Speaking Notes of WTM Ananth Narayan at "ASPIRE 2025" Mumbai

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I thank ARIA for this opportunity to address this august audience. I am here on behalf of my fellow WTM Kamlesh Varshney and the SEBI team that works with Investment Advisors.

In today's address, I thought I would cover the overall Indian foreign and domestic investment context and make the case that while the opportunities are immense, there is much for all of us stakeholders (including Investment Advisors and SEBI) to do.

FPI flows

Notwithstanding recent trends, overall, FPI flows have not been as bad as one might perhaps imagine today.

Over the last 5 Fiscal Years (since April 2020), we have seen overall FPI debt and equity inflows of USD 54 bn. Of this, Equity flows account for USD 21 bn, and Debt for USD 33 bn.

In contrast, over the previous 5 years (between FY16 and FY20), overall FPI inflows were USD 19 bn – with USD 12 bn into equity, and USD 7 bn into debt.

FPIs remain well invested in India. As of February 2025, they held INR 62 lakh crores (well over USD 700 bn equivalent) in equity, and about INR 5.9 lakh crores (USD 68 bn) in debt. In fact, the recent trend of higher FPI debt flows than equity (on the back of India's inclusion into global debt indices) has perhaps helped improve the portfolio mix a little bit. For a growing country like ours, this is not a bad outcome. Of course, it puts the onus on us to continue to deliver on sustained growth, stable macros, and governance.

This is not at all to suggest that there is any room for complacency anywhere. We need foreign savings. As Chairman SEBI mentioned in his first address, we remain committed to drawing in foreign investments to fund capital formation in India. We are working with all stakeholders, including FPIs, to enhance their investment experience in our country.

This is a symbiotic relationship, and FPIs have also benefitted from their investments in India. Since inception in 1998, FPIs equity flows and current holdings have an internal rate of return of a nearly 10% p.a. in USD terms (and over 13% in INR terms), not counting dividends. Indian equity has outperformed many other EM and DM, in USD terms. Over the last 5 years, for instance, notwithstanding the recent price drops, MSCI India (USD) has returned 11% CAGR – compared to 2% CAGR for MSCI (EM USD) and less than -2% CAGR for MSCI China (USD).

Domestic MF flows.

The real change over the past 10 years has of course been the significant rise in domestic flows into equity markets. Over the past five fiscal years, flows into equity risk-oriented schemes of domestic Mutual Funds (MFs) have exceeded an unprecedented INR 16 lakh crore (or over USD 200 bn). This is 10 times the net inflow from FPIs into equity during the same period. Note that a record INR 5.7 lakh crores has come into equity risk-oriented MF schemes in the 11 months of FY25 alone.

As a result of this sharp uptick in domestic MF inflows (and not really because of any net FPI equity outflows as one might perhaps imagine), the share of MFs in Indian market capitalization has been rising over the past 10 years, even as the FPI share of market capitalization has been dropping.

MFs accounted for just 3.9% of NSE total Market Cap as of Dec 2014. As of Dec 2024, their share has risen to 10.0%. During this time, FPI's share has dropped from 22.0% to 17.4%.

In terms of breadth, the number of unique investors under the SEBI ecosystem have grown from less than 5 crores in March 2020 to well over 13 crores now.

Given our strong fundamentals and growth prospects, as indicated earlier, this is not necessarily a bad trend. However, it does place the onus on all of us – including investors, issuers, intermediaries (including IAs), regulators and policy makers – to work together and ensure that we realize our aspirations and potential in sustained capital formation. There is no room for complacency.

Governance, Investor Awareness, and Trust are Crucial.

Issuers must deliver on growth and governance – investors are putting a lot of trust and faith in you. During FY24, against a new inflow of INR 5.0 lakh crores from MFs and FPIs into equities, just INR 2 lakh crores of equity issuances was undertaken. This fiscal year, amidst record MF inflows, we have seen record equity issuances as well, crossing INR 4.1 lakh crores as of February 2025. Adequate supply of fresh paper, in line with the demand for such paper, spurring fresh businesses and economic activity, is crucial for sustained capital formation and stable markets.

At the same time, investors must be risk aware and undertake responsible financial planning with appropriate asset allocation. While "Mutual Funds Sahi Hai", at the same time, "Mutual Fund Investments are Subject to Market Risk" as recent trends have demonstrated. IAs (and SEBI) have a crucial role to play in this regard.

Regulatory challenge

Together, we need to ensure investor protection and awareness, while furthering sustained capital formation.

Spreading investor awareness & education is a core part of SEBI's remit, and we are working to ensure greater investor participation alongside responsible and risk-aware investing. We are also undertaking a nationwide survey to help inform our outreach strategy. (IAs like Shri Harsh Roongta are part of our IEPF committee).

We also need to collectively minimize Type 1 errors (when wrong things happen and endanger trust) and Type 2 errors (where regulations come in the way of good business).

On type I errors, a common worry for all of us is the menace of unregistered IA/ RAs who are cashing on the rising interest in investments. Since October 2024, SEBI has worked with social media companies to bring down over 70k misleading handles/ posts.

The SEBI proposal to use the UPI "Payright" handle to help clearly identify SEBI registered entities is one way to ensure that we create a gated virtual community of registered entities that enhances investor trust and protects them from fraudsters. This is an extension of the optional "CeFCoM" – Centralised Fee Collection Mechanism – that is already available to you. We need your help and engagement to make this work.

While we need many more IA/ RAs, and we also need more self-regulation. The practitioner community understands ground realities much better and much quicker than regulators do. ARIA should perhaps aspire to become a quasi-SRO and foster all-round trust. The AMFI model is something we could perhaps aspire for.

The SEBI MIRSD team has taken several steps to help improve ease of doing business for IAs/ RAs – and as you know, more consultation papers in this regard have been put up. Am sure in the interactive session that follows, there will be more suggestions that can and should come up. We are happy to take them on board and consider them.

Going forward, we should further leverage the Accredited Investor model to identify risk-aware and risk capable investors, so that they can more freely fund risk takers, in a light-touch regulatory framework.

I also think that reviewing the intersection of IAs, non-discretionary PMS, Mutual Fund Distributors, and 'incidental advice' is also something that merits continued discussion between all stakeholders and SEBI.

Summary

The recent trends of greater domestic participation in securities markets underlines the need for all stakeholders – including IAs and SEBI – to work together closely to ensure investor awareness and protection, responsible investing, minimizing both type I and type II errors. The level of dialog between all of us has noticeably improved, and this trend should continue – sustained capital formation is our common collective goal.