

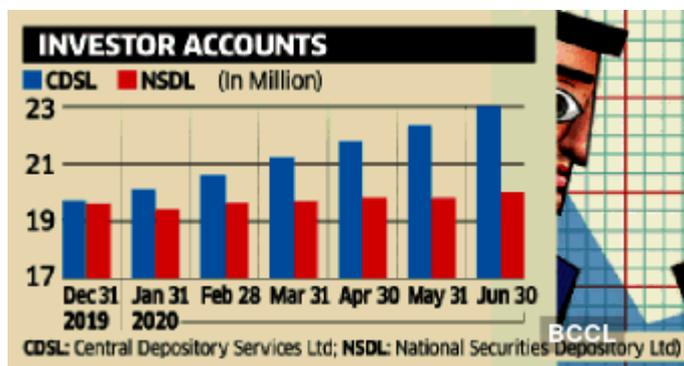
Regulatory reality may sour millennials' stock dreams

BYRajesh MascarenhasET Bureau 4 mins readJul 14, 2020, 08:43 AM IST : 4-5 minutes

Mumbai: The millennial rush into Indian equities in the past three months has created its own set of unique problems for different people. While mutual funds are worried whether it will draw funds out of the industry after equity schemes reported a 95 per cent fall in inflows in June, equity brokerages are facing a problem of plenty, and the prospect of a regulatory glare.

Sebi chairman Ajay Tyagi told ET that the surge in retail participation in stocks was perplexing, without elaborating. While Tyagi may have been reticent, brokerages celebrating the surge and consequent fattening of profit margins may be in for reality check.

Many brokerages are offering innovative products to clients, especially the millennial clients who have opened broking accounts in droves in the past few months. These 'basket' products include customised semi-automated trading strategies, robot-based advisory and stock picks, customised basket portfolios managed by professionals at a much lower cost than portfolio management services (PMS), spread-based option strategies to trade on any platform and automated rule-based trading engines for high-frequency players.



Brokerages said 70 per cent of the 3 million retail investors who have opened demat accounts in past five months are millennials, who have a much higher risk-taking ability.

Legal experts are questioning whether brokers can offer these products without a PMS licence. Some brokerages are offering basket services, where a clutch of stocks are available for purchase by the investor. And some discount brokerages are offering trading strategies based on price and volume data. Entry strategies and exit options are also offered to investors.

"Brokers, legally, are not allowed to sell stock recommendations other than as ancillary service. But there are grey areas, where research-based technology-driven stock baskets are aggressively sold like non-discretionary PMS," said Sumit Agrawal, former Sebi official and founder of Regstreet, a securities law firm. "This is in conflict with the role of portfolio managers," he said.

According to Sandeep Parekh, founder of Finsec Law Advisors, brokers can provide only incidental advice as per Sebi Investment Advisers regulations as well as convenient trading tools. Portfolio type services, which are governed by a different set of regulations, can't be provided, he added.

The CEO of a leading broking firm said Sebi norms don't prohibit stock brokers from recommending stocks to clients if a brokerage is registered as an investment adviser or research analyst.

The question is how many of them are registered as portfolio managers, and hence allowed to offer PMS-like products. While some large brokers have PMS licences, many new brokerages don't have these and yet continue to offer these services. "Without a PMS licence, brokers can't sell a basket of stocks except ETFs (exchange-traded funds) to clients. However, there are several loopholes in the regulations," said Huzefa Nasikwala, founder partner of Nasikwala Law Office. These loopholes pertain to whether a broker can sell PMS-like services and the regulations governing such practices.

The issue has become important as retail investors have not been driven away by the crisis-driven market volatility unlike past episodes. The Indian broking industry has added 3 million new demat

account customers since February 1. Retail share of average daily volumes in July has surged to a 15-year high.

“Millennials are attracted to the equity market as it gets digitised day by day, thus offering the comfort of investing in one of the best asset classes vis-à-vis traditional investment options of real estate or fixed deposits. Moreover, they have a huge appetite for risks compared with the earlier generation,” said Motilal Oswal, MD & CEO, Motilal Oswal Financial Services.

Share the joy of reading! Gift this story to your friends & peers with a personalized message. [Gift Now](#)