



FOUNDATION OF INDEPENDENT FINANCIAL ASSOCIATES Formerly known as Foundation of Independent Financial Advisors

12th March, 2026

The Chairman,
Securities and Exchange Board of India,
Plot No. C-4A, G Block,
Bandra Kurla Complex,
Bandra East,
Mumbai,– 400 051.

Sub: Representation on the Impact of the TER Recalibration on Mutual Fund Distributors exempt under GST or under the Composition Scheme, and on the proposed change in the mechanism of payment of GST to Mutual Fund Distributors from April 01, 2026.

Dear Sir,

INTRODUCTION

We, the Foundation of Independent Financial Associates (“FIFA”), write to you in reference to the Securities and Exchange Board of India (Mutual Funds) Regulations, 2026 (“MF Regulations”), as notified by the Securities and Exchange Board of India (“SEBI”) pursuant to the Consultation Paper on Comprehensive Review of the SEBI (Mutual Funds) Regulations, 1996 dated October 28, 2025 (“Consultation Paper”), and the Board Memorandum dated December 17, 2025 (“Board Memorandum”).

FIFA is a pan-India association of independent mutual fund distributors (“MFDs”) and Registered Investment Advisors (“RIAs”) united by a single overarching vision to help every Indian household achieve financial independence. Towards this end, FIFA is committed to advancing financial inclusion across the length and breadth of the country, by fostering financial awareness and spreading financial literacy among the investing public. FIFA’s members serve as true Saarthis — trusted guides and companions in the financial journeys of Indian households — rendering excellent professional service to each and every investor, irrespective of geography, income, or background. To fulfil this vision, FIFA brings the distribution and advisory community together on a common platform to share knowledge, promote best practices, and continuously educate and empower its members to deliver the highest standards of service to the ever-growing investor class in India. FIFA also proactively engages with policymakers and regulators, including SEBI, in the belief that a well-supported and professionally empowered distribution network is indispensable to achieving the twin goals of investor protection and long-term industry development, thereby ensuring the orderly and sustainable growth of the mutual fund industry in India.



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In pursuance of the said objective, we submit this representation focusing on two inter-related issues arising from the revised Total Expense Ratio (“TER”) framework:

- A. Impact of the TER recalibration on small, GST-exempt and composition scheme MFDs; and
- B. The change in GST payment mechanism going to be adopted by all AMCs/MF/ AMFI following the revised Base Expense Ratio (“BER”) framework — for which we believe there is no statutory or regulatory basis.

At the outset, we wish to place on record our sincere appreciation to SEBI for its responsiveness to industry feedback. We note with gratitude that several observations and recommendations from our earlier representation dated November 25, 2025 on the Consultation Paper have been duly considered. We are encouraged by this engagement and remain committed to contributing meaningfully to the development of the mutual fund regulatory framework.

PART A: IMPACT OF THE TER RECALIBRATION ON SMALL, GST-EXEMPT AND COMPOSITION SCHEME MFDs

A.1 Miscalibration of the “Effective GST” in the TER Reduction

Under the MF Regulations, SEBI has enhanced transparency by excluding all statutory levies, including Goods and Services Tax (“GST”), from the **BER** limits. The BER limits have been revised downward to offset this exclusion and ostensibly maintain cost neutrality for the industry. We understand and appreciate SEBI’s intent to achieve transparency of cost by segregating costs and taxes from the total TER.

The Board Memorandum at paragraph 2.3 B.i Note states that the BER thresholds have been revised to limit the impact on cost structure broadly to the extent of exclusion of statutory levies from the base expense ratio limits. While this revision is a welcome recalibration, we submit that the downward revision of the BER appears to be calibrated on the assumption of a uniform 18% GST incidence across the entire distribution spectrum without considering the differentiating impact on distributors registered or not under the GST Act, or on distributors registered under the composition scheme.

However, this assumption is factually incorrect.

A significant segment of MFDs — those below the GST registration threshold or under the composition scheme — do not attract GST at 18%, resulting in a materially lower effective blended GST incidence across the distribution network than assumed.

The threshold limit for applicability of GST or the lower 6% incidence of GST for a person registered under the composition scheme, is an incentive devised by the Government of India under the Central Goods and Services Tax Act, 2017 (“GST Act”) to encourage small enterprises by providing financial support through a lower GST rate and ease of doing business by reducing compliance.



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Approximately **50% of MFDs** — predominantly small operators in B-30 cities — fall below the ₹20 lakh annual turnover threshold and are explicitly exempt from GST under the **GST Act** or are under the Composition Scheme. These distributors constitute an estimated **10% of total distribution expense**. As such, the actual blended GST currently embedded in the TER is approximately **16.2%** (being 90% of brokerages attracting 18% GST and 10% attracting no GST), and not the uniform maximum of 18% as shown in table below :

Figure 1: Blended Effective GST Rate across the MFD Distribution Network

| MFD Category | % of MFD Community | % of Brokerage Pool | GST Rate | Weighted GST Contribution |
|-----------------------------------|--------------------|---------------------|----------|---------------------------|
| Registered MFDs (>₹20L threshold) | ~50% | ~90% | 18% | 16.2% |
| Exempt MFDs (< ₹20L threshold) | ~50% | ~10% | 0% | 0% |
| Blended Effective GST Rate | | | | ~16.2% |

Note: Blended Rate = (90% × 18%) + (10% × 0%) = 16.2%. Source: FIFA internal data.

While recognising that SEBI may not calibrate TER reductions at this granular level, our primary concern is therefore the downstream impact on small, exempt MFDs whose net income will be directly and disproportionately reduced under the new regime, as elaborated below.

A.2 Impact of the TER Recalibration on Exempt and Composition Scheme MFDs

Under the earlier TER regime, AMCs paid a gross brokerage (inclusive of GST, where applicable) to MFDs. For a registered MFD, the GST component embedded in the gross amount was remitted to the government, with the net amount retained as income. For an exempt MFD (annual turnover below ₹20 lakhs), no GST was payable and the entire gross amount was retained as income. This GST retention was not a windfall gain, but a critical income component for small MFDs operating on thin margins.

Under the new regime the BER is reduced across the board by applying a standard formula. All AMCs propose that with effect from April 01, 2026 brokerage for all distributors will be reduced by 15.25% from the current brokerage being paid. In addition to this, the amount of GST will be paid on submission of a GST Invoice by the distributors.

The impact is as follows:

- **Registered MFDs:** The base brokerage reduces, but the MFD raises a GST invoice on the AMC and is reimbursed for the GST component. Net income therefore remains broadly comparable to the current regime.
- **Exempt MFDs (turnover < ₹20 lakhs):** The base brokerage reduces in line with new BER limits, **The net take-home income is therefore irreversibly reduced by approximately 15%.**



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- **Composition Scheme MFDs (turnover ₹20L–₹50L, 6% GST):** The base brokerage reduces, but these MFDs cannot issue a tax invoice or recover input tax credit. They must still remit a 6% composition levy out of their reduced brokerage. **Net income reduction is approximately 15% on a like-for-like basis (comparing old net take-home of ₹94, after 6% composition levy, to new net ₹79.66).**

Figure 2 below demonstrates the impact on net take-home income across MFD categories, using an indicative brokerage of ₹100 under the current regime for an equity-oriented scheme.

| Figure 2. | | | | |
|---|------------|----------|--------|--------|
| MFDS | Upto | From 01- | Impact | |
| | 31/03/2026 | 04-2026 | | |
| Regime | Old | New | (₹) | (%) |
| Registered MFD (18% GST) | | | | |
| Gross Receipt | ₹ 100.00 | ₹ 84.75 | | |
| GST Reimbursed (₹) | ₹ - | ₹ 15.25 | | |
| GST Paid (₹) | ₹ 15.25 | ₹ 15.25 | | |
| Net Income after GST Deduction | ₹ 84.75 | ₹ 84.75 | | |
| Take Home | ₹ 84.75 | ₹ 84.75 | 0 | 0 |
| Exempt MFD (No GST, <₹20L) | | | | |
| Gross Receipt | ₹ 100.00 | ₹ 84.75 | | |
| GST Reimbursed (₹) | ₹ - | ₹ - | | |
| GST Paid (₹) | ₹ - | ₹ - | | |
| Take Home | ₹ 100.00 | ₹ 84.75 | -15.25 | -15.25 |
| Composition Scheme MFD (6% GST, ₹20L–₹50L) | | | | |
| Gross Receipt | ₹ 100.00 | ₹ 84.75 | | |
| GST Reimbursed (₹) | | | | |
| GST Paid (₹) | ₹ 6.00 | ₹ 5.09 | | |
| Net Income after GST Deduction | 94 | 79.66 | | |
| Take Home | 94 | 79.66 | -14.34 | -15.26 |

As is evident from the above, the exempt MFDs and the MFDs under composition schemes face a net income reduction of approximately 15%. This is a significant and material adverse impact on the earnings of the smallest participants in the distribution ecosystem.



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A.3 Additional Adverse Impact: Removal of the 5 bps Exit Load TER Allowance

We wish to draw attention to an additional adverse impact arising from the removal of the additional TER of 5 basis points that was earlier permitted in lieu of exit load. This change will result in a net reduction in TER, the aggregate impact consequently not being neutral, contrary to the stated objective of the regulatory revision. We gather that this incremental reduction is going to be passed on to all distributors and compounds the adverse income impact on small MFDs described above. If the entire impact is passed on to the distribution community **it will result in a reduction of 6 % in the income of registered MFDs and 21% in respect of other distributors as shown below in Figure 3.**

Figure 3: Additional Impact on Net Take-Home Income of MFDs across GST Categories

(Illustrative)

| Figure 3 | | | | |
|---|------------|-------------|----------|--------|
| MFDs | Upto | From 01-04- | Impact | |
| | 31/03/2026 | 2026 | (₹) | (%) |
| | Old Regime | New | | |
| Initial Payout to Distributors | ₹ 100.00 | ₹ 84.75 | | |
| Registered MFD (18% GST) | | | | |
| Gross Receipt | ₹ 100.00 | ₹ 84.75 | | |
| GST Reimbursed (₹) | ₹ - | ₹ 15.25 | | |
| GST Paid (₹) | ₹ 15.25 | ₹ 15.25 | | |
| Net Income after GST Deduction | ₹ 84.75 | ₹ 84.75 | | |
| 5 BPS reduction | ₹ - | ₹ 5.00 | | |
| Take Home | ₹ 84.75 | ₹ 79.75 | ₹ -5.00 | -5.90 |
| Exempt MFD (No GST, <₹20L) | | | | |
| Gross Receipt | ₹ 100.00 | ₹ 84.75 | | |
| 5 BPS reduction | ₹ - | ₹ 5.00 | | |
| Take Home | ₹ 100.00 | ₹ 79.75 | ₹ -20.25 | -20.25 |
| Composition Scheme MFD (6% GST, ₹20L-₹50L) | | | | |
| Gross Receipt | ₹ 100.00 | ₹ 84.75 | | |
| GST Paid (₹) | ₹ 6.00 | ₹ 5.09 | | |
| Net Income after GST Deduction | ₹ 94.00 | ₹ 79.66 | | |
| 5 BPS reduction | ₹ - | ₹ 5.00 | | |
| Take Home | ₹ 94.00 | ₹ 74.66 | ₹ -19.34 | -20.57 |

A.4 Implications for Financial Inclusion

It is pertinent to note that a significant portion of new and retail investors access mutual funds through physical, last-mile MFD channels. An estimated **50% of the MFD community comprises small distributors, predominantly operating in B-30 locations.** They play a crucial role in expanding mutual fund penetration and furthering financial inclusion. A 15–20% reduction in net income of these very



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participants who drive financial literacy in underserved areas is **contrary to SEBI's own stated objectives** of expanding mutual fund reach. This will inevitably lead to attrition among small MFDs, reducing the distribution footprint precisely where it is most needed.

PART B: THE AMC GST PAYMENT MECHANISM — NO STATUTORY BASIS FOR CHANGE IN PAYMENT MECHANICS

B.1 Unilateral Change in GST Payment Mechanism by AMCs

Following the SEBI Board's approval of the revised BER framework, we believe AMCs have **unilaterally changed the mechanism for paying** distributor brokerage — moving from the earlier seamless arrangement (where brokerage inclusive of GST was paid to the distributor directly) to a new **mechanism** (where first brokerage excluding GST is paid and subsequently a separate payment for GST be released only after the distributor submits an invoice .)

FIFA submits that this change has no statutory or regulatory basis and that the Association of Mutual Funds of India ("AMFI") and/or Registrar and Transfer Agents ("RTA" or "R&Ts") have the the GST status of each ARN Holder , **whether registered, exempt or composite. Basis the information available with them, the R&Ts** are currently also providing a Proforma GST invoice for GST-registered ARN holders and a bill of supply for exempt and composite supply ARN holders and same practice can continue.

B.2 What SEBI's Regulation Actually Says — and What It Does Not Say

The revised SEBI (Mutual Funds) Regulations, 2026 provide that the Total Expense Ratio shall consist of the Base Expense Ratio (BER) plus statutory levies — including GST — charged to the scheme **"on actuals."** The mutual funds, AMFI have interpreted the words "on actuals" to mean that they must obtain Invoice from MFDs before reimbursing GST. This interpretation with due respect, is **incorrect. . In any case, for the purpose of determining the daily NAV, the mutual fund does fall back on an estimation of GST and other statutory levies and the NAV is not determined "on actuals" as interpreted by the mutual funds.**

The phrase "on actuals" in SEBI's regulation governs only **how AMCs account for and charge statutory levies to the mutual fund scheme and disclose them to investors** — i.e., at the actual applicable rate (18% GST, actual STT, actual Stamp Duty) rather than an estimated amount embedded in a fixed TER cap. It is a regulation determining TER computation and investor-level cost disclosure. **It says nothing about the payment mechanics between the AMC and the distributor**

B.3 The Earlier Payment Mechanism Was Legally Correct — and Remains So

Under the pre-April 2026 arrangement, AMCs/Mutual Funds would compute and communicate the details of brokerage payable to MFDs including GST. Alongwith this statement, a Proforma GST invoice for GST-registered ARN holders and a bill of supply for exempt and composite supply ARN holders would also be sent to the distributors. The total amount payable would also be simultaneously paid to all the distributors on the basis of the above, the MFDs would in due course raise GST-compliant tax invoices where applicable. Nothing in SEBI's revised regulation changes this service relationship or the applicable payment mechanics between AMC and distributor.



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The purpose of excluding GST from the BER cap is purely structural: to ensure that future changes in GST rates are passed through to investors at actual cost, without distorting the expense ratio cap. This is achieved at the scheme accounting and NAV calculation level. It does not require — and does not contemplate — any change in how AMCs pay distributors.

Under the revised framework, the AMC can continue to:

- Pay the distributor ₹100 brokerage + ₹18 GST = ₹118 as before, and obtain a GST-compliant tax invoice post payment as is the practice today.
- Account for the ₹18 GST separately in the scheme’s TER calculation as a statutory levy charged ‘on actuals’ — exactly as SEBI’s regulation requires.
- In case of MFDs exempt under GST or under composition scheme pay the brokerage at the same rate (Rs 118/-) as earlier and account it as part of BER.

The TER disclosed to investors would show: BER + GST based on the invoices raised . This is precisely the outcome SEBI’s regulatory intention— transparency in cost components — and it is fully achieved without any change to the payment mechanism.

B.4 Comparison of the Two Payment Mechanisms

Figure 4: Comparison of GST Payment Mechanisms — Earlier vs. Proposed

| Parameter | Earlier Mechanism (Pre-April 2026) | New Mechanism |
|---------------------------|--|---|
| Brokerage + GST payment | Brokerage and GST paid together upfront (e.g. ₹100 brokerage + ₹18 GST = ₹118 released simultaneously) | Brokerage released first (₹100); GST component (₹18) withheld and released separately |
| Invoice submission by MFD | MFD submits GST-compliant invoice subsequently, based on the amount received from the AMC | MFD must first submit a GST invoice; GST component released by AMC only after invoice is received |

FIFA’s Submission: AMCs are not required to change the GST payment mechanism as a consequence of the revised BER framework. The earlier mechanism — paying brokerage plus GST in full based on calculations by the RTAs and subsequent raising of invoices by MFDs and accounting for the GST component separately in the scheme TER — remains fully compliant with both SEBI’s regulation.

We respectfully request SEBI to issue a clarification to this effect and direct AMFI to advise AMCs accordingly, to prevent them from reducing brokerage.



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RECOMMENDATIONS

In light of the aforesaid, we propose the following for SEBI's consideration:

- 1. Maintain Brokerage Parity for Exempt and Composition Scheme MFDs:** SEBI may issue appropriate guidance, whether through regulations, circulars, or directions to AMFI, mandating that AMC's maintain brokerage parity for GST-exempt and composition scheme MFDs. The net brokerage payable to such MFDs should not be reduced merely on account of the restructuring of the TER from an inclusive to an exclusive basis. The cost to the scheme of maintaining such parity is estimated at approximately 1–2 bps of total AUM, whereas the income impact on the individual small MFD is 15–20%.
- 2. Advise AMC's to continue with the earlier mechanism of paying:** SEBI may issue a clarification confirming that the revised BER/TER framework does not require any change in the payment of GST by AMC's to distributors, and direct AMFI to advise AMC's to continue with the earlier mechanism of paying brokerage inclusive of GST.
- 3. Absorption of TER Reductions by AMC's:** Any residual reduction in the BER that exceeds the actual GST offset should be borne by AMC's as they benefit more from Scale Economies than Distributors .
- 4. Revision of AMFI Circular Restricting Increase in Brokerage for Distributors:** AMFI Best Practice Guidelines Circular No. 54/2014-15 prohibits any enhancement of brokerage on existing AUM, effectively preventing MFDs from benefiting even where the revised TER structure results in higher permissible BER limits. This restriction should be revisited to permit brokerage increases in such cases.
- 5. Additional Expense of 1 bps towards Distributor-led Investor Education:** On-ground investor education is primarily delivered by distributors through direct investor interactions; however, the reserved expense amount is in practice utilised by AMC's for fund advertising and marketing. It is submitted that 1 bps out of the existing additional expense allowance be permitted to be utilised for distributors conducting investor education and financial awareness programmes.

CONCLUSION

In conclusion, we reiterate that MFDs play an indispensable and irreplaceable role in expanding mutual fund penetration across the country, particularly among first-time and retail investors in smaller towns and cities where awareness and financial literacy levels remain limited. Their on-ground presence, investor education efforts, and continuous handholding significantly contribute to building investor confidence and ensuring sustained participation in the mutual fund industry.

A significant reduction in the net income of small MFDs — who depend on distribution brokerages as their primary livelihood — risks triggering an **irreversible spiral: attrition of small distributors, contraction of last-mile reach, and reduced investor participation** in mutual funds. The additional imposition of working capital stress through the AMC holdback mechanism further compounds this risk. Both outcomes would be directly contrary to the regulatory objectives of financial inclusion and broadening the investor base.



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Any changes to the cost and revenue framework of mutual funds therefore have a direct and material impact on the long-term viability of MFDs and, consequently, on the industry's ability to reach underserved segments. In this context, we respectfully urge SEBI to consider the observations and concerns highlighted above and issue appropriate guidance, circulars, or directions to AMFI prior to the implementation of the Regulations on April 1, 2026.

We reaffirm our commitment to supporting SEBI's overarching objectives of investor protection, enhanced transparency, and the orderly, inclusive, and sustainable growth of the mutual fund industry. We also thank SEBI for the opportunity to contribute meaningfully to the continued development of the regulatory framework for mutual funds.

Thank you.

Yours sincerely,

For FIFA (Foundation of Independent Financial Associates)

Dhruv Mehta
Chairman