PMS rules set to get stricter, ticket size likely to rise to Rs 50 lakh

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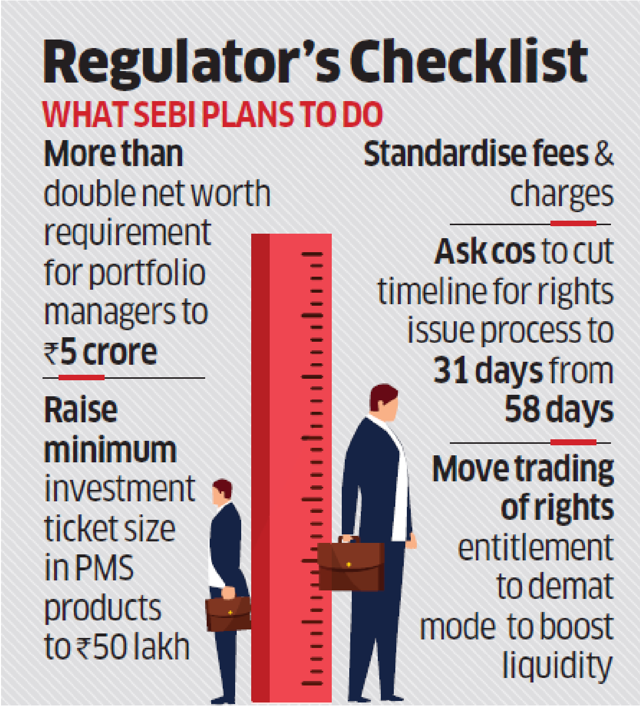
The Securities and Exchange Board of India (Sebi) is likely to tighten rules for portfolio management services (PMS) and shorten the timeline for rights offers. These decisions, along with a few others, are expected to be taken at the market regulator's board meeting on Wednesday, said three people aware of the matter. The stricter norms for portfolio managers, which cater to rich clients, are aimed at reducing mis-selling and weeding out fly-by-night operators from the business.

The board will likely go ahead with an expert panel's proposals to more than double the net worth requirement for portfolio managers to Rs 5 crore from Rs 2 crore, increase the minimum investment ticket size in such products to Rs 50 lakh from Rs 25 lakh and tighten broker commissions for selling them. Proposed tougher rules for the PMS industry come in the wake of the strong growth of these asset managers in the last five years.

Since May 2014, when discretionary PMS products, excluding provident fund money, managed roughly Rs 48,000 crore, their assets have grown almost three times to Rs 1.41 lakh crore at the end of June. Though dwarfed by the mutual fund industry's assets of more than Rs 26 lakh crore, several portfolio managers have mushroomed across the country, raising concerns that many of them might not be following best practices and products are being mis-sold.



"The whole idea is to make sure that the right type of investors in terms of risk profile come into PMS products and also more credible PMS players who are well capitalised are in the business," said Jyotivardhan Jaipuria, founder of Valentis Advisors, a Mumbai-based fund.

PMS products are not as tightly regulated as mutual funds, allowing their asset managers to follow more liberal fund management and selling practices. With Sebi barring mutual funds from offering upfront commissions to distributors and wealth managers on the sale of their products, many brokers are increasingly selling PMS products.

The Sebi-appointed panel had suggested standardisation of fees and charges such as distributor commissions to be trail-based, apart from scrapping upfront commissions, in an August consultation paper. In this model, the fee paid by an investor will be linked to the duration for which he or she stays invested, reducing the incentive for brokers to sell for higher fees.

“With a view to curtail misselling and prevent distributors pushing up-fronted products, the working group has recommended distributor commission be only on a trailing basis,” the report had said. “Trail-based income shall also ensure that the portfolio manager does not strain business calls that will hamper his longevity.”

The regulator will also likely ask companies to cut the timeline for the rights issue process to 31 days from the current 58 days. Trading of rights entitlements will move to the demat form to boost liquidity. Currently, these are settled physically because of which there is lower participation, said bankers.

“Shortening of the rights issue timeline will benefit and encourage companies to consider this option as it would reduce market risk and improve pricing and timing,” said Mehul Savla, partner, Ripplewave Equity Advisors. “The move of rights entitlement from physical to demat mode is a positive step and is in line with the continued measures being taken towards market development. This is an investor-friendly move as it can provide liquidity to shareholders.”

The rights issue process through the fast track route currently takes 55-58 days. In a discussion paper, Sebi had proposed to reduce the time between announcement of terms and issue closing, thereby reducing price risks. It had also suggested making the application and allotment process more efficient by using the banking and depository infrastructure and providing the issuer with an efficient mechanism for raising funds and streamlining the process.