To,

06 November , 2023

Securities and Exchange Board of India
Via email to: mf_comments@sebi.gov.in

Sub: Suggestions to working group on SEBI (Mutual Funds) Regulations, 1996

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our suggestions to the **working group on SEBI (Mutual Funds) Regulations, 1996**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 6000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 170,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policymakers, financial services professionals, and their customers in order to align their interests. Our members engage with regulators in all major markets.

The recommendations put forth in our response below are with the view to not only simplify, ease, and reduce cost of compliance within the Mutual fund industry but also deepen and promote the growth of the MF industry.

We would be happy to hear and discuss the merits/demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

A. Details of our Organisation:

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C. Suggestions / Comments:

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Category: Association of Investment Professionals

Sr. No.	Name of Regulation	Regulation No.	Suggestion	Rationale
1.	SEBI (Mutual Funds) Regulations, 1996	58. Periodic and continual disclosures 59. Half-yearly Disclosures 60. Disclosures to the investors	**Reducing the frequency of portfolio disclosures** - The frequency of disclosures and details to be published has become more than required. • The disclosure of portfolio holdings monthly puts undue scrutiny on the fund manager to focus on short-term and manage the month-end holdings instead of focusing on long-term returns. In fixed income, the trades should be done at a consolidated level and anonymously, not by AMCs. We recommend that SEBI reduce the frequency of portfolio holdings to say quarterly and can say that disclosure of portfolios at higher frequency can start happening on pre-determined triggers on sharp market movement, and liquidity etc., • TER of schemes is required uploaded daily on the MF website. SEBI can do a study to see if unitholders are even accessing /downloading these details from the website. If not, they are already being displayed by AMFI, the need to upload on the MF website can be done away with. • Every time any change of TER happens, even if by a few basis	Fund managers end up de-risking at the month's end to avoid scrutiny. This will ensure that Mutual fund managers' edge is not diluted by constant disclosure of their portfolios and in times of crisis investors are updated more frequently. We recommend this so as ensure that the disclosures are being utilized or not.

			points, MFs needs to inform unitholders. This is operationally cumbersome for MFs. SEBI can set a threshold only above which TER change needs to be communicated to unitholders.	This will help reduce the compliance burden which is not adding value.
2.	SEBI (Mutual Funds) Regulations, 1996	52. Limitation on fees and expenses on issue of schemes	Advertising, marketing, and service expenses of direct clients 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 a direct plan is best reserved for well-healed and risk-aware investors taking their own decisions (institutions, HNI, or highly financially literate) and a 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 the **introduction of advisor plan** best serves the goals for almost all existing investors (including direct plan investors) by getting legitimated unbiased investment	We believe this will help in correct attribution of expenses.

			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 client's risk appetite or overall life investment plan. A mandatory discounted advisor plan (10% - 20% discount to direct) would create the incentives for investors to appoint RIAs and eventually lead to a sizeable industry aum getting advised by Sebi-regulated advisors. • 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. There may be a case of using these funds to run campaigns such as "Advisor jaroori hai"	This would be in investors long term interests, as advisors are better placed to recommend managers and funds vs a distributor (regular plan) or the manufacturer (direct plan) themselves. We believe there is a need to give filip to the whole Advisor landscape, which can provide unbiased advisory to clients.
3.	SEBI (Mutual Funds) Regulations, 1996	Regulation 44(1)] RESTRICTIONS ON INVESTMENTS	• **Allowing currency overlay managers in Mutual funds** – Currency has a huge impact on investing in foreign stocks. SEBI can allow derivatives to hedge the FX exposure due to investing global fund or stocks. • **Cap the non-SEBI regulated scheme exposure through the Fund of Fund (FoF) route –** We	Forex is a big part of macro investing and having currency managers can help mutual funds to participate in that market and express their views more freely. Considering the European best practice, propose to

			would suggest to restrict 100% Fund of Fund Structures 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.	cap the investments in Fund of Funds into non SEBI regulated overseas funds to a maximum of 25% only (as a start and lower this level further), thereby incentivising to solve the above anomalies. The rules could also cap investment into other SEBI regulated structures (AIFs) with some % cap given the complexity and risk of such strategies
4.	SEBI (Mutual Funds) Regulations, 1996	Market Developmental Recommendations	• **Allow custom category** - The classification of schemes was done a few years back and the standardization and simplification that was needed at that time has now been adopted fully. However, due to the rigidity of classification, all schemes within a category end up tracking the same benchmark, and the ability of managers to generate active schemes suffers. We recommend that SEBI should now allow flexibility to open MF schemes under a new category called “Custom category” which can have the highest riskometer, and allow custom benchmarks etc. SEBI can even increase the minimum investment amount for such	This will help MFs to offer more creative and innovative products to investors.

			innovative schemes to say 1 lakh, to protect retail investors. • **Switch from one MF scheme of one AMC to another without being credited to the investor's account –** This will reduce the multiple steps involved for an investor to do the switch. Such a platform can be developed at a central level by CAMS and Kfintech, which can help these funds to move from one AMC to another, without being credited to an investor account. • **Change from regular scheme to direct scheme without being considered a redemption –** We believe a lot of regular MF scheme investment continues, even when the distributor is not offering any services, because the investor does not want tax implication. We believe SEBI can allow investors changing from Regular to direct scheme without the need for redemption., after a certain period i.e. 3 years of investing in scheme.	

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Ravi Gautham, CFA at +91 99021 17087 or at advocacy@iaipirc.org.

Sincerely yours,
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Indian Association of Investment Professionals, Member Society of CFA Institute