



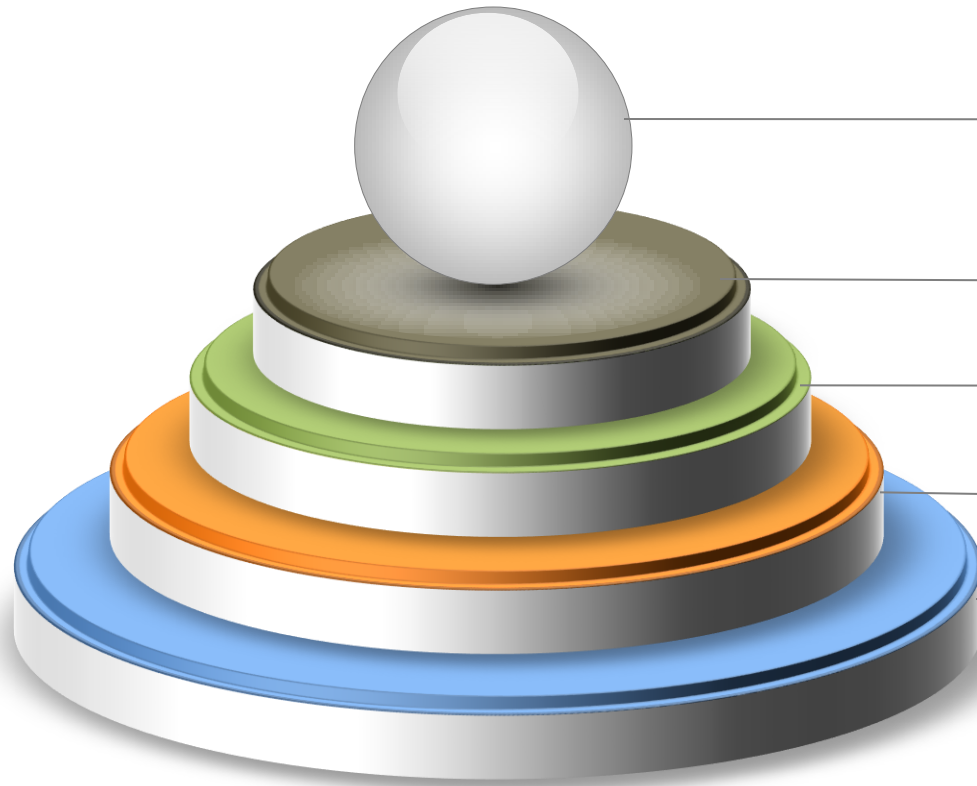
3rd ANNUAL CONFERENCE

FIFA – AN UPDATE





FIFA –AN UPDATE



Genesis & Beliefs

Knowledge Sharing Activities

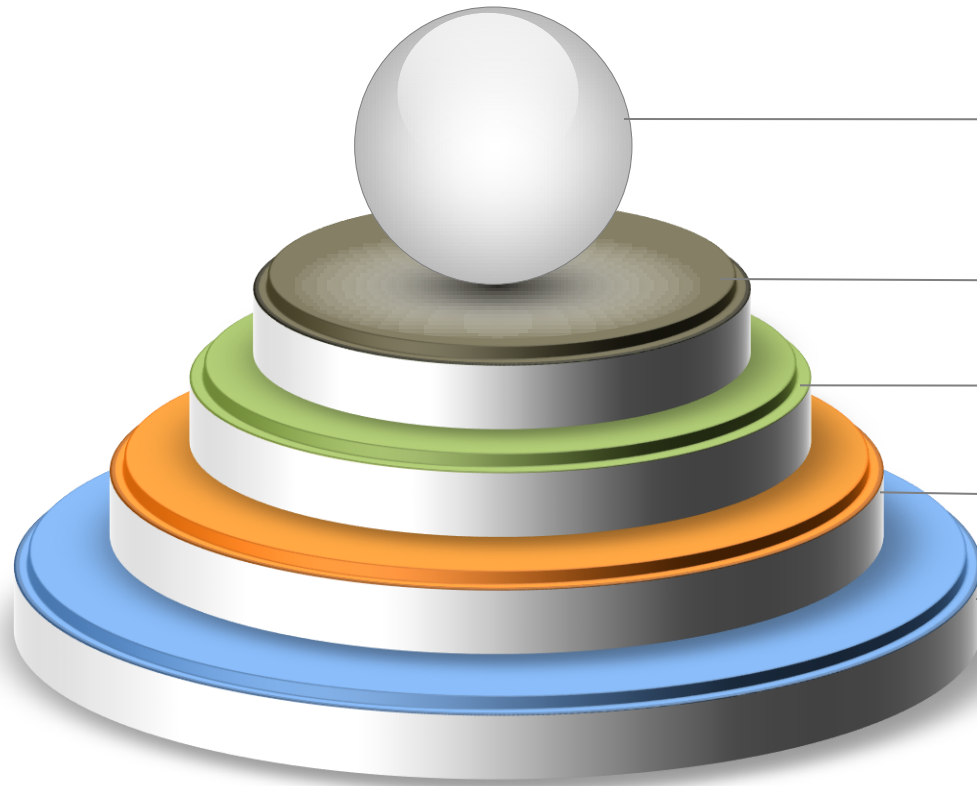
Industry Related Studies

Regulatory Engagements

Membership



FIFA –AN UPDATE



Genesis & Beliefs

Knowledge Sharing Activities

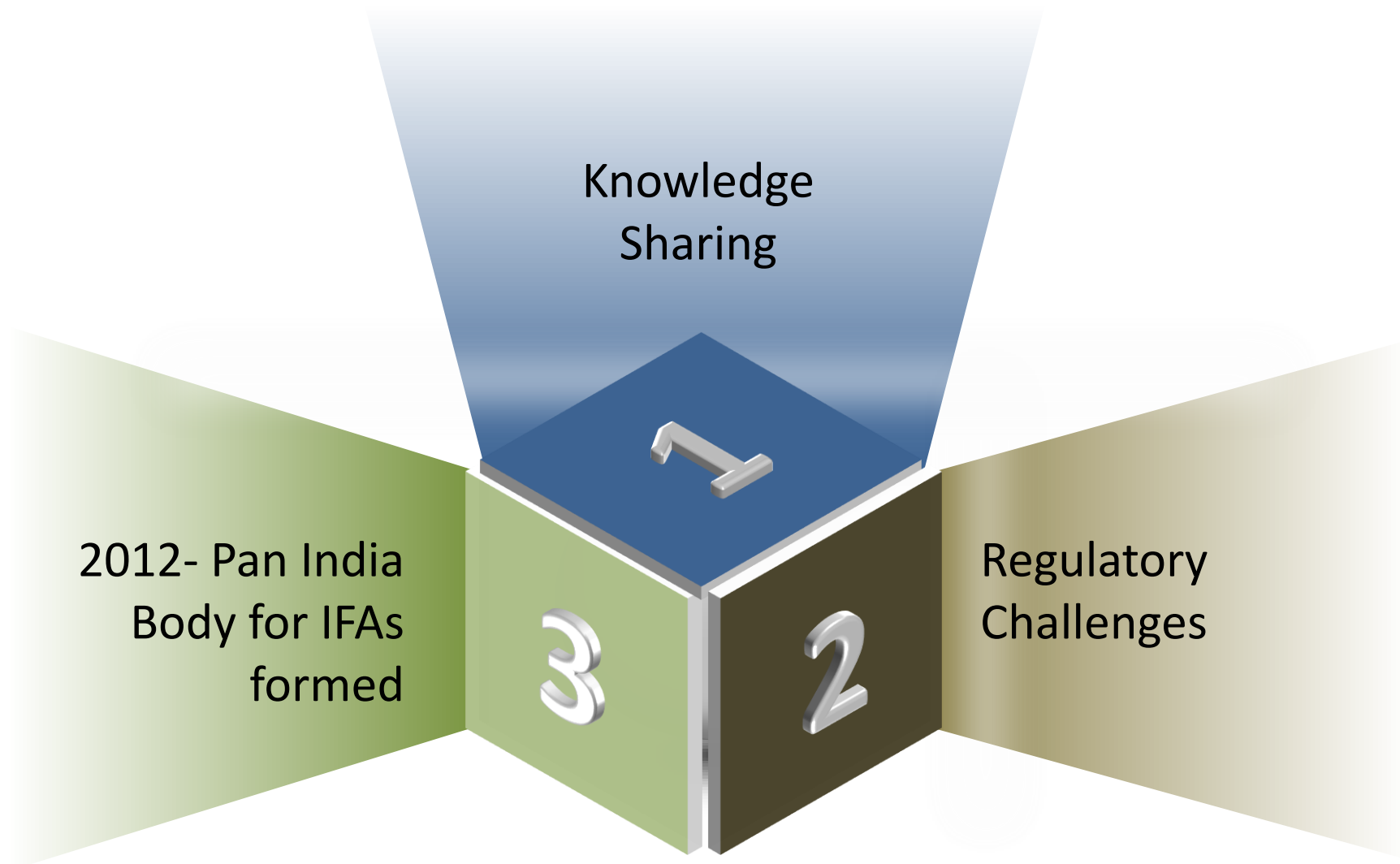
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FIFA - GENESIS





FIFA - Main Objectives

Growth

Add 1,00,000 new IFA's across the country and Reactivate the IFA's who have left the field



Voice of IFAs

Proactively interact with policymakers/regulators to ensure that IFA community's views are considered



Knowledge Sharing

Knowledge Sharing platform to enable members to achieve "Excellence" in their service to Clients



Increase Penetration

Promote financial inclusion and retail penetration



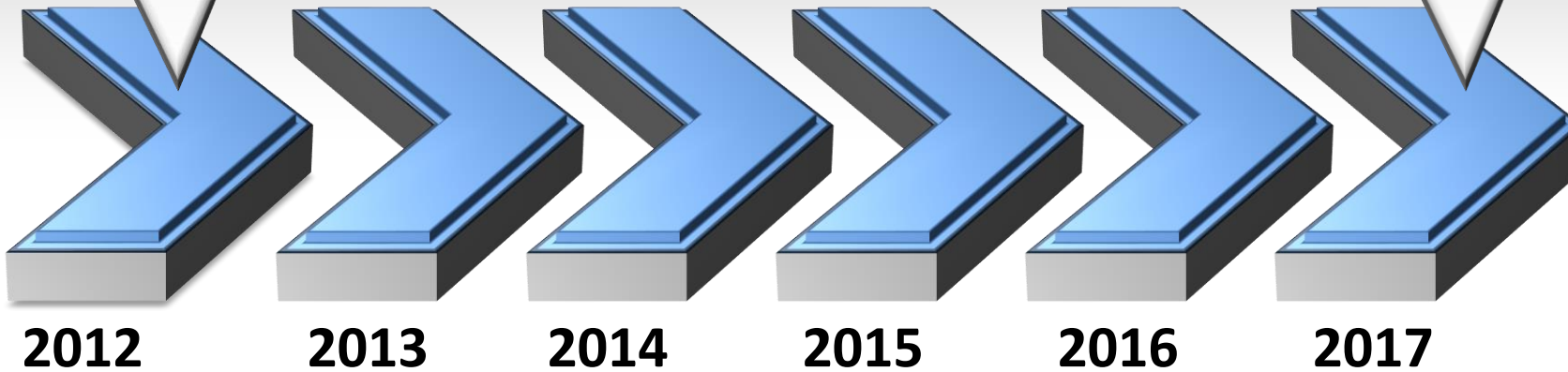
FIFA - INTRODUCTION



Set up as
“not for
profit” orgns
on 15th Feb
2012.



Completed 5
very
eventful
years.





FIFA's Beliefs



Point 1

IFA's are an Indispensable partner in the Journey of wealth creation.

Point 2

Increase abysmally low penetration of mutual funds is a must.

Point 3

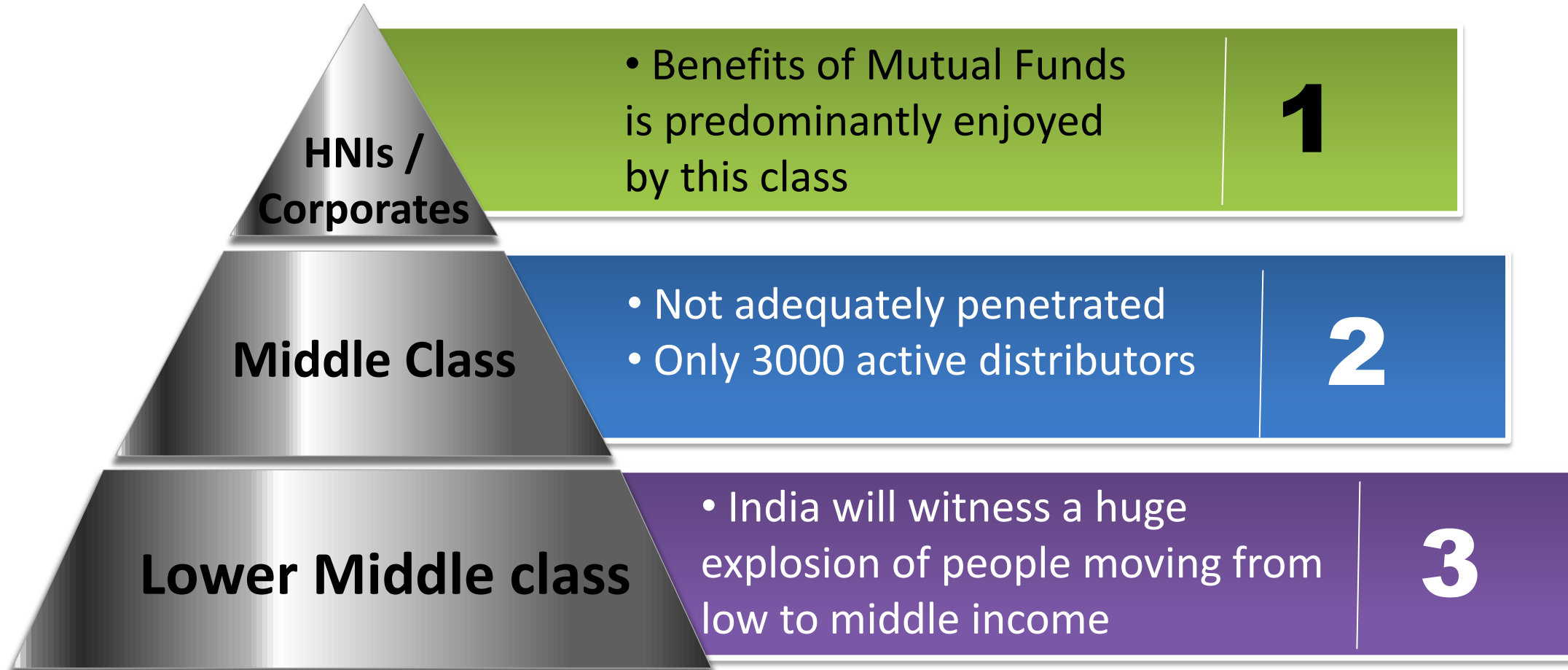
This will not happen without the Growth of IFAs.

Point 4

IFAs will not grow unless they provide Excellence .



FIFA's Beliefs



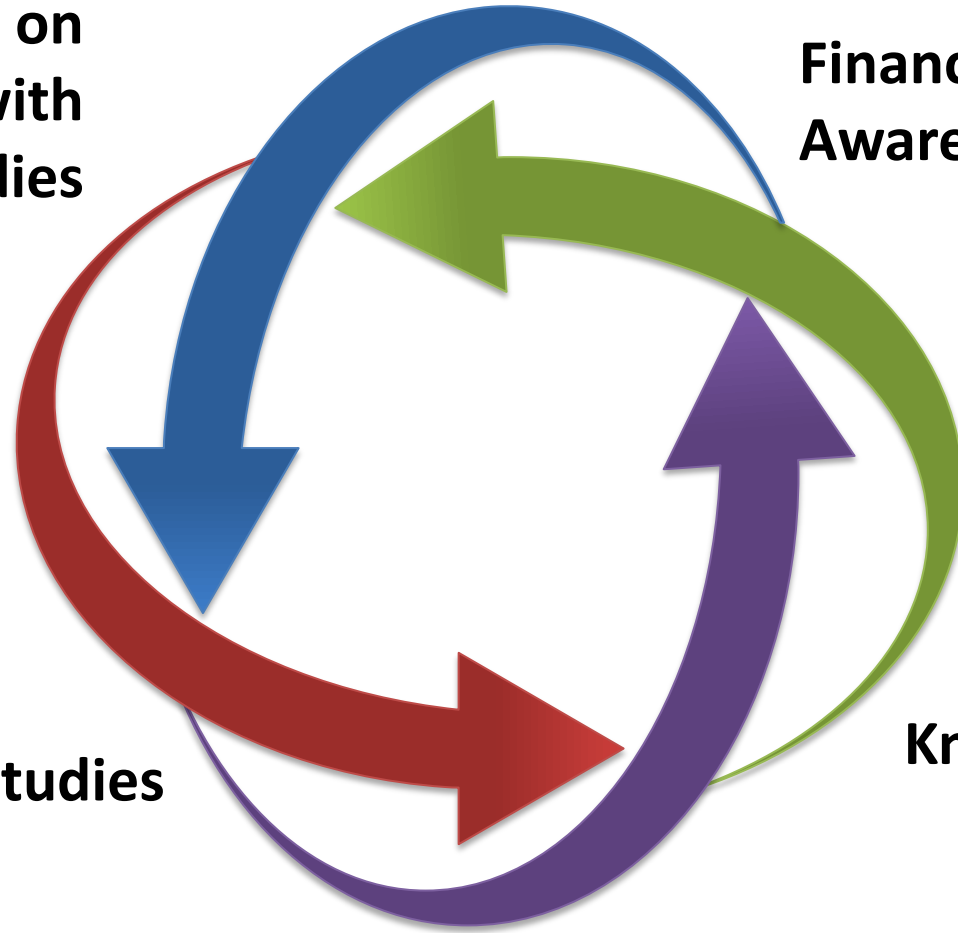
Industry AUM can swell from Rs. 18 lk cr. to 50 lk cr. If there are sufficient advisors



FIFA - Activities

**Regular engagement on
Industry issues with
regulator & other bodies**

**Financial literacy & Investor
Awareness across India**



Industry related studies

Knowledge sharing programs



Financial Literacy & Investor Awareness for Cashless India





Arthik Jana Jagran Abhiyan





KNOWLEDGE SHARING EVENTS

Coimbatore, Ranchi, Jamshedpur and Dhanbad





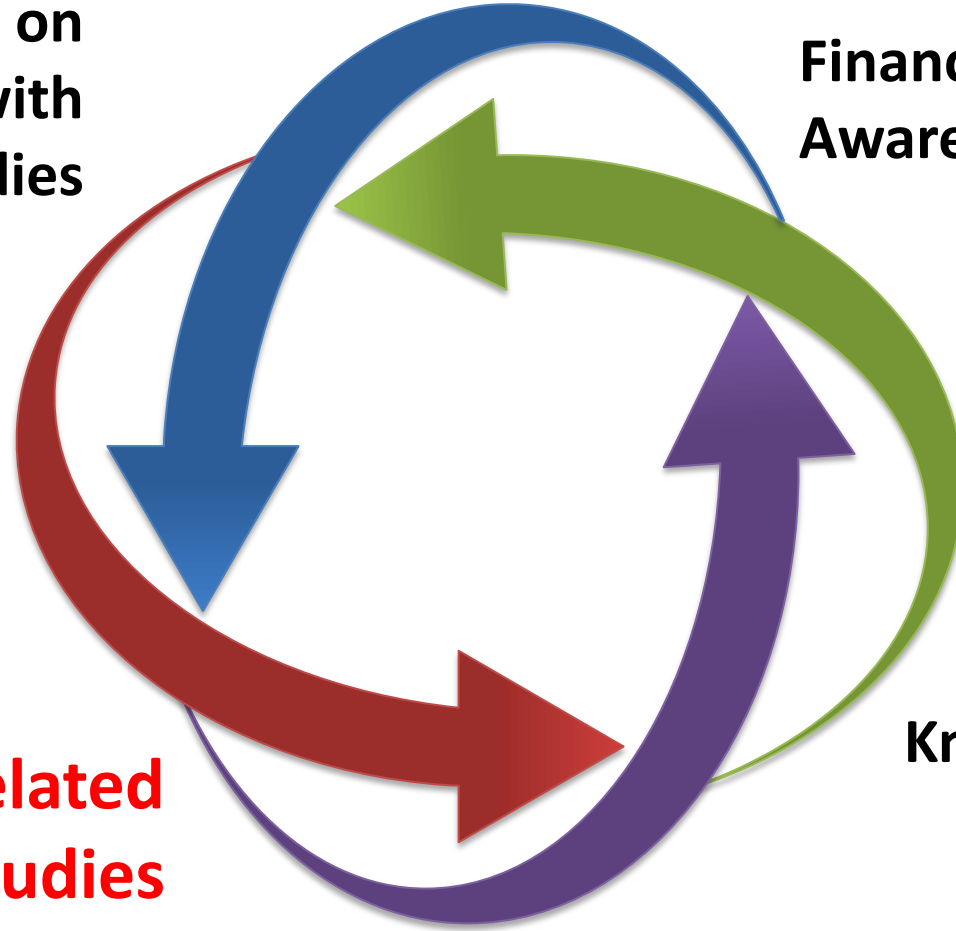
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**Financial literacy & Investor
Awareness across India**

**Industry related
studies**

Knowledge sharing programs





FIFA – INDUSTRY STUDIES



Topic	Period
Study of expense ratio's in India in Global Context and Morningstar 2015 GFIE report	September 2015 - Jun 2016
Study on Investor Behaviour to provide a Roadmap for higher penetration of MF	August 2016 - March 2017



STUDY ON EXPENSE RATIOS FOR MUTUAL FUNDS



FEES IN INDIA AMONG HIGHEST

By [Reena Zachariah](#), ET Bureau | Aug 21, 2015, 04:00 AM IST

SEBI chief expresses concern over high upfront commission, media reports

Sinha says SEBI would hesitate to directly prescribe the commission and would be happy if the industry does it on its own.



Team Cafemutual Mar 19, 2015



Business Standard

Sebi may bring down expense ratio further

Incentives on mobilising assets from small centres could be done away with

Chandan Kishore Kant | Mumbai

June 14, 2016 Last Updated at 22:49 IST

'SEBI wants to cap the TER at 2% in mutual funds'

SEBI is keen to bring down the total expense ratio (TER) of mutual funds from the current 2.85% to 2%, said C. VR. Rajendran, CEO, AMFI at the Cafemutual IFA Event 2016 held in Mumbai recently.



Nishant Patnaik Feb 20, 2016

[Home](#) » [Money](#)

Last Modified: Fri, Jan 22 2016. 03 48 AM IST

Sebi looking to lower expense charges for mutual funds

Cut in expense ratio will help curb frequent launches of new fund offers, which distributors use to earn more commissions

live
mint

27 September 2016 | E-Paper

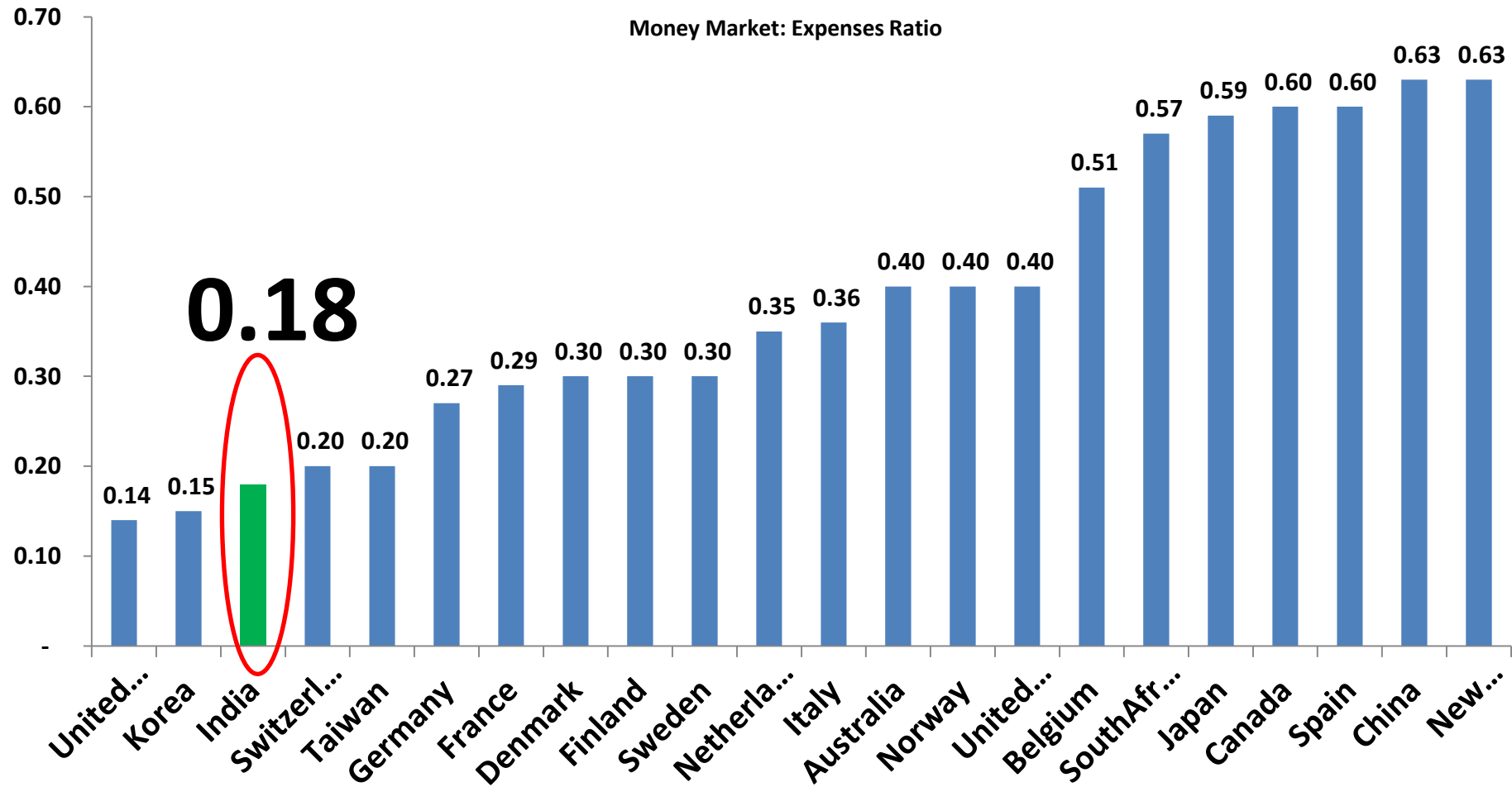


Background

- Mis-perception that expense ratios in India are very high was gaining ground
- SEBI Chairman reportedly made public statements that India is one of the most expensive countries in the world and industry needs to lower costs .
- This was based on the “Global Fund Investor Experience Study ” (GFIE) done by Morningstar and released in June 2015 which had studied expense ratios across 25 countries.
- SEBI was reportedly considering a move to reduce TERs



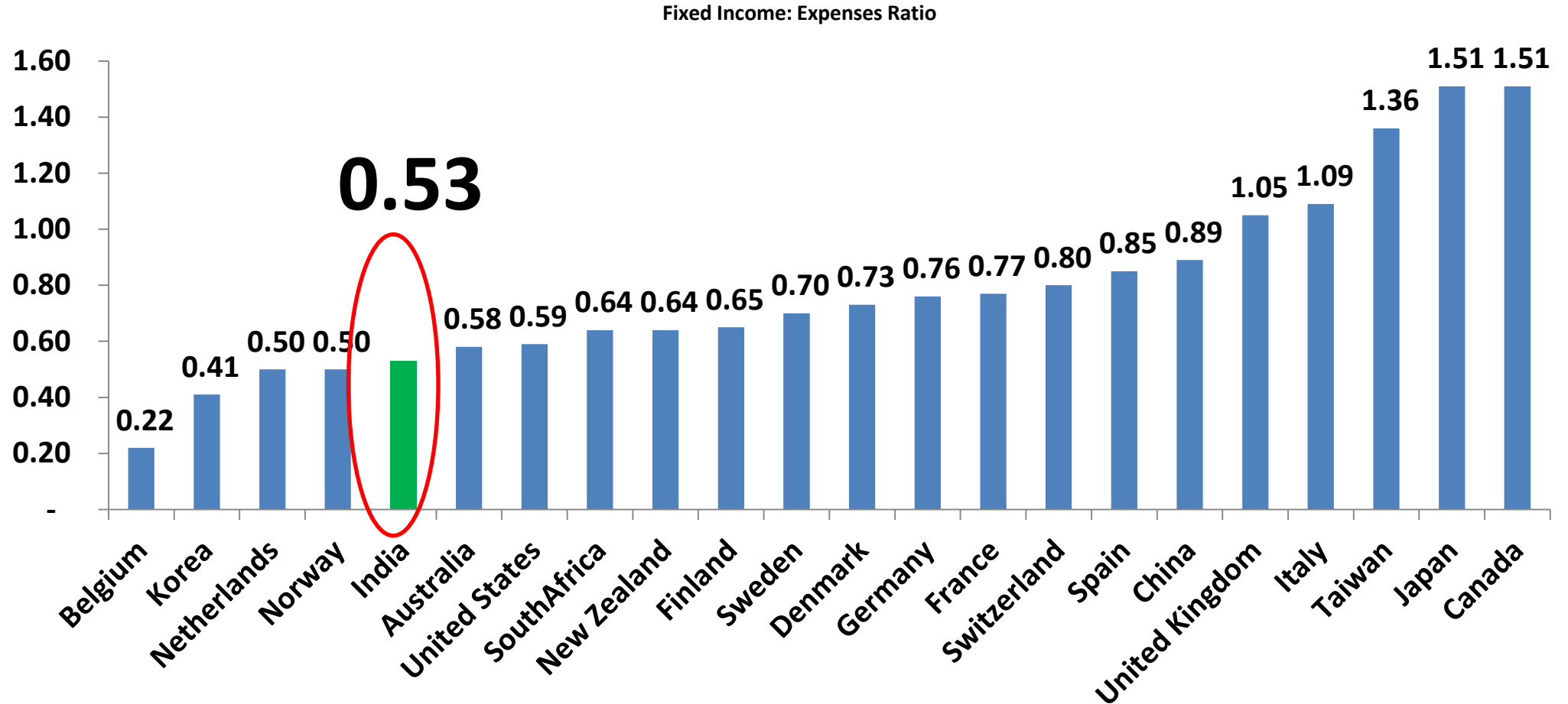
Our Analysis : INDIA 3rd LOWEST - MONEY MARKET



*Source: GFIE Study- June 2015, Morningstar Inc.



Our Analysis : INDIA 5th LOWEST in FIXED INCOME

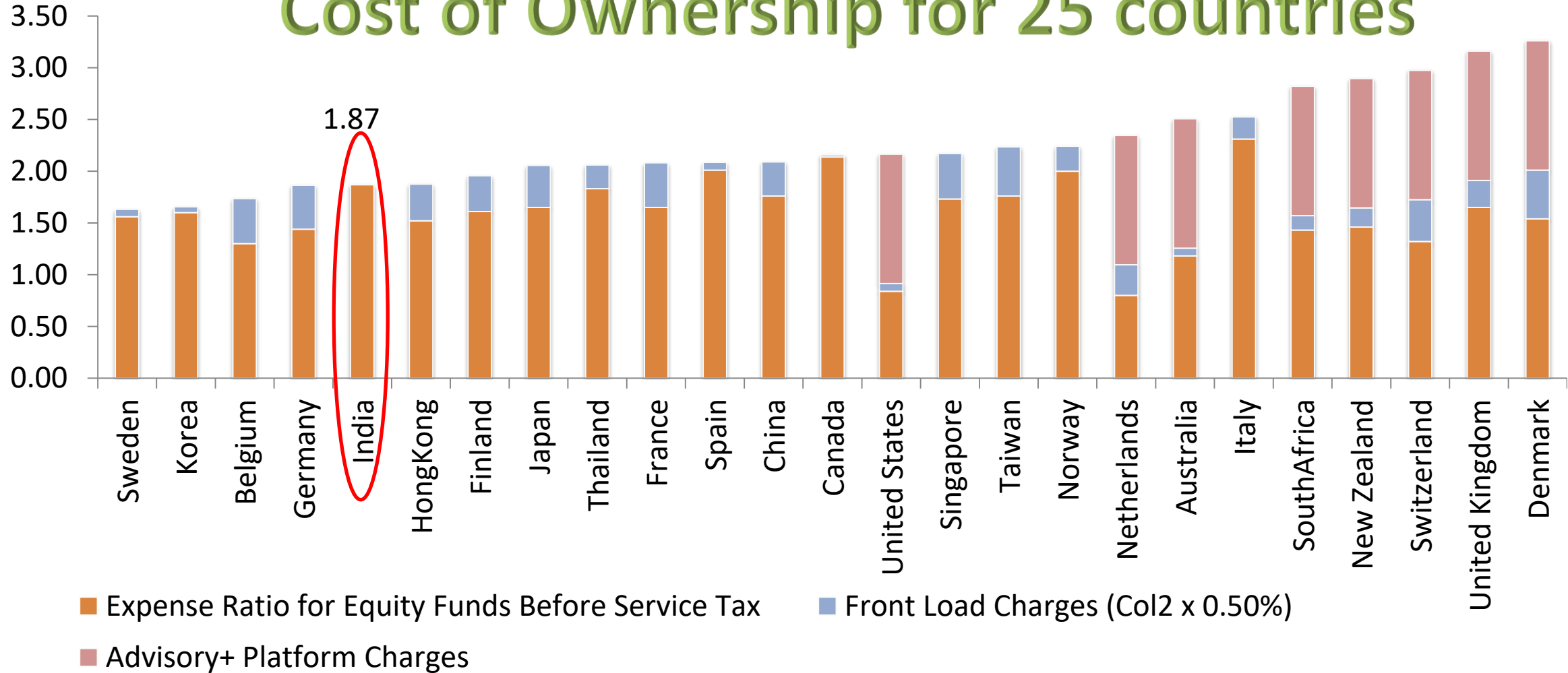


*Source: GFIE Study- June 2015, Morningstar Inc.



Our Analysis : INDIA 4th LOWEST - EQUITY FUNDS

Cost of Ownership for 25 countries





Average TER Across All Asset Types

The Average TER for all Asset class during 2015 was less than 1%

Asset Type	AUM for March 16 in Rs. Trillion	Total Expense Ratio (%)
Money Market	3.27	0.18
Fixed Income	5.87	0.53
Equity	4.33	2.14
Grand Total	13.47	0.96



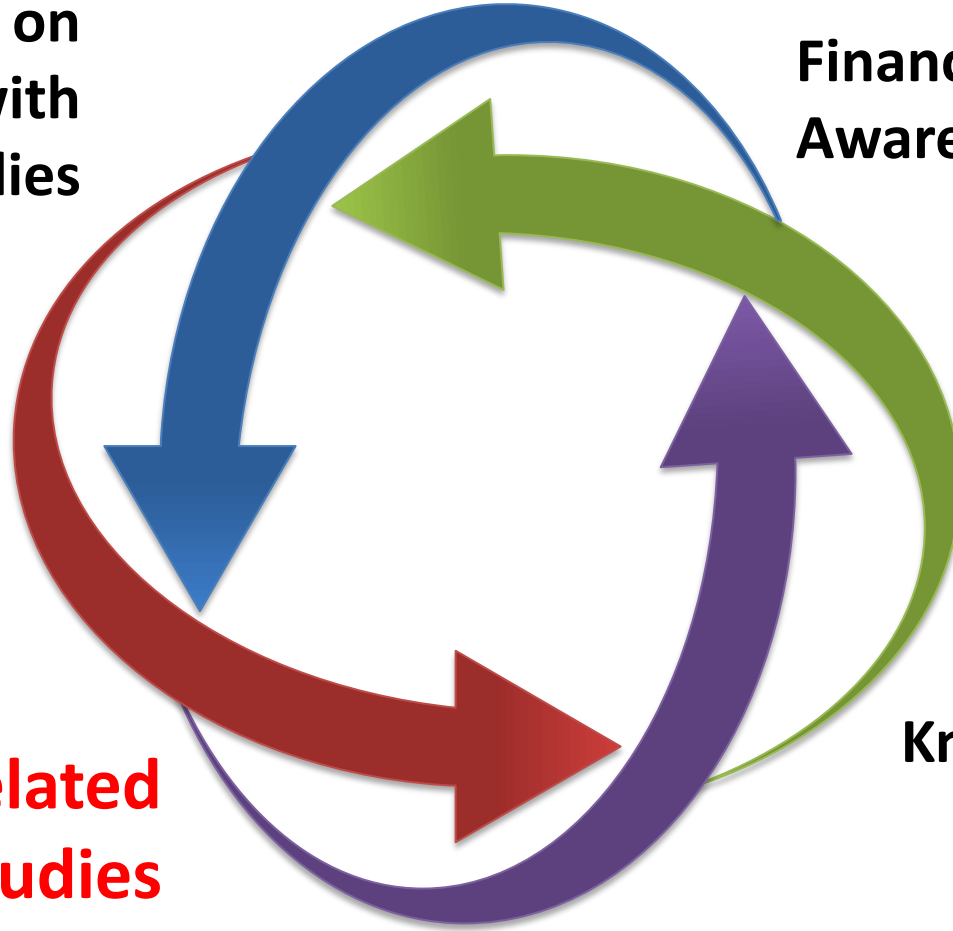
FIFA - Activities

**Regular engagement on
Industry issues with
regulator & other bodies**

**Financial literacy & Investor
Awareness across India**

**Industry related
studies**

Knowledge sharing programs





A Pioneering study of investor behavior with respect to Indian Mutual Funds

August 2016 – March 2017

finalmile.

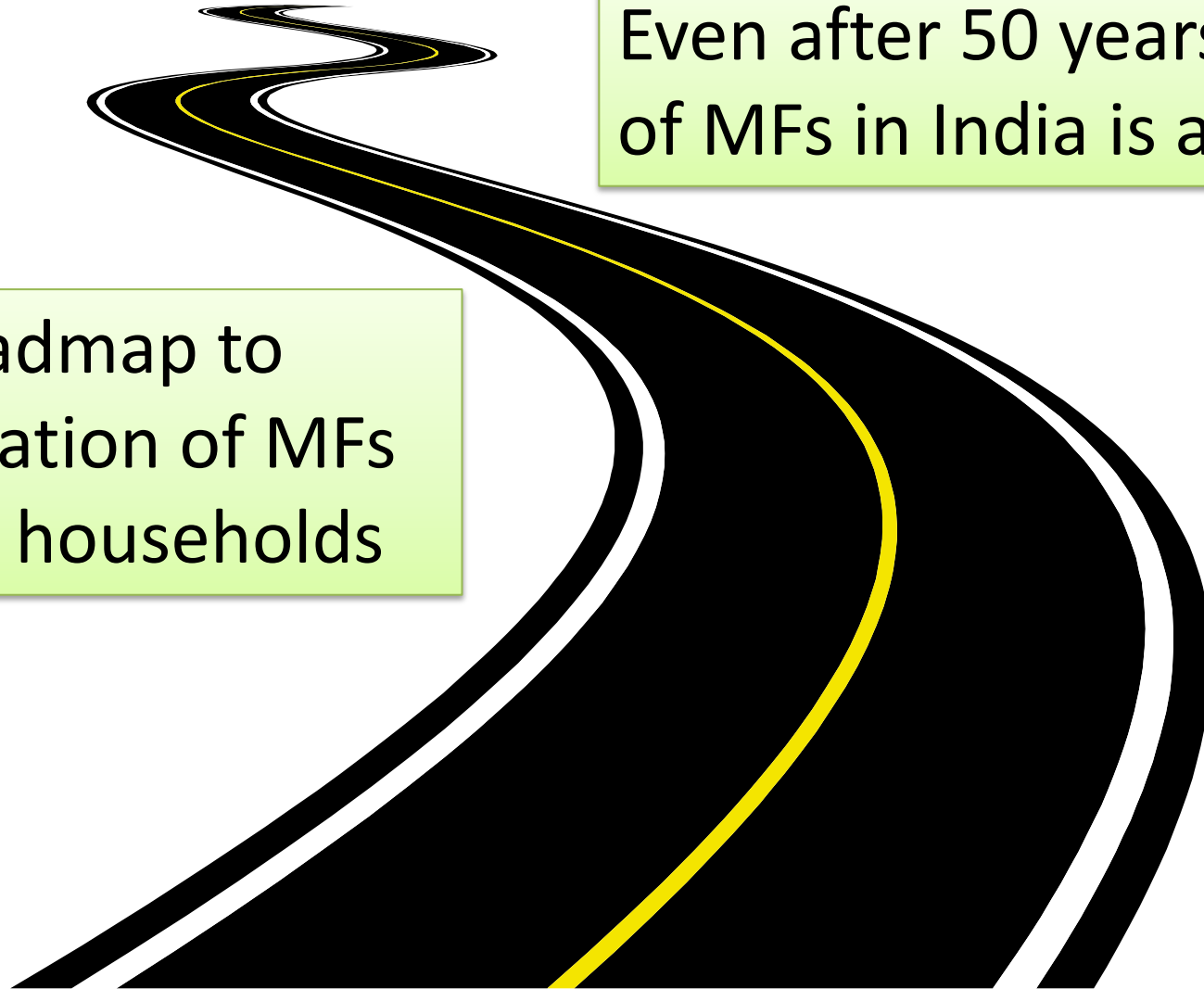




Why A Study ?

Even after 50 years the penetration of MFs in India is abysmally low

To provide a roadmap to improve penetration of MFs amongst Indian households





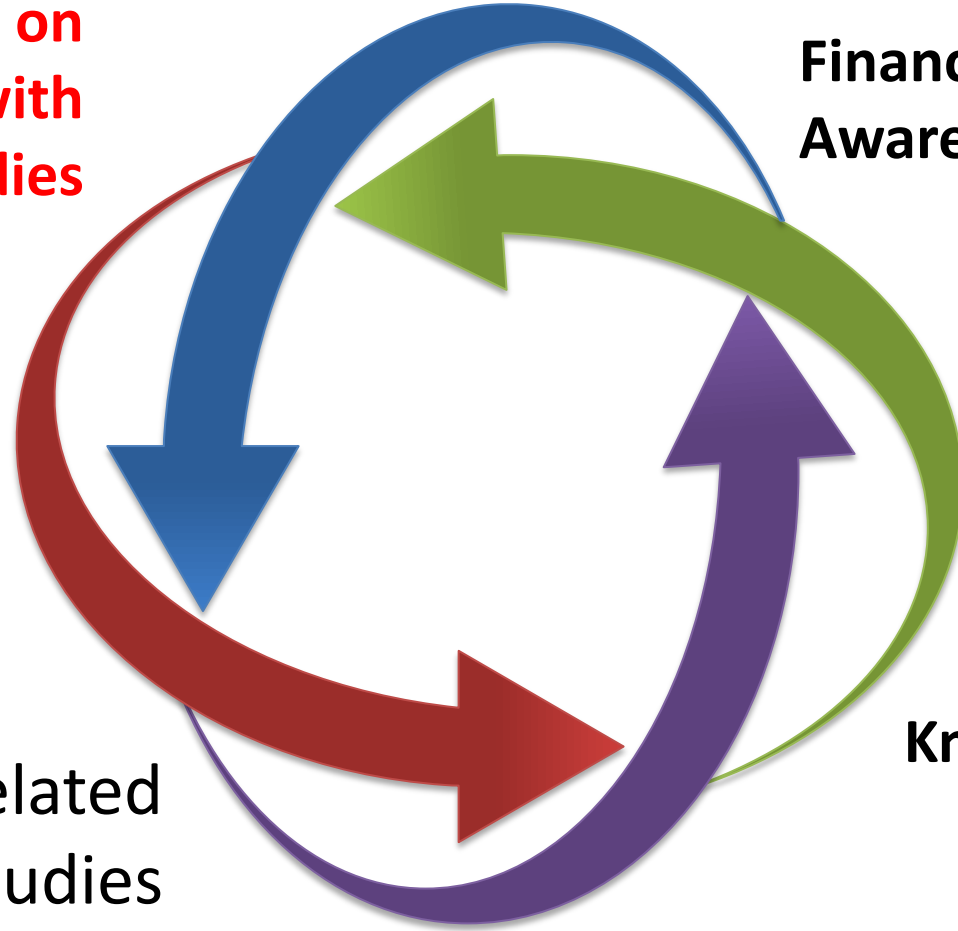
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FIFA – REGULATORY ENGAGEMENTS

Issue	Period
Service Tax	Since March 2015
Sumit Bose Committee	August 2015 – Oct 2015
Reduction of TER	September 2015 - Jun 2016
Commission Disclosure	March 2016 - Feb 2017
RIA Regulations	October 2016 – Feb 2017



Service Tax - History

- Service tax introduced
- Burden put on distributors

Apr 2015

- Service tax payable on forward charge basis

Apr 2016

- Resulting in IFAs <Rs. 10 lakhs income being exempt benefiting 30,000 IFAs

Apr 2016



SEBI Regulations Governing Total Expense Ratio (TER)

- Regulation 52 of the Securities Exchange Board of India (Mutual Funds) Regulations, 1996 provides the maximum amount that can be charged as expenses in the form of Total Expense Ratio (TER).
- SEBI had fixed the maximum TER that MF/AMC can charge to the schemes prior to introduction of service tax.
- A large number of Schemes were already charging the maximum amount of TER allowed under SEBI regulations and were not able to pass on the service tax burden.
- As a measure to allow the service tax to be passed on, SEBI amended its regulations in 2012.
- AMCs were permitted to pass on the service tax on the Investment Advisory Services in addition to maximum limit of Total Expense Ratio as provided under Regulation 52 of the MF Regulations.



SEBI Regulations Governing Total Expense Ratio (TER)

- **At that time since the commission paid to mutual fund agents / distributors was exempt from service tax, the same relief was not extended to commission paid distributors.**
- **With the removal of exemption from service tax on distributors commission, service tax became payable on distributor commission. The service tax could not be passed the ultimate end user the MF investor because of the ceiling of TER prescribed by SEBI was already being charged to prior to the withdrawal of the exemption.**
- **FIFA have been pleading over the last 18 months for removing this anomaly and unfair but have not received not response.**
- **SEBI is not permitting the service tax on services provided by the distributor to be charged to the scheme in addition to the maximum limit of TER as they have permitted in case of Service tax on Investment Advisory Services.**



AMFI Best practices circular puts unfair restrictions

- **The current AMFI Best Practices circular prohibits any upward revision in brokerage rates on existing assets w.e.f 01/04/2015 besides other restrictions on commission payments to distributors including capping upfront brokerages.**
- **As Service Tax was introduced on commission from 01/04/2015 they started unilaterally paying the commission after deducting the service tax.**
- **In case of all assets procured by distributors prior to 31/03/2015 when service tax on commission was exempts.**
- **The asset management companies are expressing their inability to increase the omission payable on those assets to the extent of service tax because of the restriction put by AMFI circular dated 26/03/2015.**



No level playing field

Comparative Chart of Service Tax Treatment on Financial Products

Financial Product	Who Pays?	Who Bears?
Insurance Broker	Insurance Company	Customer
Stock Broker	Stock Broker	Customer
PMS	Portfolio Manager	Customer
Fixed Deposits	FD Agent	Company
AMCs	AMC/Fund	Customer
MF Distributor	Distributor	Distributor



Representations made on Service Tax

Government Organization / Institution	Date
Mr. Arun Jaitley, Finance Minister Ministry of Finance, Government of India	13-Mar-2015
Mr. C.V.R. Rajendran, Chief Executive Officer The Association of Mutual Funds of India (Amfi)	26-Mar-2015
Mr. Upendra Kumar Sinha, Chairman, Securities & Exchange Board of India (SEBI)	27-Mar-2015
Mr. C.V.R. Rajendran, Chief Executive Officer The Association of Mutual Funds of India (Amfi)	21-Oct-2015
Mr. C.V.R. Rajendran, Chief Executive Officer The Association of Mutual Funds of India (Amfi)	30-Oct-2015
Mr. Nikhil Varma, Jt. Secretary Ministry of Finance, Government of India	18-Nov-2015
Mr. Jhunjhunwala, Vice Chairman, Reliance Capita Ltd	18-Nov-2015
Mr. U. K. Sinha, Chairman, Securities & Exchange Board of India (SEBI)	02-Dec-2015



Representations made on Service Tax

Government Organization / Institution	Date
Mr. Jayant Sinha, MOS, MOF, GOI	05-Jul-2016
Mr. Shakti Kanta Das, Secretary, DOE	11-Jul-2016
Mr. Anant Barua, ED ,SEBI	21-Jul-2016
Mr. Arjun Meghwal, MOS, MOF	27-Jul-2016
Mr. Hasmukh Adhiya, Secretary, Revenue, MOF	27-Jul-2016
Mr. Arun Sathe, Board Member, SEBI	19-Sep-2016
Mr. Anant Barua, ED, SEBI	16-Aug-2016



FIFA – REGULATORY ENGAGEMENTS

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Commission Disclosure

- **12th May 2016.**
 - Joint representation prepared by FIFA on behalf of United Forum and FIAI for withdrawal of Commission Disclosure was submitted to AMFI
 - Collating views took more time than anticipated.
- **16th May 2016**
 - FIFA met Mr Rajendra, CEO AMFI and discussed the issue.
 - Most of the points have been taken up by AMFI with SEBI.
 - He suggested that we could also make a representation to SEBI directly.
- **Professional External Agency**
 - Before submitting SEBI , the United Forum and FIAI decided to use a professional external agency
 - Our submission to AMFI had to be completely redrafted and required in depths discussions for presenting a fair and rational case.
- **28th June 2016**
 - we sent a detailed representation on Commission Disclosure on behalf of United Forum and FIAI.
 - We have requested for an opportunity for a personal meeting with SEBI to give our feedback.
- **Next Few Months**
 - we engaged in a series of meetings with the Ministry of Finance in this connection.



July 5, 2016 : Meeting with Mr Jayant Sinha (United Forum representatives)



- **All distributors to be organised as one all India body**
- **SRO to increase credibility**



July 11, 2016 : Meeting with Shakti Kanta Das , Secretary Department of Economic Affairs



Mr Shakti Kanta Das is also on the Board of SEBI as a government nominee.



July 27, 2016 : Meeting with MOS - Finance Mr. Arjun Meghwal



Acknowledged that Intermediation is a must for the Mutual Fund Industry



July 27, 2016 : Meeting with Mr. Hasmukh Adhiya, The Revenue Secretary





August 16, 2016 : Meeting with Mr. Anant Barua ED SEBI





September 20, 2016 : Meeting with Mr. Nitin Gadkari, Minister of Road transport & Highways





September 28, 2016 : Meeting with Mr. Ajay Tyagi, Chairman SEBI





FIFA – REGULATORY ENGAGEMENTS

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FIFA's Study on Expense Ratios

- 15th June FIFA released its Study on Expense Ratio of Mutual Funds and the same was circulated to all members and has also been uploaded on our website.
- Initial work on the study commenced in August 2015 last year however due to the amount of work involved and limited resources it took a lot of time to complete the same.
- Copies of the report were also circulated to AMFI , all MF CEO's and head sales. The findings of the study that India had amongst the lowest expense globally country were carried in the media also.



July 21, 2016 : Meeting on Commission Disclosure with Mr Anant Barua ED SEBI





FIFA – REGULATORY ENGAGEMENTS

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Consultation Paper on
Amendments/Clarifications to the SEBI
(Investment Advisers) Regulations, 2013,
published on October 7, 2016



PROPOSED AMENDMENTS

- Assumes : conflict of interest will lead to mis-selling
- Intent : Mutual Fund Distributor to migrate to a fee based Advisor from a commission based distributor.
- Proposal : Prohibits a Mutual Fund Distributor from giving investment advise.



RIA Regulations

- Submitted a detailed Response on the Proposed Amendments
- Have had 3 Interactions with SEBI :
 - Mutual Fund Advisory Committee
 - Follow on Meeting with Sebi officials
 - Meeting with WTM – Mr Mahalingam
- We believe we have been able to effectively highlight the concerns of the IFA community



LIKELY ADVERSE IMPACT

- Advise Gap - Retail investors will be orphaned.
- 0.75% p.a. Increase in Total cost to Investor.
- Dramatic fall in number of IFAs
- Hurt financial penetration and f inclusion

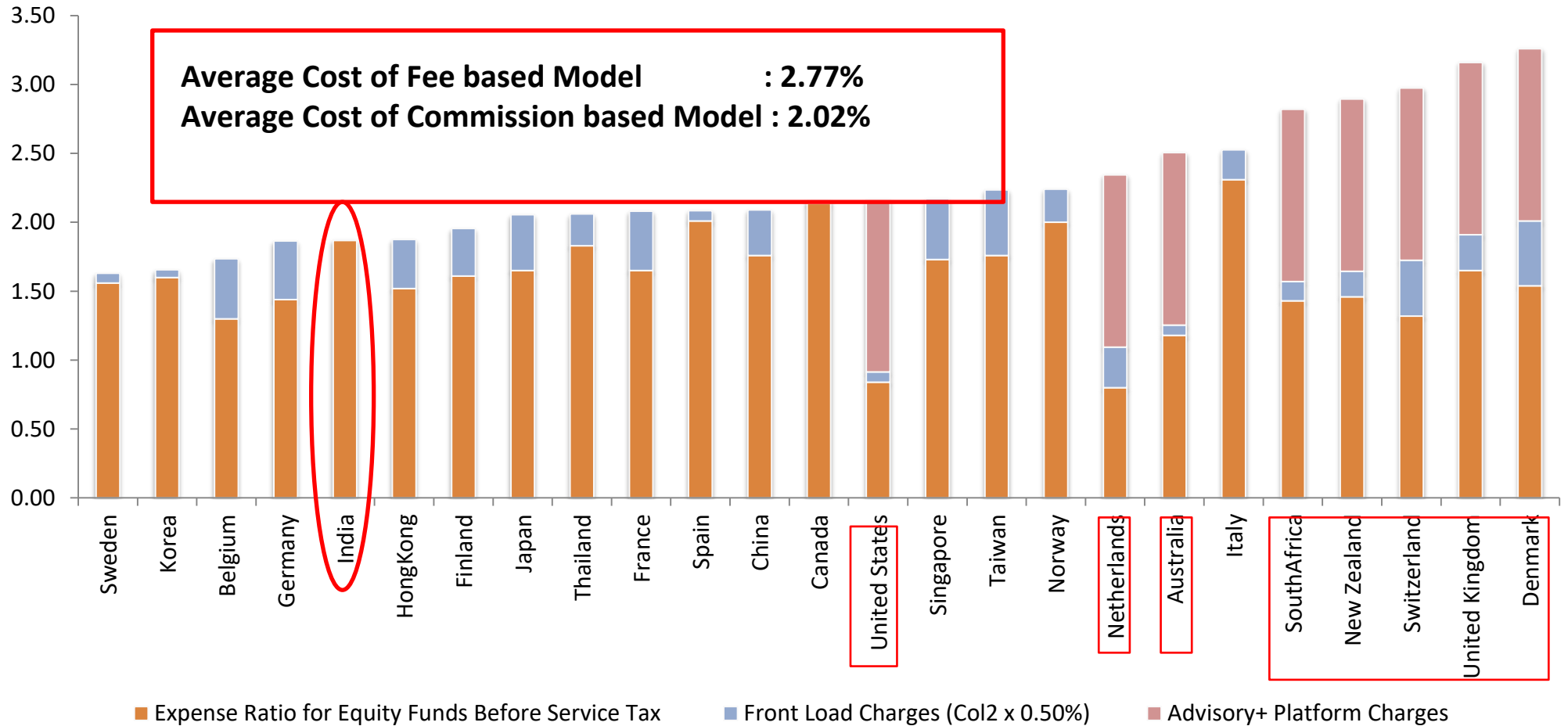


INCREASE IN COST

- Evident from FIFA's study of expense ratios of 25 countries. We have shared findings with SEBI earlier.
- Based on the above study the average expense ratios are as under :
- Countries with the Fee Model - 2.77%
- Countries with Commission Model - 2.02%
- **The cost to investor being higher - 0.75%**



Summary of Cost of Ownership of Equity Funds for 25 countries





Commission – High or Low ?

Aggregate Commission Payouts			
Financial Year	Commision Rs Cr	AUM Reg Plan	% of Comm to AUM
2013-14	3,280	575,029	0.57%
2014-15	6,007	749,339	0.80%
2015-16	4,755	804,810	0.59%
2016-17	3,507	1,053,000	0.33%



Mis-Selling a Myth:

- Low Expense Ratios and Low Commission Payouts are unlikely to lead to Mis-Selling
- Instead of making disruptive regulations on a perception of mis-selling, we propose that appropriate action be taken against any distributor found to be resorting to mis-selling.



Unintended Outcome – MFs will become a Rich Man's Product

If the proposed regulation banning distributors from giving advice is implemented, then

1. Large number of existing investors will be orphaned, as the small ticket size investors won't be prepared to pay the fees (average ticket size of an SIP is 2,500 per month). The RIA will not find it viable to service these investors.
2. Due to viability only the rich with a large investment corpus will be serviced and Mutual Funds will become a rich man's product rather than the product for the masses.
3. Once there is a advice gap the orphaned retail investor is bound to invest in Ponzi schemes, Gold and other inappropriate products.



RECOMMENDATIONS

1. Do not force compulsory migration from commission based model to fee based model as it is not in Investor's Interest.
2. Mutual Fund Distributors should be allowed to offer Investors multiple models – Fee Based and/or Commission Based like in USA.



FINDINGS OF FCA - UK

- **A study has been conducted by the Financial Conduct Authority of the experience post the banning of commission since 2013 and shift to a fee based model in U.K. The final report of this study was released in 2016.**
- **Study confirms the creation of an “Advice Gap”; namely lot of investors being serviced earlier in the commission model are no longer serviced under the Fee Model.**
- **The minimum investible amounts for an investor to be serviced by an adviser has gone up substantially – leaving retail investors unserved.**
- **Steep reduction in the number of advisers.**
- **Increase in total cost to Investor (MF expenses + Fees Paid directly) paid now are higher than in the earlier embedded cost structure. In UK the cost to investor has increased by 0.75% p.a. post implementation of RDR.**



US-REPORT OF STRATEGIC INSIGHT

- Among Strategic Insight’s findings are a number of conclusions around common questions surrounding the movement toward an unbundled fee-for-advice compensation model (some answers to which, in SI’s view, are at times misconceived), including:
- **Does unbundling payments for advice from the mutual fund expense structure create higher or lower total costs of fund ownership for investors?**
- Based on the U.S. experience, Strategic Insight believes that for many “buy- and-hold” inclined U.S. mutual fund investors, **total shareholder costs over the lifetime of an investment have *increased* as a result of the transition to a fee-for- advice model** – as many investors no longer have the benefit of paying commissions just once or taking advantage of discounts of such commissions available to U.S. fund investors based on aggregate investments held within one distributor or across funds of the same investment manager.



US-REPORT OF STRATEGIC INSIGHT

- **Does the unbundled fee-for-advice structure increase or decrease transparency of total investment costs for fund shareholders?**
- It is Strategic Insight's view that when total shareholder costs are unbundled – with fees-for-advice ratios reported by each distribution company separately, and to each investor individually – the transparency of total shareholder cost is generally *reduced*. Mutual fund expense ratios in the U.S. are publically reported in a consistent manner by each fund and captured by numerous companies tracking the fund industry – thus making them easily benchmarked. With unbundled and externalized payments for advice, the ability to compare total shareholder costs across different distribution organizations is lessened.



US-REPORT OF STRATEGIC INSIGHT

- Does the unbundled fee-for-advice model reduce or increase imprudent trading into or out of funds, thus harming shareholders' wealth creation and investment results? How does this fee-based model impact the velocity of advisors' purchases and redemptions of funds?
- While the shift to an asset allocation-based portfolio of funds, wrapped with a fee-for-advice, undoubtedly created more balanced and prudent investment strategies and also eliminated some instances of opportunistic and thus ill-timed transactions due to selling "one-fund-at-a-time", **Strategic Insight actually observes higher-than-average asset velocity within fee-for-advice account structures.** This higher asset turnover typical within fee-for-advice accounts raises concerns about resultant investment outcomes, as compared to lower turnover "buy-and-hold" strategies.



US-REPORT OF STRATEGIC INSIGHT

- Does removing payments for advice from the mutual fund expense structure increase or decrease the availability of funds to smaller investors?
- It is Strategic Insight's view that the variable fees of unbundled fees-for-advice (versus the fixed ratios of internalized fund expenses for all investors) **ultimately may limit opportunities for lower wealth investors to receive advice.** With unbundled fees-for-advice typically rising as investor account sizes decrease (due to the lack of economies of scale in servicing such smaller accounts), **many middle-income mutual fund investors are faced with the reality of significantly higher ongoing costs for financial advice – or even the complete lack of an advice option – within the continued transition to a fee-for-advice culture in the U.S.**



Sumit Bose Committee

- On Complete Ban on Commissions :
- It felt that a complete ban on commission in India would be counter productive.
- It was of the 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

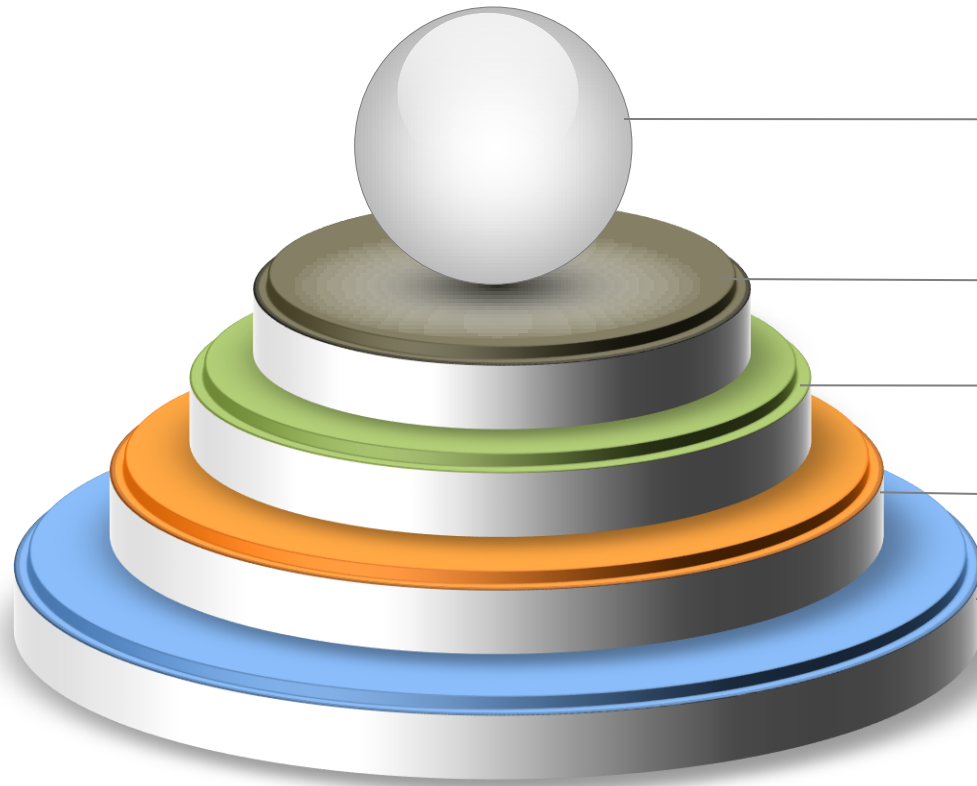


International Advisory Board of SEBI's recommendations

- 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.



FIFA –AN UPDATE



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Membership – A LEAP



No of Members : 1501



State/UT : 26

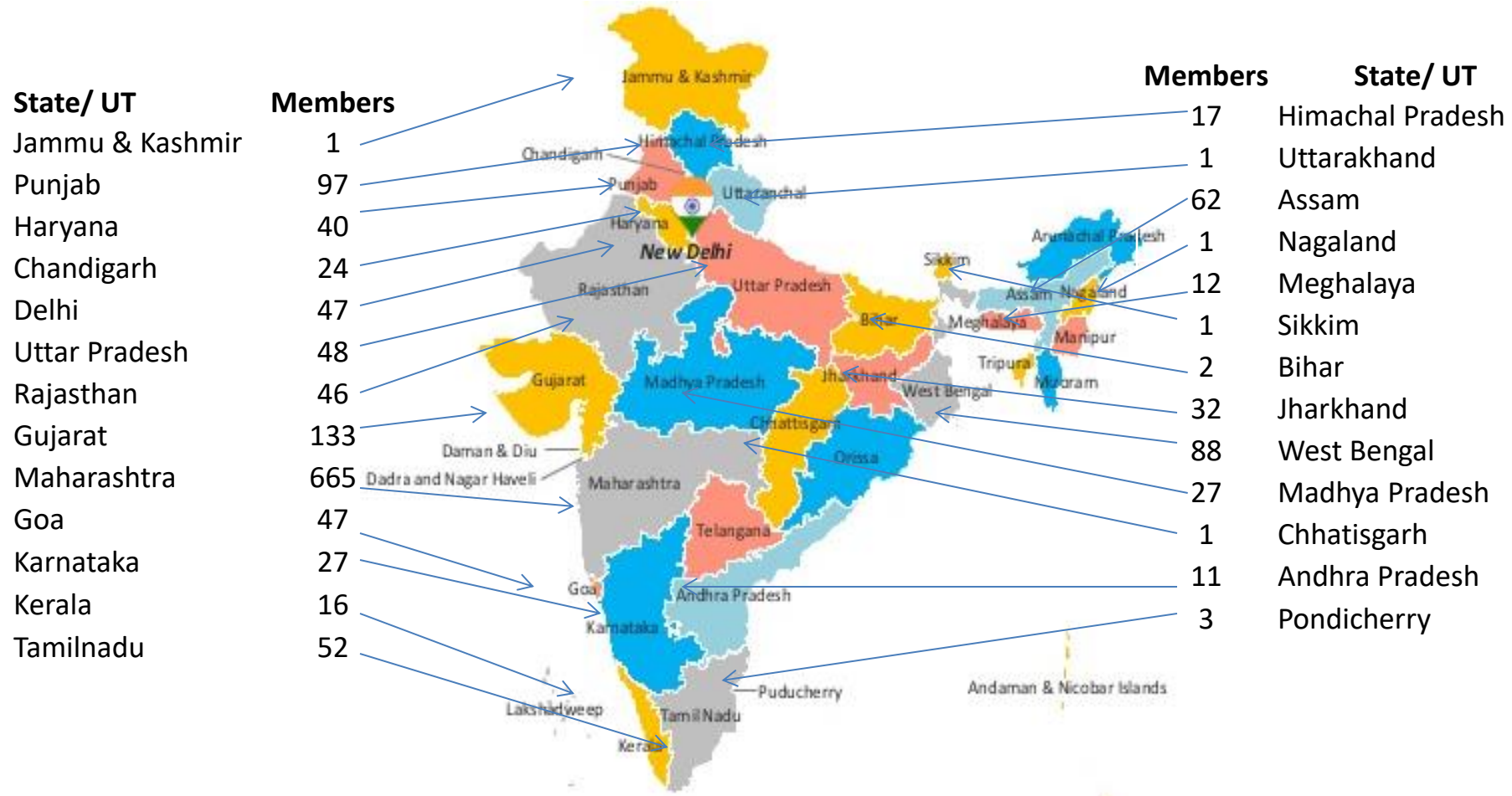
Cities : 189



AUM : > 60,000 cr



Membership





CREDO – SHARED BELIEF & VALUES

- **FIFA believes its role is to transform its members from being just an IFA to being an EFA.**
- **FIFA's goal should be to ensure that each of its members is no ordinary IFA but an EFA.**
- **The FIFA Brand should stand for Excellence.**



CREDO – SHARED BELIEF & VALUES

- Excellence, by definition is exceedingly rare... And it feels wonderful. (Mediocrity, also by definition, is quiet commonplace, and it feels awful). There is, then, a high price to be paid for excellence and it is a price that the Excellent Investment Advisor is happy to pay, because of the immense material and spiritual returns he receives on his investment.



CREDO – SHARED BELIEF & VALUES

- True Excellence require;
- Maintaining the highest ethical standards at all times.
- Go the Extra Mile and beyond the call of duty.
- Winning the Gold Medal in Excellence requires a combination of desire, determination, courage and unshakable faith in oneself and in the quality of one's work.



CREDO – SHARED BELIEF & VALUES

- **FIFA and its Members believe in “The immense capacity that people in our profession have to do good – and to do well by doing good, because when we do this business the right way, our interest & those of our clients are in virtual perfect harmony...”**
- **FIFA believes that “The EFA believes passionately in the importance of what he does.”**
- **FIFA believes that “The EFA can, do more good for more people – and can then make that good endure far longer - than any physician who ever walked the earth.”**
- **FIFA believes that “An EFA can bring lifetime financial independence and stability for his clients, which can outlast their lifetime and which can be passed efficiently to future generations.”**



Last but not the least

“Without Your Involvement, We cannot **Succeed**.
With your involvement, We cannot **Fail**”.





INFORMATION

- Any one who wants to read the detailed representation you get the reports on WWW.FIFAINDIA.ORG for you to read.



THANK YOU