# Should SEBI consider 'fit and proper' or high net worth persons to handle portfolio management

KS Badri Narayanan Chennai | Updated on November 29, 2019 Published on November 30,

## Experts divided on regulator's new norms.

The Securities and Exchange Board of India recently enhanced the net worth criteria for those managing Portfolio Management Schemes (PMS) to Rs.5 crore from the current requirement of Rs.2 crore. It has also proposed to raise the minimum investment amount to Rs.50 lakh from Rs.25 lakh for investors in PMS.

A portfolio manager is a body corporate who, pursuant to a contract or arrangement with a client, advises or directs or undertakes on behalf of the client, the management or administration of a portfolio of securities or the funds of the client.

Currently, there are 355 SEBI-registered portfolio managers. Since each PMS account is unique, the valuation and portfolio of each account holder will vary. Each customer will get the valuation of his portfolio on a routine basis from the PMS provider.

According to SEBI norms, the portfolio manager is required to furnish periodically a report to the client, as agreed in the contract, but not exceeding a period of six months and as and when required by the client.

Besides, the report should contain the composition and value of the portfolio, description of security, number of securities, value of each security held in the portfolio, cash balance and aggregate value of the portfolio as on the date of report; transactions undertaken during the period of report including date of transaction and details of purchases and sales; beneficial interest received during that period in respect of interest, dividend, bonus shares, rights shares and debentures; expenses incurred in managing the portfolio of the client; and details of risk foreseen by the portfolio manager and the risk relating to the securities recommended by the portfolio manager for investment or disinvestment.

## Three-year timeline

SEBI has given existing portfolio managers three years to meet the new eligibility criteria. But market experts are divided on the new proposal.

Some market players welcome the SEBI decision to increase the net worth criteria as the move is intended to protect small investors and ensure serious players operate in the industry.

Others, however, feel that increasing the net worth is not the right way to achieve the desired results. According to them, the move might eliminate some of the best minds from the market and thus kill competition. High entry barriers in the form of net worth criteria do not guarantee quality in terms of performance or governance.

## Report from customers.

Instead, SEBI should insist on ‘fit and proper’ criteria for portfolio managers so that the market remains healthy, they opined. SEBI could even have a report card from existing PMS customers (based on various parameters such as transparency, communication to investors, resolving issues, and charges, etc) and rank each PMS based on the report card. If a PMS’ rating falls below a particular rank, SEBI could raise red flags. Routine audits by the exchanges, depositories and even SEBI can help tone up the integrity of the system.