

# Either sell or advise, SEBI says investment advisors can't do both

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Investment advisers can either distribute financial products or advise on them to investors, but cannot do both, as per Markets regulator SEBI. The move will be applicable from October 1. The Securities and Exchange Board of India has amended the Investment Advisers Regulations and covers any person who advises clients on purchase, sale, investment or portfolio management in securities for these entities who is called an investment adviser.

SEBI has stipulated segregation of services. At present, advisers carry out both advisory and distribution services and there is no segregation.

## **Key Highlights**

- Individual investment advisers can no longer advise and distribute investment products simultaneously. They will have to chose between one of them and seek a registration with SEBI for that.
- As the fees or commission varies based on the nature of products, an investment adviser is likely to recommend a product which gives the maximum incentive on distribution. Invariably, clients are advised where the fees are more and this goes against the best interest of clients and gives rise to a conflict of interest a situation which SEBI is addressing.
- The SEBI amendment also restricts the adviser's family - spouse, children and parents- from providing distribution services to a client receiving advisory services.
- The segregation isn't limited to individuals alone. Non-individual advisers, including companies and limited liability partnerships, must segregate clients at a group level for investment and advisory services.
- As per the SEBI norms, the same client cannot be offered both kinds of services through a non-

individual adviser's group entities. A holding, subsidiary, joint venture or associate company of an adviser can only provide one type of service to such client. Non-individual advisers must maintain an arm's-length relationship between their advisory and distribution functions by rendering services through a separate department or division.

- The certification is governed by SEBI and a person is restricted from providing such services unless they have a certificate of registration.
- The amendment also makes it mandatory for a non-individual investment adviser to introduce client level segregation between advisory and distribution activities. It also introduces a revised net worth criteria for individuals and corporate persons.

**SOURCE: Business Standard**