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# Talking fees and transparency in India's mutual fund industry

*Aashish Somaiyaa, Chief Executive Officer at Motilal Oswal Asset Management, talks about regulatory changes in the Indian mutual fund industry and pushes back on a report that found the its fees and expenses below global standards.*



AASHISH SOMAIYAA  
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“THERE HAS BEEN A LOT OF CONSULTATION papers coming through, about segregating distribution and advice and we are finally heading towards some sense of finality,” he says. “I think somewhere through this year, maybe the next quarter the regulation will be in black and white, and executed.”

The other bit of significant regulation that might come into force is around scheme categorisation and rationalisation, says Somaiyaa.

Somaiyaa says that for long now, schemes were not very well defined. “The definitions as to what is a large-cap stock or what’s a mid-cap stock,” had different interpretations for different players and were not standard across the industry.

“At the most in the next couple of months, all of that will be behind us and standardised,” he states.

A third regulation that would be interesting for the Indian mutual fund industry is about reviewing the expenses, and the performance reporting of funds.

“In the last one month, there have been three important regulatory changes that the regulator made,” he says. “The first was just to getting us to international practices, which is to benchmark against the total return index.”

Another one is concerning around reducing fund management expenses.

“In the last one month the regulator has made certain changes, whereby I think that the TERs in equity funds will come down by at least 5% of the TER,” he says. “So



we were in the range of two, to two and a half, percent. I think we will be down by about 12 to 15 basis points, in the next couple of months.”

This is on account of two things, he explains. “First, the regulator said that for no-load funds, the TER would be reduced by 20 basis points,” says. “We had this industry practice of charging a different TER for assets which came beyond the top 15 locations.”

The regulator has now changed that definition and said that you would be able to charge an additional expense only for assets which come from beyond the top 30 locations.

“That changes the asset composition of where the assets are coming from,” he says. “Because of that, my sense is then the industry will reduce equity TERs by about 12 to 15 basis points.”

Somaiyaa also pushes back on a recent report by Morningstar that compared expenses and fees in the mutual fund industry in India with various countries found them to be below average.

“My personal opinion is that their report was slightly misplaced,” he says. “It had a lot of comparisons which I wouldn’t say were fair comparisons.”

Somaiyaa, who was invited by the Indian regulator to give a reaction to that particular report, noted that the report was not fair to the Indian mutual fund industry

on two or three counts.

“It rates India number one on transparency and disclosure, globally, but at same time, it doesn’t give India enough credit for the kind of caps on expenses it has already brought in,” he says.

For example, says Somaiyaa, equity funds in India do not have any set of fees or entry loads, and many do not have exit loads.

“At the same time, if there is an exit load which is charged, it is credited back to continuing investors,” he explains. “Which means that in India, there are no setup fees or exit loads, which are used to compensate distributors.”

The second difference, he highlights, that twice a year, commissions charged and paid to an intermediary for specific client accounts are disclosed clearly in the statements, so “clients know exactly what they’re paying for.”

The third significant difference is that in India there is no performance fee. “I came across many countries in the Morningstar report that had upfront loads, which had exit loads and had asymmetric performance fees,” he says.

“Things which India doesn’t have, and yet they were rated higher than India,” he states. “I don’t personally believe that we are actually out of whack, in terms of our expenses.” ■