

Consultation paper
on
Association of SEBI Registered Intermediaries/Regulated
Entities with Unregistered Entities (including Finfluencers)

Contents

1. Objective	3
2. Background	3
3. Finfluencers and their referral business model	3
4. Limiting the association of SEBI registered intermediaries/regulated entities and their agents/representatives with unregistered entities (including finfluencers)	5
5. Public Comments	6

1. Objective

- 1.1. The objective of this paper is to seek public comments on a proposal to restrict the association of SEBI registered intermediaries/regulated entities with unregistered 'finfluencers'.

2. Background

- 2.1. In recent times, activities of financial influencers ('finfluencers') have attracted wide public and media attention.
- 2.2. These finfluencers are usually unregistered entities providing catchy content, information, and advice on various financial topics to their several followers.
- 2.3. While some of them may be genuine educators, many of them are effectively unregistered and unauthorised Investment Advisers (IAs) or Research Analysts (RAs). A separate consultation paper proposes a unique fee payment platform for registered IAs and RAs that should help investors identify, isolate and avoid unregistered entities/finfluencers.
- 2.4. Other unregistered entities/finfluencers may be effectively enticing their followers to purchase products, services, or securities in return for undisclosed compensation from platforms or producers. This paper seeks to restrict the association of SEBI registered intermediaries/regulated entities with such unregistered finfluencers, to curb the flow of such compensation.

3. Finfluencers and their referral business model

- 3.1. As per the 'Guidelines for Influencer Advertising in Digital Media' released by Advertising Standards Council of India, 'influencer' means "someone having access to an audience and power to affect such audiences' purchasing decisions or opinions about a product, service, brand or experience, because of the influencer's authority, knowledge, position, or relationship with their audience".

- 3.2. Financial influencers, commonly called ‘finfluencers’, are persons who provide information and/or advice on various financial topics such as investing in securities, personal finance, banking products, insurance, real estate investment, etc. through social/digital media platforms/channels, and have the ability to influence the financial decisions of their followers. Thus, the activities of finfluencers may deal in areas regulated by financial sector regulators such as SEBI, RBI, PFRDA, and IRDA.
- 3.3. Finfluencers often attract investors/prospective investors through their engaging stories, messages, reels and videos on various social media platforms such as Instagram, Facebook, YouTube, LinkedIn, Twitter, etc.
- 3.4. However, finfluencers not registered with the relevant financial sector regulator may not have the requisite qualifications or expertise on the subject. Worse, not being formally subject to a financial sector regulator’s code of conduct, they may not disclose any potential conflict of interest such as their association with or interest in the products, services or securities that they promote.
- 3.5. Many unregistered/unregulated finfluencers directly or indirectly promote products, services or securities. They may induce clients to avail these products or services in return for -
 - i. Referral fee for usage of the product, channel, platform, or services that they advertise – such referral fee may be variable (per use or per user), or fixed (retainer model), or a combination of both. The commission may be in an upfront or trail manner;
 - ii. Non-cash benefits such as free usage of products or services;
 - iii. Compensation received directly from the social media or other platform where they share their content; and
 - iv. Profit sharing with the underlying product, channel, platform, or services.
- 3.6. SEBI has come across instances where SEBI registered intermediaries/regulated entities may be relying on such unregistered/unregulated finfluencers to promote their products and services.

4. Limiting the association of SEBI registered intermediaries/regulated entities and their agents/representatives with unregistered entities (including finfluencers)

- 4.1. Besides undertaking enforcement action against unregistered finfluencers who breach SEBI regulations, this paper proposes to disrupt the revenue model for such finfluencers, so that the perverse incentives in the ecosystem reduce.
- 4.2. No SEBI registered intermediaries/regulated entities or their agents/representatives shall, directly or indirectly, have any association/relationship in any form, whether monetary or non-monetary, for any promotion or advertisement of their services/products, with any unregistered entities (including finfluencers).
- 4.3. Entities registered/regulated by SEBI or stock exchanges or AMFI shall not share any confidential information of their clients with any unregistered entities.
- 4.4. Finfluencers registered with SEBI or stock exchanges or AMFI in any capacity shall display their appropriate registration number, contact details, investor grievance redressal helpline, and make appropriate disclosure and disclaimer on any posts. They shall also fully adhere to the code of conduct under the terms of their relevant registration.
- 4.5. Such entities shall comply with the advertisement guidelines issued by SEBI, stock exchanges and SEBI recognised supervisory body from time to time.
- 4.6. SEBI registered intermediaries/regulated entities shall not pay any trailing commission based on the number of referrals as referral fee.
- 4.7. Limited referrals from retail clients, and payment of fees for such limited referrals by stockbrokers shall be allowed.
- 4.8. SEBI registered intermediaries shall take active measures to dissociate themselves from any unregistered entity using their name, product or service. They shall take necessary action to bring it to the notice of enforcement agency concerned to take appropriate action, including filing case under section 420 of the Indian Penal Code, 1860 for impersonation and fraud, etc. as may be applicable.

5. Public Comments

5.1. Public comments are invited on the proposal at para 4 above in the following format:

Name of entity/person/organisation:			
Contact details:			
Category: whether market intermediary/participant (mention type or category) or public (investor, academician, etc.)			
Sr. No.	Proposal	Comments/Suggestions	Rationale
	Page No. Para No.		

5.2. Comments/suggestions may be forwarded by email to consultationMIRSD@sebi.gov.in latest by September 15, 2023. While sending the email, kindly mention the subject as “Comments on Consultation paper on Association of SEBI Registered Intermediaries/Regulated Entities with Unregistered Entities (including Finfluencers)”.

Deputy General Manager

Division of Policy II

Market Intermediaries Regulations and Supervision Department

Securities and Exchange Board of India

SEBI Bhavan II, Plot No. C-7, “G” Block, Bandra Kurla Complex

Bandra (East), Mumbai - 400 051

Issued on: August 25, 2023