Source : www.livemint.com Date : 2020-02-18

SEBI GETS TOUGH

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

Not all retail investors fully grasp the conflict of interest inherent in advice offered by someone who makes money off the investment being advised

The Securities and Exchange Board of India (Sebi) has tightened rules that apply to investment advisory services. Those engaged in the distribution of securities will now be barred from using titles such as “independent financial advisers", unless they are registered as such. The market regulator has also prohibited investment advisers from hawking products to their clients. The eligibility criteria for registration as an investment adviser will get stricter as well.

Such measures were needed. Not all retail investors fully grasp the conflict of interest inherent in advice offered by someone who makes money off the investment being advised. Too many people find themselves lumped with ill-suited products pushed by crafty advisers, and the reputation of the entire profession suffers. By separating advisory and distribution roles, Sebi will help good advisers gain trust. The cap on their fee, though, could mean that a skilful adviser does not get to maximize the value of their skills. This could result in service commodification, which could lower the overall quality of advice available in the Indian market. Such price controls rarely work.

END