option to have schemes with performance based TER?	No

		Suggested changes / comments	While we agree with the proposal to have performance based TERs as this may lead to alignment of interest. However the danger ispromoting short-termism and hedge fund "return" focused culture. It is well known that it is the betas that create wealth. Alpha is conditional and ephemereal. We fear that allowing managers to offer performance-based TER schemes may create an unhealthy “hedge-fund” mentality among all stakeholders – across and within AMCs, among distributors and mainly the end investor (who will go on a completely mistaken and risky mission of “performance” hunting), We need to make sure that the performance against benchmark is compared over a reasonable duration as per the asset class. For example, equity funds cannot be expected to outperform every year, the aim should be to outperform over a long term, otherwise it will defeat the purpose. Further, we believe that as this is a new interesting introduction in the indursty it can be launched only for Accredited Investors first. This will help serve dual purpose, sophisticated investors will be able to understand the complexity and also, may be help the industry improve the mechanism by asking the right questions.

		Rationale	This could lead to some alignment of interest but the biggest danger is performance hunting (for all stakeholders).
29	5.4.6.10 (b)	If yes, should it be allowed on a voluntary basis or made mandatory?	Voluntary
		Suggested changes / comments	We would again say that competition in Industry should decide this instead of regulation.
		Rationale	
30	5.4.6.10 (c)	If yes, which of abovementioned approaches (A or B) should be adopted?	Approach B
		Suggested changes / comments	The investor should not get sudden surprises at the time of redemption. Approach B is more conservative so better.
		Rationale	
31	5.4.6.10 (d)	Any other comment regarding Performance based TER?	
		Comments	
		Rationale	
S. No.	**Para no. in the Consultation Paper**	**Consultation no 13: Financial inclusion of women in Mutual Fund space**	**Comments**

32	5.4.7.4 (a)	Whether additional incentive should be introduced for encouraging financial inclusion of women investors in Mutual Funds?	Yes
		Suggested changes / comments	We believe that there is a need for gender inclusion in the Mutual Fund space. But, we would like to highlight that Incentivizing distributors for getting investors based on “gender” is well-meaning but this would not address two real problems: awareness and empowerment. Literature suggests that once awareness is in place, empowerment follows. Given this, we recommend putting in place incentives and targets for women-only investor awareness programs.
		Rationale	
33	5.4.7.4 (b)	If yes, are the proposed measures appropriate?	
		Suggested changes / comments	
		Rationale	
34	5.4.7.4 (c)	Any other suggestions for encouraging financial inclusion of women investors in Mutual Funds?	Targeted campaigns for women investors.
		Suggestions	

		Rationale	
35	5.4.7.4 (d)	Whether the glide path proposed at para 5.4.7.3 is appropriate?	
		Suggested changes / comments	
		Rationale	
S. No.	**Para no. in the Consultation Paper**	**Consultation no 14: Increase in Total Expense Ratio of locked-in and quasi locked-in schemes**	**Comments**
36	5.4.8.6 (a)	Whether investor should be provided exit without exit load on increase in TER by AMC?	Partially Agree
		Suggested changes / comments	We believe that some of the schemes may have regular changes in TERs basis the costs but so it will become too cumbersome and counterproductive for giving exit window without exit load. We would suggest that this measure only become available in case the TER changes by more than a certain Bps. For example, this option of exit window without exit load, become available if TER changes by 25 bps.
		Rationale	

37	5.4.8.6 (b)	Whether the proposal of grandfathering of existing investments in locked-in/quasi locked-in schemes on increase in TER rate is appropriate?	No
		Suggested changes / comments	Again, this becomes applicable if the change in TER is above a threshold. This will also be difficult to implement. Old investors to be charged a different TER and new investors a different TER. This will require the introduction of new plans which will make administration quite complicated
		Rationale	
38	5.4.8.6 (c)	Any other comment on the proposal?	
		Comments	
		Rationale	
S. No.	**Para no. in the Consultation Paper**	**Consultation no 15: TER of Regular and Direct plans**	**Comments**
39	5.4.9.5 (a)	Whether the proposal of uniformity in charging of each and every expense to the investor of regular plan and direct plan (other than distribution commission) is appropriate?	No

			are higher for AMCs compared to clients in Regular Plans since intermediaries play a large role in acquiring and servicing clients. To this extent, the AMC is paying for the same in terms of commission paid to the intermediary. Since there is no intermediary involved in the Direct Plan, the AMC has to market schemes to direct clients as well as service them and hence the expenses related to such acquisition and servicing should be allowed to be charged to the Direct Plan. To that extent the difference in the TERs of the two plans will be lesser than the commission cost of the Regular Plans. Further, we believe that direct plan is best reserved for well healed and risk aware investors taking their own decisions (institutions, hni, or highly financially literate) and distribution plan is for prospects and retail investors who need to be pursued to become financial markets savvy and also help develop market penetration across the country and demography We would recommend introduction of advisor plan best serves the goals for almost all existing investors (including direct plan investors) by getting legitimated unbiased investment advice on product solutions. Also letting direct plan flourish without a competing force would mean that managers could over-invest in marketing and branding to “shadow advice” vulnerable investors to buy their schemes under direct. This may not suit the clients risk appetite or
		Suggested changes / comments	

		Rationale	
40	5.4.9.5 (b)	Any other comment on the proposal?	Additionally, we believe that AMCs should be allowed to charge some expense extra for direct funds, which they can use to promote Advisors or RIAs. We believe there is a need to give filip to the whole Advisor landscape, which can provide unbiased advisory to clients. There may be a case of using these funds to run campaigns such as "Advisor jaroori hai"
		Comments	
		Rationale	