Relaxed Norms for Investment Advisors: How the Proposed Changes Could Boost Accessibility

Published on 7th August 2024, By Ann Jacob

The market regulator, in a consultation paper released on Tuesday, has proposed relaxed regulations and requirements for investment advisors.

"The objective is to ease and reduce the registration requirements and cost of compliance for investment advisers and to bring in regulatory changes commensurate with the continually evolving nature of their businesses," stated the proposal.

The major relaxations have been proposed in qualification, certification, experience and net worth.

The requirement in education has been brought down to a degree post-graduation. For certification, the advisors need not give the National Institute of Securities Markets examination every year but will only need to take the test for the initial clearance.

The experience requirement is also proposed to be done away with. There was a five-year experience requirement under the earlier regulation.

As for net worth, the proposal calls for a deposit that shall be calculated based on parameters such as the number of clients and revenue.

What Changes for Investment Advisors?

The requirements for education, experience and net worth had stopped many from joining the field.

"This will be a big hiring impetus and a lot more advisors can now come up. The profession is only a decade old and these norms will increase its space to grow," said Vishal Dhawan, founder and chief executive officer of Plan Ahead Wealth Advisors Pvt.

“The number of IAs/RAs today is not commensurate with the large investor base and the ratio of investment advisers per million population is very low as compared to a jurisdiction such as the United States of America,” the paper stated.

A lower number of investment advisors being acknowledged, and measures being taken to improve this is a good step, according to Dhawan.

The constant requirement for the NISM exam had the potential to put an advisor's business in jeopardy. The new norms will more efficiently ensure that the advisors are aware of the changes, according to Dhawan.

The lower threshold in the form of a deposit rather than the net worth will now allow easier access for people starting off.

"This will help individual advisors move to non-individual advisors," he said. This means that the access will give them the space to step into the profession and also hire more people.

Under the Association of Registered Investment Advisors, or ARIA, there are over 900 registered advisors working with a 10-member board heading the association.

The association has a 70:30 ratio of individual advisors to non-individual advisors, according to Dhawan. Easier access to the profession will further encourage advisors to hire more people as well.

"This is a positive move, as individual advisors had more restrictions and those are done away with. These norms will expand the market as they have made it easier for someone to become an investment advisor," said Lovaii Navlakhi, chairperson of ARIA and chief executive officer of International Money Matters.

Need For Clarity

This consultation paper is a step in the right direction but areas where further clarification or amendments are needed still remain.

An investment advisor should be able to give holistic advice that is spread through investments. According to the client's goals, there may be times when the advisor needs to recommend international funds or estates

These are products that are not regulated by SEBI. Regulations regarding investment advice are limited to SEBI-regulated products, as things stand. There needs to be clarity regarding this, as robust advice can only be given if it's spread across multiple asset classes, said Dhawan.

Further, advisors are required to complete their annual compliance audit and statutory audit within the first six months of the financial year, but there is now a misalignment.

"There is only a 60-day window to complete both now and this can be an unnecessary burden that adds to the cost for advisors," he said.

There are also instances where professionals may give clients "incidental advice," which might need clarification in regulation.

"People offer incidental advice when selling a product. For instance, a CA who is primarily offering tax advice also works with an insurance or mutual fund company. They might advise their client to buy insurance or mutual funds while providing tax advice," said Navlakhi.

One person wearing multiple advisory hats would be a case that requires more clarity regarding regulations as well.