# Mutual fund costs for retail investors should go down, says Sebi chief

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UK. Sinha is no stranger to the annual general meetings (AGMS) of the Association of Mutual Funds of India (Amfi). He had attended them when he headed the UTI Asset Management Co. Ltd and later began addressing it when he took over as chairman of the Securities and Exchange Board of India (Sebi). He attended his last Amfi AGM as Sebi chairman on 26 September. Three chief executive officers (CEOS) of fund houses who were present at the Agm—and who Mint spoke to—confirmed that Sinha wondered why mutual fund houses were not talking more about direct plans to their investors.

*ABHIJIT BHATLEKAR/MINT* Effective 1 January 2013, all mutual funds launched direct plans for their open-ended schemes.

Sinha said that he was aware that the reason behind our silence was that we were held “hostage”, said one of the CEOS we spoke to. Sinha also remarked that he knew that we were held hostage by a section of large distributors, one of the CEOS added.

Effective 1 January 2013, all asset management companies (AMCS) launched direct plans for all their open-ended mutual fund schemes, a move that was made mandatory by Sebi through a circular it had issued a few months prior.

Direct plans are bought by investors if they wish to bypass the distributors. As distributor commissions are not embedded in direct plans, their total expense ratios are lower.

SLOW, STEADY SHIFT

Although a sizeable chunk of institutional investors have shifted to direct plans, the progress of direct plans in equity has been slow and steady.

According to Prime Database, assets under management of direct plans (in the equity funds segment, including balanced funds) were 14% by the end of 2014. This grew to 15% by 2015-end and 18% by the end of June 2016.

“We cannot really advertise about direct plans, as that will offend certain large distributors as they feel we would be poaching their clients by approaching them directly,” said the second CEO that we spoke to. The above CEOS said that Sinha seemed to be mindful of this and that’s why, they said, Sinha indicated that the industry should collectively start talking about direct plans.

According to the CEOS, Sinha said at the AGM that direct plans should be spoken about at an industry level.

“Perhaps he was indicating that with Amfi now getting half of the investor education funds, it should start campaigns on direct plans,” said the first CEO.

Of the 2 basis points of the overall expense ratio that each fund house collects towards the investor education fund— another Sebi requirement— half is mandated to be transferred to Amfi, which also runs its own investor awareness campaigns at an industry level. One basis point is a hundredth of a percentage point.

At the same time, Sinha is said to have reiterated that just because he was advocating to fund houses to start advertising direct plans, he was not anti-distributor.

The Sebi chief said that if he was anti-distributor, then why would he have allowed extra incentive to mobilise collections from beyond Top 15 towns and the transaction fee that distributors can collect?

Sinha is also believed to have said that India is a big country and that the mutual funds industry and distributors would have to appreciate that there are all sorts of investors in the market.

That includes distributors as well as those investors who would want to buy direct plans. He blamed certain sections of the media for spreading the myth that Sebi is antidistributor, which it is not.