

RIAs can become research analysts to offer model portfolio

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SEBI has issued new guidelines enabling Research Analysts (RAs) to offer model portfolio recommendations.

Additionally, SEBI has allowed Registered Investment Advisers (RIAs) to become RAs to offer model portfolio.

In a note, Fin sec Law Advisers said that RIAs opting for RA model or vice versa should comply with the rules and regulations for each role and maintain an arm's length relationship between their IA and RA activities, ensuring that investment advisory services and research services are clearly segregated. Further, the IA/RA must also provide an undertaking of maintaining the segregation and ensuring no conflict of interest.

Model portfolios, structured as a basket of securities with recommended weightages, must adhere to a detailed framework. They are subject to performance validation by SEBI-specified agencies, benchmarked against relevant indices and accompanied by a factsheet that includes methodology, disclosures, investment horizon and updates just like mutual funds.

Vishal Dhawan of Plan Ahead Wealth Advisors believes that IAs and RAs operate on fundamentally different models. "IAs focus on holistic financial planning and provide personalized, one-on-one investment advice. On the other hand, RAs offer model portfolio recommendations using a one-to-many approach. Given this distinction, RIAs registering as IAs is unlikely to have a significant impact," he explained.

Srikanth Meenakshi, Co-founder of Prime Investor, emphasised that the new guidelines for RAs are essentially a formal codification of existing practices. "The model portfolio recommendation guidelines for RAs formalise what research analysts have always been doing, providing an official stamp from SEBI. At this stage, these guidelines are unlikely to have any significant positive or negative impact on the business of other players like PMS or mutual funds," he stated.

The new guidelines add a different dimension to investment services, raising questions about their impact on PMS managers. However, Pramod Gubbi of Marcellus Investment Managers argues that RAs and PMS serve entirely different client bases. "RAs appeal to individuals who prefer managing their own investments through their Demat accounts, while PMS caters to HNIs who entrust professionals with their portfolio management. As a result, these guidelines are not expected to affect the PMS business," he said.