

Ethical Issues

LEARNING OBJECTIVES: Ethics & Ethical Restraint • Importance in Business • Ethical Issues in Financial Advice • Eth

Sneha Rege

1 What is Ethics? — Definition & Fundamentals

Ethics is defined as a set of **moral principles or rules of conduct** that provide guidance for our behaviour when it affects others. The term derives from the Greek word **ethos** meaning custom, habit or character. Widely acknowledged fundamental ethical principles include **honesty, fairness, diligence, care and respect for others**. Ethics goes one step beyond the law — it is not merely about doing things that are legal, but about what is **right or wrong** based on fundamental values and character.

 Greek Origin From <i>ethos</i> — meaning custom, habit or character	 Beyond the Law Legal ≠ Ethical. Ethics governs what is RIGHT, not merely what is permitted	 Core Principles Honesty, Fairness, Diligence, Care and Respect for Others	 Client First IA's central ethical obligation: put client interest above self-interest at all times
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2 Importance of Ethical Conduct in Business

Investment advisers are in a **unique position** because their business requires the highest form of ethical conduct to earn society's respect. The IA deals with matters related to clients' money — conducting business ethically means putting client interest above everything else (**Client First principle**). Trust is at the centre of all IA activities. It can **take years to build trust but just moments to lose it**. Ethical conduct also means the IA proactively looks out for client needs — not waiting to be asked.

Why Ethics Matters	How It Manifests
Builds trust over time	Clients and society gain confidence through consistent ethical actions — not just words
No conflict of interest	IA must not pursue self-interest at client's expense. If clients feel IA looks out only for themselves, trust collapses.
Role model responsibility	Business leaders are looked up to for inspiration. IAs must strive to be that ethical role model in financial services.
Long-term sustainability	Ethical shortcuts may yield short-term gains but destroy the advisory relationship and reputation permanently.
Proactive service	IA should proactively suggest what the client needs — not wait for the client to ask. This demonstrates genuine client-centricity.
Society at large	Financial intermediaries channel domestic savings into productive investments. Ethical conduct impacts the entire financial ecosystem.

3 Key Ethical Issues in Providing Financial Advice

The main problems and investor grievance areas in the advisory business include:

Ethical Issue	Description	Example
1. Lack of client understanding	Advisor fails to understand client's specific situation or needs before recommending products. Client's wishes vs. needs may differ — risk profiling is essential.	Small Cap Funds recommended to senior citizens — inappropriate for their risk profile and time horizon
2. Product ignorance	Advisor lacks understanding of the product being recommended, especially the risks involved and suitability. Highlights only good features while glossing over risks.	Arbitrage Funds sold as "Liquid Fund substitutes" without explaining the equity risk and settlement differences
3. Limited market knowledge	Advisor lacks comparative context across products — cannot give relative valuation or understand pros and cons of the full product universe.	Recommending Small Cap Funds at the peak of a rally without informing client of valuation risk
4. Churning	Frequent switching from one product to another to generate commissions — placing IA's financial interest above client benefit.	SEBI has mandated advisers cannot distribute to directly address this conflict. Still prevalent in distribution channels.
5. Misrepresentation of risks	Not educating the investor about risks and uncertainties of products while highlighting only positive features.	Distress Debt Funds (AIF) sold without communicating higher default risk to investors
6. Poor after-sales service	Deviating from what was promised, not providing ongoing advice, shifting work to others without adequate follow-through.	Investor left without guidance after initial investment — no rebalancing, no portfolio review provided

4 Ethical Dilemma — Types & Resolution

An **ethical dilemma** is a situation where a person must choose between two alternatives, neither of which is clearly superior — both options may involve some ethical trade-off. The choice made sends a signal about the IA's ethical standards and will reinforce client perceptions over time.

Type of Dilemma	Example	Resolution Approach
Revenue vs. Client Benefit	Client does not need a particular service but adviser could earn fees by putting them through it. Option (a) = revenue; Option (b) = ethical.	Choose option (b) — tell client what is unnecessary. Long-term trust is more valuable than short-term fee income.
Growth vs. Service Quality	Sign up many clients quickly (unsustainable service quality) vs. build slowly with high service quality (business may not survive in short term).	Deeper analysis — sustainable growth with adequate capacity is more ethical and viable than over-promising service.
Personal Values vs. Employer Demands	IA believes in term insurance for clients (low premium, pure protection). Employer wants ULIPs/whole life policies promoted (higher commission).	Use specific guiding principles — e.g., "do the highest good for all" or "least damage" — or reconsider whether the employment is compatible with ethical practice.
Product Quality vs. Distribution Incentive	Distributor recommends consistently underperforming MF because it pays higher commission. Adviser must evaluate independently.	Proper fund evaluation; recommend products suitable to client regardless of commission structure.
Product Suitability vs. Relationship	Relationship manager pushes aggressive equity MFs or ULIPs to older clients unsuited for such risk.	Base decisions on client need and situation; avoid products that are not appropriate regardless of relationship pressure.

RESOLVING ETHICAL DILEMMAS

Three approaches: (1) **Deeper analysis** — what seems like a dilemma often becomes a clear case on deeper examination. (2) **Guiding principle** — "do the highest good for all" or "do the least damage" as a decision rule. (3) **Reframe the problem** — looking at the situation from a completely different angle may reveal new solutions previously unconsidered. In today's digital/social media world, clients easily encounter differing views — ethical behaviour and justification are imperative.

5 Fiduciary Responsibility of Investment Advisers

Investment Advisers are **fiduciaries** — they act on behalf of clients to manage their financial assets. This means the principle of *uberrimae fidei* (utmost good faith) must govern all their actions. There cannot be profit made at the cost of the client. The IA must never take unfair advantage of the client's trust.

Fiduciary Obligation	Requirement
Full disclosure	All facts must be disclosed to the client — including omissions. Not disclosing relevant facts is as problematic as giving wrong information. Especially critical when a conflict of interest exists or could be perceived.
Suitable advice	Advice must be tailored to the specific situation of each individual client — their goals, risk profile, financial situation, and life stage.
Reasonable/objective basis	Every recommendation must have an objective basis. It should NOT be formed on factors that benefit the adviser. The recommendation must serve the client's financial goals.
Proper execution	All work assigned to the IA must be executed without any conflict of interest. The IA acts as custodian of the client's financial future.
No personal profit at client's cost	The <i>uberrimae fidei</i> principle: there can be no profit made at the client's expense. The fiduciary duty is to rise above conflicts and put the client at the forefront of every decision.

6 SEBI Do's and Don'ts for Investors

SEBI has issued the following guidance to help investors protect themselves when dealing with Investment Advisers:

DO'S FOR INVESTORS (SEBI)	DON'TS FOR INVESTORS (SEBI)
✓ Deal only with SEBI registered Investment Advisers. Verify SEBI registration number — check SEBI website.	✗ Do not deal with unregistered entities — social media followers are NOT a proxy for SEBI registration.
✓ Ensure IA has a valid registration certificate.	✗ Don't fall for stock tips offered under the pretext of investment advice.
✓ Pay only advisory fees to your IA. Make payments only through banking channels. Maintain signed receipts with payment details.	✗ Do not give your money for investment to the IA. IA cannot hold client funds.
✓ Always ask for your risk profiling before accepting investment advice. Insist advice is based strictly on your risk profile.	✗ Don't fall for promises of indicative, exorbitant or assured returns. Don't let greed override rational decisions.
✓ Ask all relevant questions and clear doubts before acting on advice.	✗ Don't get carried away by luring advertisements or market rumours.
✓ Assess the risk-return profile, liquidity, and safety aspects before making any investment.	✗ Avoid doing transactions only on the basis of phone calls or messages from any IA or its representatives.
✓ Insist on written terms and conditions — signed and stamped. Read carefully regarding fees, plans, and recommendation categories.	✗ Don't take decisions because of repeated calls or messages by IAs (pressure tactics).
✓ Be vigilant in your transactions.	✗ Don't fall prey to limited-period discounts, incentives, or gifts offered by IAs.
✓ Approach appropriate authorities for grievance redressal. Inform SEBI about IAs offering assured or guaranteed returns.	✗ Don't rush into investments that do not match your risk appetite and investment goals.

7 Annual Audit Observations & Global Best Practices

Annual Compliance Audit: Investment Advisers must conduct a yearly compliance audit by a **Practising Chartered Accountant**. If there are any **material audit observations**, the IA must disclose these to clients. This ensures ongoing regulatory compliance and transparency with the client base.

Country / Regulator	Key Ethical Standard / Best Practice
SEC (USA)	Registered advisers must disclose financial conditions impairing ability to meet commitments; disciplinary events in past 10 years. Mandatory written Code of Ethics covering: (a) standards of conduct for all supervised persons; (b) compliance with federal securities laws; (c) quarterly reporting of personal securities transactions to Chief Compliance Officer (CCO); (d) pre-approval of IPO/limited offering investments by access persons; (e) prompt reporting of code violations to CCO; (f) distribution of code and written acknowledgement from each supervised person; (g) recordkeeping of code, violations and actions.
Australia (Corporations Act 2001, s.961B)	"Best Interests" standard with strict penalties including bans and disqualification. Adviser must: (1) Identify client's financial situation, objectives and needs; (2) Identify the subject matter of advice sought; (3) Identify relevant circumstances — objectives, financial situation and needs relevant to the advice sought; (4) Ensure information is complete and correct; make enquiries if gaps or inconsistencies appear; (5) Thoroughly investigate most appropriate products relevant to client's circumstances before recommending; (6) Base all judgements on client's relevant circumstances; (7) Take any other step reasonably in the client's best interests given their circumstances.

■ CHAPTER 19 — QUICK REVISION: ETHICAL ISSUES

Ethics	Moral principles guiding behaviour when it affects others. From Greek ethos (custom/habit/character). Goes beyond law — about what is RIGHT, not just legal.
Core Ethical Principles	Honesty, Fairness, Diligence, Care, Respect for Others.
Client First Principle	IA must place client interest above self-interest at all times. Central to all ethical conduct in advisory business.

Trust	Takes years to build; moments to lose. Central to all IA activities. Earned through consistent ethical actions over time.
Key Ethical Issues	(1) Lack of client understanding; (2) Product ignorance; (3) Limited market knowledge; (4) Churning; (5) Misrepresenting risks; (6) Poor after-sales service.
Churning	Frequent switching between products to generate commissions — IA's interest above client's. SEBI mandates IA-distributor segregation to directly address this.
Ethical Dilemma	Situation with two alternatives — neither clearly superior; both may involve some ethical trade-off. Choice sends a signal about IA's ethical standards.
Resolving Dilemmas	(1) Deeper analysis — often clarifies the right path; (2) Guiding principle — "do highest good" or "least damage"; (3) Reframe the problem.
Fiduciary Duty	IA is a fiduciary. Uberrimae fidei = utmost good faith. Cannot profit at client's expense. Must put client at the forefront of every decision.
Fiduciary Obligations	Full disclosure of all facts; suitable advice per client situation; objective/reasonable basis for all recommendations; proper execution without conflict of interest.
Uberrimae Fidei	Latin: "utmost good faith." IA must not take unfair advantage of client's trust. Acts as custodian of client's financial future.
SEBI Do's (Key)	Deal only with SEBI-registered IA; pay only advisory fees via banking channels; insist on risk profiling; get written terms; assess risk-return-liquidity-safety.
SEBI Don'ts (Key)	Don't give money to IA for investment; don't believe assured returns; don't act on phone tips alone; don't fall for pressure tactics or limited-period offers.
Annual Audit	Yearly compliance audit by Practising CA. Material audit observations must be disclosed to clients.
SEC (USA) Code of Ethics	Written code required. Personal securities transactions reported to CCO quarterly. Pre-approval for IPO/limited offering investments. Recordkeeping mandatory.
Australia Best Interest	Must identify client situation/objectives/needs; thoroughly investigate suitable products; base all judgements on client's circumstances. Penalties include bans.

■ MCQ PRACTICE — Chapter 19 — Ethical Issues

10 Questions | Answers shown below each question

1 Which of the following BEST defines "Ethics" in the context of financial advisory services?

- a) Strict adherence to all legal requirements and regulatory guidelines without exception
- b) A set of moral principles or rules of conduct that guide behaviour when it affects others — going beyond the law to what is right**
- c) The set of compliance procedures mandated by SEBI for all registered investment advisers
- d) The process of maximising client returns while minimising the investment adviser's personal liability

✓ **Answer: b) Moral principles guiding behaviour affecting others — going beyond the law**

Ethics is defined as a set of **moral principles or rules of conduct** that provide guidance for behaviour when it affects others. The term derives from the Greek word **ethos** meaning custom, habit or character. Crucially, ethics goes **one step beyond the law** — doing things within the law is necessary but not sufficient; ethics concerns what is right or wrong based on fundamental values. For investment advisers, widely acknowledged ethical principles include honesty, fairness, diligence, care, and respect for others. An IA not providing after-sales service — while not illegal — is a clear ethical violation.

2 An investment adviser recommends Arbitrage Funds to a client as a "Liquid Fund substitute" without explaining the key differences. Which ethical issue does this represent?

- a) Churning — the adviser is switching the client from liquid funds to arbitrage funds for commission
- b) Poor after-sales service — the adviser should have followed up on the existing liquid fund investment
- c) Product ignorance or misrepresentation — the adviser lacks understanding of product risks and differences, highlighting only good features**
- d) Conflict of interest — the adviser personally holds arbitrage funds and is recommending the same to the client

✓ **Answer: c) Product ignorance / misrepresentation — highlighting benefits without disclosing risks**

This is a classic example of **ethical issue #2 and #5** from the NISM curriculum: **advisor's lack of understanding of the product and not educating/informing the investor about risks**. Arbitrage Funds and Liquid Funds have important differences: arbitrage funds have equity taxation (beneficial) but involve delivery-based settlement, slightly higher risk in low-volatility periods, and are not as instantaneously liquid. Presenting arbitrage funds as a simple substitute without explaining these differences is a misrepresentation that can lead to investor disappointment when the actual product behaviour differs from expectations.

3 An investment adviser's client does not require a financial plan review, but the adviser could earn fees by putting them through the process. Which type of ethical issue is this?

- a) Churning — the adviser is changing the client's investments unnecessarily to earn fees
- b) An ethical dilemma — the adviser must choose between earning revenue or being transparent about the client's actual needs**
- c) A fiduciary obligation — the adviser is legally required to conduct annual reviews regardless of client need
- d) A conflict of interest disclosure — the adviser must disclose and then proceed with the review

✓ **Answer: b) Ethical dilemma — revenue vs. client benefit**

This is a textbook example of an **ethical dilemma** involving revenue vs. client benefit. The adviser faces two choices: (a) put the client through the process and earn fees — financially beneficial to the adviser but not serving the client's actual need; or (b) tell the client this is unnecessary — ethically correct but forgoes revenue. The **ethical resolution** is option (b) — tell the client they don't need the service. This may forgo short-term income but builds the long-term trust that is the foundation of an advisory business. The curriculum describes this exact example: "option (a) will give the investment adviser revenue, but option (b) is ethically correct."

4 What does the Latin principle "uberrimae fidei" mean in the context of Investment Adviser obligations?

- a) A standard of care applied only to high-net-worth clients with assets exceeding Rs.50 lakh
- b) Utmost good faith — the IA must act in the highest possible level of trust and transparency, with no profit at the client's expense**
- c) A professional qualification standard required by SEBI for all registered investment advisers
- d) The principle of equal treatment — all clients receive the same investment recommendations regardless of their profile

✓ **Answer: b) Utmost good faith — no profit at client's expense; highest level of trust and transparency**

The Latin phrase **uberrimae fidei** translates to "utmost good faith" and is the foundational principle of the Investment Adviser's fiduciary responsibility. It means: (1) the IA must act with the **highest level of trust and transparency** at all times; (2) there cannot be **profit made at the client's cost**; (3) the IA must not take unfair advantage of the client's trust in any way; (4) the IA acts as the custodian of the client's financial future and must prioritise the client's interests above their own. This principle is at the heart of all fiduciary duties and underpins every disclosure, recommendation, and action of the IA.

5 Which of the following is specifically highlighted as an ethical concern arising from the proliferation of "finfluencers" on social media?

- a) Finfluencers provide too much free financial information which reduces demand for paid advisory services
- b) Finfluencers can give wrong advice without SEBI registration — their social media following does not constitute regulatory authorisation**
- c) Finfluencers must be mandatorily registered with AMFI before they can comment on mutual funds
- d) SEBI has banned all social media commentary on investment products effective 2025

✓ **Answer: b) Finfluencers lack SEBI registration — followers ≠ authorisation; can mislead investors**

The SEBI Do's specifically warn: "**Always deal with SEBI registered Investment Advisers. This is all the more important due to the proliferation of finfluencers, who claim to be investment experts, but are not authorized by SEBI.**" The Don'ts reinforce this: "**Do not deal with unregistered entities. The implication is, do not go by the number of followers on social media.**" Social media following is not a proxy for expertise, regulatory compliance, or fiduciary accountability. Finfluencers can mislead investors with stock tips, assured return claims, and unsuitable recommendations without bearing any regulatory responsibility.

6 The SEBI guidelines explicitly state that investors should NOT do which of the following?

- a) Ask for written terms and conditions before dealing with an Investment Adviser
- b) Verify the IA's SEBI registration number on the official SEBI website
- c) Give their money for investment to the Investment Adviser**
- d) Assess the risk-return profile before making any investment decision

✓ **Answer: c) Give money for investment to the IA — IAs cannot hold client funds**

SEBI's Don't #3 explicitly states: "**Do not give your money for investment to the Investment Adviser.**" This is consistent with the MITC (Most Important Terms and Conditions) in the IA advisory agreement which states: "The Investment Adviser shall only accept payments towards its fees for Investment Advisory Services and is NOT permitted to accept funds or securities in its account on the client's behalf." If an "adviser" asks to hold client money for investment, it is a major red flag — either a fraud risk or a regulatory violation. Clients must execute their own investments; the IA only advises.

7 In the Australian regulatory framework (Corporations Act 2001, Section 961B), what is the "best interests" standard for financial advisers?

- a) Advisers must recommend only products that have generated positive returns in the past 5 years
- b) Advisers must identify client situation, objectives and needs; investigate most appropriate products; base judgements on client circumstances; take reasonable steps in client's best interests**
- c) Advisers must charge the lowest possible fee and recommend only government-regulated investment products
- d) Advisers must obtain pre-approval from the national regulator before making any recommendation to clients over 60 years of age

✓ **Answer: b) Identify client situation; investigate suitable products; base judgements on client circumstances**

Under **Section 961B of Australia's Corporations Act 2001**, the "best interests" standard requires advisers to: (1) Identify client's financial situation, objectives, and needs; (2) Identify the subject matter of advice sought; (3) Identify relevant circumstances reasonably relevant to the advice; (4) Ensure information is complete — make enquiries if gaps/inconsistencies appear; (5) Thoroughly investigate the most appropriate products before recommending; (6) Base ALL judgements on the client's relevant circumstances; (7) Take any other step that would reasonably be in the client's best interests. Penalties for violation include **bans and disqualification** from acting as an adviser.

8 What constitutes "churning" in investment advisory and why is it an ethical violation?

- a) Churning is the practice of holding client funds in a low-return product longer than the recommended period
- b) Churning is the frequent switching from one investment product to another primarily to generate commissions — placing the adviser's financial interest above the client's**
- c) Churning refers to the practice of recommending the same product to all clients regardless of their individual risk profiles
- d) Churning is the process of rebalancing a client's portfolio more than twice a year for risk management purposes

✓ **Answer: b) Frequent switching primarily to generate commissions — adviser's interest above client's**

Churning means frequent switching of investments from one product to another with the primary motivation being to earn higher commissions — not to serve the client's investment objectives. It is a serious ethical violation because it: (1) Places the **adviser's financial interest above the client's**; (2) Creates unnecessary transaction costs and potential tax liabilities for the client; (3) May move the client out of well-performing investments into underperforming ones purely for fee generation; (4) Violates the fiduciary principle. SEBI has mandated the segregation of advisory and distribution activities specifically to address churning — an IA cannot receive distribution commissions on products they recommend.

9 The SEC (US) Code of Ethics requires "access persons" to report personal securities transactions. How frequently must these reports be submitted?

- a) Annually — one comprehensive report at the end of each calendar year
- b) At least quarterly — every three months to the Chief Compliance Officer or designated person**
- c) Monthly — to prevent conflicts from personal trading activity near client recommendation dates
- d) Only when an access person first joins the firm and annually thereafter — not for ongoing transactions

✓ **Answer: b) At least quarterly — to the Chief Compliance Officer or designated person**

The SEC Code of Ethics requirements specify that each "access person" must: (a) Report their securities **holdings at the time they become an access person**; (b) Report holdings **at least once annually** thereafter; AND (c) Make a report **at least once quarterly** of all personal securities transactions in reportable securities to the adviser's Chief Compliance Officer (CCO) or other designated person. Additionally, the CCO must **pre-approve investments by access persons in IPOs or limited offerings**. The Code must be distributed to all supervised persons with written acknowledgement of receipt, and all violations must be reported to the CCO promptly.

10 An investment adviser faces a dilemma: their employer wants them to promote Unit-Linked Insurance Plans (ULIPs) which earn high commissions, but their personal belief is that term insurance is most suitable for the client. How should this be resolved ethically?

- a) Always follow the employer's instructions — professional obligations override personal values in financial services
- b) Use guiding ethical principles such as "do the highest good" or "least damage" to evaluate the situation; if the conflict is irresolvable, reconsider the employment**
- c) Recommend ULIPs for the commission income but disclose to the client that term insurance might be more suitable
- d) Escalate to SEBI immediately as this constitutes a mandatory reportable conflict of interest

✓ **Answer: b) Use guiding principles; if unresolvable — reconsider the employment arrangement**

This is the classic "personal values vs. professional values" ethical dilemma from the curriculum. The recommended approach: (1) **Apply a guiding ethical principle** — "do the highest good for all involved" would lead to recommending term insurance; "least damage" would reach the same conclusion; (2) **Deeper analysis** often reveals a clear path — ULIPs with higher premiums serve the employer's commission interest but may not serve the client's insurance need efficiently; (3) If the dilemma is genuinely unresolvable (e.g., employer mandates ULIP sales regardless), the curriculum suggests the IA may need to **reconsider the employment relationship** itself. An IA operating under SEBI regulations cannot follow employer instructions that violate fiduciary duty to clients.

Grievance Redress Mechanism

LEARNING OBJECTIVES: Consumer Protection Act • Investor Grievance Mechanism • Robust Grievance System • SCORES • OD

Sneha Rege

1 Consumer Protection Act 1986

The Consumer Protection Act, 1986 was enacted to provide better protection for consumer interests. It established consumer councils and other authorities for settlement of consumer disputes. Under this Act, a "**consumer**" includes:

Consumer Category	Definition
Goods consumer	Any person who buys goods for consideration (paid, promised, or partly paid/deferred). Includes users of such goods with the buyer's approval. Excludes: persons buying for resale or commercial purpose.
Services consumer	Any person who hires or avails of services for consideration (paid, promised, or partly paid/deferred). Includes beneficiaries of such services availed with the first person's approval. Excludes: persons availing services for commercial purpose.

KEY EXCLUSION The Consumer Protection Act does NOT cover persons who buy goods **for resale or for a commercial purpose**, or persons who avail services **for any commercial purpose**. Individual investors purchasing financial products for personal investment purposes are covered. The Consumer Protection mechanism is one of the **alternative redressal fora** available to investors alongside SEBI SCORES, ODR, Banking Ombudsman, Insurance Ombudsman, and SAT.

2 Elements of a Robust Grievance Redress System

A robust grievance recording and redress system ensures timely resolution. Key features include:

Feature	Purpose
Source of complaint	Must arise from relevant issues under SEBI Act, SCRA, Depositories Act, Companies Act 2013. Ensures only valid complaints are addressed.
Date and time of receipt	Complaint must be within the time limit specified in the relevant Act (law of limitation). Prevents old/stale complaints from clogging the system.
Nature of complaint	Must be relevant and fall within the definition of a complaint. Eliminates frivolous complaints and ensures important ones receive due attention.
Internal vs. External escalation path	First port of call is the internal system of the entity against whom the complaint is made. Then escalated to an external agency. Gives the entity a chance to resolve at source.
Status of resolution (ATR)	Investor should be able to see progress via an Action Taken Report (ATR). Increases confidence that their complaint is being actively addressed.
Time bound resolution (ageing report)	Complaint must be resolved within a specified time period. Indefinite dragging of complaints erodes confidence in the entire system.
Escalation mechanism	Independent party reviews unresolved complaints and decides. Ensures objectivity and fairness in the resolution process.

3 Grievance Redressal for Investment Advisers — SCORES & ODR

Step 1: Investor first takes up the grievance directly with the Investment Adviser (IA). **Step 2:** If not resolved satisfactorily, investor escalates via **SCORES Portal**. **Step 3:** If still not resolved, investor uses the **ODR (Online Dispute Resolution) Portal** — Smart ODR at smartodr.in.

Platform	What It Does	Who Can Use	Exclusions / Limitations
SCORES (sebi.gov.in/scores)	SEBI's online investor redressal mechanism. Complaint forwarded to concerned entity; entity must respond with Action Taken Report (ATR). Status trackable online.	Investors with complaints against companies (IPO), MFs, PMS, VCFs, AIFs, and intermediaries (brokers, merchant bankers, depositories, DPs, registrars, distributors, advisers)	Not addressed: Incomplete/non-specific complaints; allegations without documents; seeking guidance; non-trading of shares; unlisted/delisted/wound-up companies; sub-judice cases; matters under other regulators
ODR Portal (smartodr.in)	Online Dispute Resolution — includes mediation, conciliation, and arbitration. Initiated if SCORES resolution is unsatisfactory OR at any stage after initial complaint to market participant.	Investors not satisfied with SCORES outcome. Also market participants can initiate if dispute not resolved with investor after due notice.	Must be filed within applicable law of limitation (reckoned from date issue arose / last transaction / disputed transaction — whichever is later)

IA-SPECIFIC REQUIREMENT

Offices of all Investment Advisers must display the details of: (1) **Compliance Officer** — name, address, email, phone; (2) **CEO/Partner/Proprietor** — name, address, email, phone. If client is not satisfied with the IA's response, they proceed to SCORES. The three-step escalation: **IA** → **SCORES** → **Smart ODR**.

4 Grievance Redressal in Capital Markets — SCORES in Detail

SEBI examines each complaint to confirm it falls within SEBI's purview, forwards it to the concerned entity, which must respond with an ATR within the stipulated time. The investor can check complaint status online.

SCORES Covers	SCORES Does NOT Cover
Complaints against companies with public share issues (primary or secondary market)	Complaints that are incomplete or not specific in nature
Complaints against investment companies: MFs, PMS providers, VCFs, AIFs	Allegations without supporting documents
Complaints against intermediaries: brokers, merchant bankers, depositories, DPs, registrars, distributors, financial advisers	Seeking guidance, explanation or suggestions (not complaints)
All SEBI-regulated entities and products	Complaints about non-trading/illiquidity of shares; dissatisfaction with trading prices
Investment advisers, portfolio managers, research analysts	Non-listing of shares under private offers
	Disputes arising out of private agreements with companies/intermediaries
	Complaints against unlisted/delisted/wound up/liquidated/sick companies
	Sub-judice cases (under court/quasi-judicial consideration)
	Matters under purview of other regulators (RBI, IRDAI, PFRDA)

5 Grievance Redressal in Banking

Level	Mechanism	Who to Contact
Level 1 — Internal	Internal three-tier system within the bank	Branch Manager → Zonal Manager → GM Customer Service
Level 2 — Integrated Ombudsman	RBI-appointed Banking Ombudsman. If complaint not addressed by bank within one month , investor can approach ombudsman online/email/physically.	Integrated Ombudsman (RBI). Details available at every bank branch.
Level 3 — Award	If settlement not achieved within one month, ombudsman passes an Award after hearing both sides.	Ombudsman's Award — binding on the bank if complainant accepts
CPGRAMS	Centralized Public Grievance Redress and Monitoring System for escalated grievances processed online.	pgportal.gov.in — for grievances forwarded to concerned organisations

INTEGRATED OMBUDSMAN — SCOPE

The Banking Ombudsman covers: disputes related to receipt/payment of funds; interest charged or credited; penalty/fees; ATM/debit/credit cards; loans refused without valid reasons; credit card complaints (including from NBFCs). **BCSBI** (Banking Codes and Standards Board of India) — RBI-set up independent watchdog; publishes "Code of Banks' Commitments to Customers" — minimum standards for banking service.

6 Grievance Redressal in Insurance

Level	Mechanism	Timeframe
Level 1	File complaint with grievance redressal department of the insurance company directly	As specified by IRDAI
Level 2 — IGMS	IRDAI's Integrated Grievance Management System (IGMS) — online registration and tracking. Complaint forwarded to insurer; can track status online.	Complaint forwarded to insurer; resolution monitored
Level 3 — Insurance Ombudsman	Appointed by Government of India under Redressal of Public Grievance Rules, 1998. If insurer resolution is unsatisfactory or complaint unattended after stipulated time.	Mediates → Recommendation within 1 month. If no settlement → speaks Award within 3 months. Complainant must accept within 1 month.
Level 4	Consumer Protection Act courts or normal judicial process	As per courts

Grounds for complaint to Insurance Ombudsman: (1) Partial or total repudiation of claims; (2) Dispute about premium paid/payable; (3) Dispute on legal construction of policy relating to claims; (4) Delay in settlement of claims; (5) Non-issue of any insurance document after payment of premium.

7 Redress in Pension Sector

Pension Product	Regulator	Grievance Route
Pension Schemes from MFs	SEBI	SCORES system (same as any SEBI-regulated product)
Pension Schemes from Insurance Companies	IRDAI	IGMS and Insurance Ombudsman system
National Pension System (NPS)	PFRDA	CRA (NSDL e-Gov) → NPS Trust → PFRDA Ombudsman

NPS Grievance Process: Subscriber raises grievance with **Central Recordkeeping Agency (CRA) — NSDL e-Gov** via website, call centre, or written communication. If not resolved within **30 days**, escalate to **NPS Trust** which responds within 30 days. If still not resolved, appeal to **PFRDA Ombudsman**.

NPS EXCLUSIONS

NPS does NOT address: incomplete/non-specific complaints; suggestions; guidance-seeking; matters beyond PFRDA's powers; disputes between intermediaries; sub-judice matters. A **Grievance Redressal Officer (GRO)** is appointed at NSDL e-Gov Head Office (Mumbai).

8 Securities Appellate Tribunal (SAT)

SAT Aspect	Details
Legal basis	Section 15U and 15T of SEBI Act
Who can appeal	Any person aggrieved by an order of: (1) SEBI Board; (2) SEBI Adjudicating Officer; (3) IRDAI; (4) PFRDA
Time limit to file	Within 45 days from receipt of copy of the order (in prescribed form + fee)
Procedure	Not bound by Code of Civil Procedure. Guided by principles of natural justice . Has powers of a civil court: summon persons, require documents, receive affidavit evidence, issue commissions, review decisions.
Nature of proceedings	Deemed to be judicial proceedings under the Indian Penal Code
Appeal from SAT	Any person aggrieved by SAT's decision may appeal to the Supreme Court within 60 days from communication of SAT's order

9 Other Redressal Fora

Complaint Type	Redressal Forum
Non-repayment of deposits or interest by an NBFC	National Company Law Tribunal (NCLT) or Consumer Forum. Complaint in prescribed form under NCLT Rules for area of company's registered office.
Non-repayment of deposits by companies ; complaints relating to bonds and debentures of unlisted companies	Ministry of Company Affairs — file on its website
Complaints about SEBI-regulated entities (all)	SEBI SCORES → Smart ODR (smartodr.in)
Banking disputes	Integrated Ombudsman (RBI) → CPGRAMS
Insurance disputes	IRDAI IGMS → Insurance Ombudsman → Courts / Consumer Forum
NPS disputes	CRA (NSDL e-Gov) → NPS Trust → PFRDA Ombudsman
Appeals against SEBI/IRDAI/PFRDA orders	SAT (45 days) → Supreme Court (60 days from SAT order)

CHAPTER 20 — QUICK REVISION: GRIEVANCE REDRESS MECHANISM

Consumer Protection Act 1986	Protects consumers of goods and services. Consumer = person buying goods/services for personal use (not resale or commercial purpose).
Robust Grievance System	Must cover: source, date/time, nature of complaint; internal then external escalation; ATR status visibility; time-bound resolution; independent escalation mechanism.
ATR	Action Taken Report — entity's response to investor's complaint filed through SCORES. Investor can track status online.
Grievance — IA Offices	Must display Compliance Officer and CEO/Partner/Proprietor details (name, address, email, phone). Three-step: IA → SCORES → Smart ODR.
SCORES	SEBI's online investor redressal platform. Covers all SEBI-regulated products and entities. Investor checks status online. Entity must submit ATR within stipulated time.
SCORES Exclusions	Incomplete complaints; no documents; seeking guidance; non-trading/illiquidity issues; unlisted/wound-up companies; sub-judice matters; other-regulator matters.
ODR / Smart ODR	Online Dispute Resolution via smartodr.in. Includes mediation, conciliation, arbitration. Initiated if SCORES outcome unsatisfactory or at any stage. Must be within limitation period.

Banking Ombudsman	RBI-appointed. If complaint not resolved by bank within 1 month → can approach Ombudsman. If settlement fails within 1 month → Ombudsman passes Award.
BCSBI	Banking Codes and Standards Board of India — RBI-set up independent watchdog. Publishes minimum banking service standards ("Code of Banks' Commitments to Customers").
Insurance Ombudsman	Govt of India appointed. Grounds: claim repudiation, premium disputes, construction of policy, delay in claims, non-issue of documents. Recommendation within 1 month; Award within 3 months.
IRDAI IGMS	Integrated Grievance Management System. Online complaint registration and tracking for insurance sector. Complaint forwarded to insurer.
NPS Grievance	CRA (NSDL e-Gov) → NPS Trust (if not resolved in 30 days) → PFRDA Ombudsman (if still not resolved in 30 days from NPS Trust submission).
MF/Insurance Pension Schemes	MF pension schemes: SEBI/SCORES. Insurance pension schemes: IRDAI/IGMS/Insurance Ombudsman.
SAT	Securities Appellate Tribunal. Appeals against orders of SEBI Board, SEBI Adjudicating Officer, IRDAI, PFRDA. File within 45 days of order. Not bound by CPC; guided by principles of natural justice.
SAT Powers	Powers of civil court: summon persons, require documents, receive affidavit evidence, issue commissions, review decisions. Proceedings are judicial under IPC.
Supreme Court Appeal	Any person aggrieved by SAT's decision may appeal to Supreme Court within 60 days of SAT order.
NCLT	NBFC deposit non-repayment complaints. Also for disputes about companies' deposits, bonds and debentures of unlisted companies (Ministry of Company Affairs).
Law of Limitation	ODR must be initiated within the applicable law of limitation (from date issue arose OR last/disputed transaction date — whichever is later).

■ MCQ PRACTICE — Chapter 20 — Grievance Redress Mechanism

10 Questions | Answers shown below each question

1 An investor has a complaint against a mutual fund for wrongful deduction of exit load. She has directly complained to the fund but is not satisfied with the response. What is the CORRECT next step?

- a) Approach the Securities Appellate Tribunal (SAT) directly since mutual funds are regulated by SEBI
- b) Lodge the complaint on SEBI's SCORES portal — the standard escalation mechanism after the AMC fails to resolve satisfactorily**
- c) File a complaint directly with the Insurance Ombudsman since it covers all financial products
- d) Wait for 6 months and then file with NCLT if no resolution is forthcoming from the AMC

✓ **Answer: b) Lodge complaint on SEBI SCORES portal**

The correct escalation path for complaints against SEBI-regulated entities like mutual funds is: **Step 1: AMC directly** (already done). **Step 2: SEBI SCORES portal** — SEBI's online investor redressal mechanism for all SEBI-regulated entities including MFs, PMS, VCFs, AIFs, and intermediaries. SEBI examines the complaint, forwards it to the concerned entity, and the entity must respond with an Action Taken Report (ATR). The investor can track status online. If SCORES resolution is unsatisfactory, the final step is **Step 3: Smart ODR portal (smartodr.in)** for online dispute resolution through mediation/conciliation/arbitration.

2 Which of the following complaints CANNOT be addressed through the SCORES platform?

- a) A complaint against a mutual fund distributor for mis-selling an equity fund to a senior citizen
- b) A complaint against a broker for unauthorised trades executed without the client's consent
- c) A complaint against a company for non-repayment of deposits where the company is already in liquidation proceedings**
- d) A complaint against a portfolio manager for charging fees beyond the agreed schedule

✓ **Answer: c) Complaint against a company already in liquidation/wound-up proceedings**

SEBI's SCORES platform explicitly does NOT deal with complaints against **unlisted/delisted/wound up/liquidated/sick companies**. A company under liquidation proceedings falls in this category. Additionally, SCORES does not address: incomplete or non-specific complaints; allegations without supporting documents; guidance-seeking communications; non-trading/illiquidity of shares; non-listing of shares in private offers; disputes from private agreements; sub-judice matters; and complaints under other regulators' purview. The correct forum for non-repayment by an NBFC is the NCLT or Consumer Forum; for companies it's the Ministry of Company Affairs.

3 The Securities Appellate Tribunal (SAT) can hear appeals against orders from which bodies?

- a) Only SEBI Board orders — SAT's jurisdiction is limited to SEBI regulatory orders
- b) SEBI Board, SEBI Adjudicating Officer, IRDAI, and PFRDA orders**
- c) SEBI Board and RBI only — SAT covers all financial sector regulators under FSDC
- d) Only orders of SEBI Board and SEBI Adjudicating Officers — not orders from IRDAI or PFRDA

✓ **Answer: b) SEBI Board + SEBI Adjudicating Officer + IRDAI + PFRDA**

Section 15T of the SEBI Act gives the right to "Appeal to the SAT." It states that any person aggrieved by an order of: (i) the **SEBI Board**; (ii) made by a **SEBI Adjudicating Officer**; or (iii) made by **IRDAI** or **PFRDA** may prefer an appeal to the SAT. The appeal must be filed within **45 days** from receipt of the order in the prescribed form with the prescribed fee. If aggrieved by SAT's decision, the person can appeal to the **Supreme Court within 60 days** of the SAT order. SAT is not bound by the Code of Civil Procedure but must follow principles of natural justice.

4 If an NPS subscriber's grievance is not resolved by the CRA (NSDL e-Gov) within 30 days, what is the correct next step?

- a) Directly approach PFRDA's Ombudsman since 30 days is the statutory limit for all intermediaries
- b) Escalate to the NPS Trust, which must respond within another 30 days**
- c) File a complaint with SEBI's SCORES system as NPS is a pension product covered under securities laws
- d) Approach the Banking Ombudsman since NPS is administered through designated Point of Presence banks

✓ **Answer: b) Escalate to NPS Trust — which responds within 30 days**

The NPS grievance escalation under PFRDA's Redressal of Subscriber Grievance Regulations 2015 follows three steps: **Step 1:** Raise grievance with the **CRA (NSDL e-Gov)** via website, call centre, or written communication. **Step 2:** If not resolved within **30 days** by any intermediary, escalate to the **NPS Trust**. The NPS Trust follows up and responds within **30 days**. **Step 3:** If the NPS Trust resolution is also unsatisfactory (or not resolved within 30 days), prefer an appeal to the **PFRDA Ombudsman** against the concerned intermediary.

5 Under the Integrated Ombudsman Scheme for banking, within what timeframe must the bank fail to resolve a complaint before the customer can approach the Banking Ombudsman?

- a) 7 days — the bank must resolve urgent financial complaints within one week
- b) One month — if the bank has not provided a satisfactory resolution within one month, the customer can approach the Ombudsman**
- c) Three months — allowing the bank adequate time for internal investigation and response
- d) 60 days — standard escalation period for all SEBI-regulated entities

✓ **Answer: b) One month — if bank hasn't resolved satisfactorily within one month**

The Integrated Ombudsman Scheme specifies: if the grievance has been directly addressed to the bank but the individual has **not received a satisfactory resolution within one month**, they can approach the Banking Ombudsman. The Banking Ombudsman is appointed by RBI to address complaints about services offered by banks, credit cards, and NBFCs. The complaint can be filed online, by email, or physically at the ombudsman's office. If the ombudsman cannot broker a settlement within one month, they pass an **Award** after hearing both parties. The BCSBI (Banking Codes and Standards Board of India), set up by RBI, publishes minimum banking service standards.

6 Which of the following is the CORRECT ground for filing a complaint with the Insurance Ombudsman?

- a) Dissatisfaction with the investment returns on an endowment insurance policy
- b) Dispute about premium amount payable in terms of the policy**
- c) Complaint that the insurance company's stock price has fallen significantly
- d) Request for a refund of premium paid on a ULIP due to unsatisfactory equity market performance

✓ **Answer: b) Dispute about premium amount payable in terms of the policy**

The specific grounds for filing with the Insurance Ombudsman are: (1) Any partial or total **repudiation of claims** by an insurance company; (2) Any dispute about **premium paid or payable** in terms of the policy; (3) Any dispute on the **legal construction of the policies** as it relates to claims; (4) **Delay in settlement of claims**; (5) **Non-issue of any insurance document** after payment of premium. Dissatisfaction with investment returns, stock price movements, and general market performance of ULIP units are NOT valid grounds — these are market-linked outcomes, not service failures or contractual disputes.

7 Where should an investor file a complaint if an NBFC (Non-Banking Finance Company) refuses to repay their deposit?

- a) SEBI SCORES — since SEBI regulates all financial intermediaries including NBFCs
- b) NCLT (National Company Law Tribunal) or Consumer Forum — the appropriate fora for NBFC deposit complaints**
- c) Banking Ombudsman — the RBI-appointed authority covering both banks and NBFCs for deposit disputes
- d) Insurance Ombudsman — since NBFC deposits are treated as financial products under insurance law

✓ **Answer: b) NCLT or Consumer Forum for NBFC deposit complaints**

Under "Other Redressal Fora" in the NISM curriculum: a complaint relating to the **non-repayment of deposits or payment of interest by an NBFC** should be registered with the **National Company Law Tribunal (NCLT)** or the **Consumer Forum**. The complaint must be in the prescribed form under the NCLT Rules for the area of the company's registered office. For non-repayment of deposits by **companies** or complaints about bonds/debentures of **unlisted companies**, the complaint should be filed with the **Ministry of Company Affairs** on its website. Note: The Banking Ombudsman does cover NBFCs for credit card complaints but not for deposit non-repayment.

8 The SAT (Securities Appellate Tribunal) is guided by which principles in its proceedings, and what is the time limit to appeal to the Supreme Court from an SAT order?

- a) Guided by Code of Civil Procedure; appeal to Supreme Court within 45 days
- b) Guided by principles of natural justice; appeal to Supreme Court within 60 days**
- c) Guided by the SEBI Act only; no further appeal beyond SAT is available under law
- d) Guided by Code of Criminal Procedure; appeal to Supreme Court within 90 days

✓ **Answer: b) Principles of natural justice; Supreme Court appeal within 60 days of SAT order**

SAT has a unique procedural framework: it is **NOT bound by the Code of Civil Procedure** but is guided by the **principles of natural justice**. It has powers of a civil court including: summoning persons and examining on oath; requiring discovery and production of documents; receiving evidence on affidavits; issuing commissions for examination of witnesses/documents; reviewing its own decisions; dismissing applications for default; setting aside ex-parte orders. Any proceeding before SAT is deemed a **judicial proceeding under IPC**. Any person aggrieved by SAT's decision may appeal to the **Supreme Court within 60 days** from communication of the SAT's order.

9 An Investment Adviser office must compulsorily display which information for clients?

- a) Only the SEBI registration certificate and the applicable fee schedule for advisory services
- b) Details of Compliance Officer AND CEO/Partner/Proprietor — including name, address, email and phone number**
- c) Only the fee structure and investor charter — SEBI regulations do not mandate display of personnel details
- d) SEBI registration number, NISM certification details, and investment approach summary

✓ **Answer: b) Compliance Officer AND CEO/Partner/Proprietor details — name, address, email, phone**

SEBI has mandated specific display requirements for Investment Adviser offices: all IA offices must display the details of: (1) the **Compliance Officer** — name, address, email, and phone number; and (2) the **CEO/Partner/Proprietor** — name, address, email, and phone number. This ensures investors know who to contact when they have a grievance and can escalate within the IA's own organisation before moving to SCORES. Additionally, per the Investor Charter (SEBI circular June 2025), IAs must display the charter on their website and in their offices, provide it during client on-boarding, and publish monthly complaint data by the 7th of each succeeding month.

10 An investor is unhappy with the outcome of the ODR (Online Dispute Resolution) process. What is their remaining option under the grievance redressal hierarchy?

- a) File a fresh complaint on SEBI SCORES — ODR outcomes can be reversed through SCORES re-filing
- b) The normal judicial process through the relevant courts — ODR is an alternate/additional mechanism; courts remain available**
- c) Approach the Insurance Ombudsman since ODR is only for non-financial disputes
- d) File an appeal with PFRDA since ODR falls under PFRDA's regulatory mandate

✓ **Answer: b) Normal judicial process — ODR is an alternate mechanism; courts remain available**

The SCORES/ODR system is explicitly described as providing "alternate dispute redressal mechanisms to ensure easy, quick and inexpensive resolution of problems." The curriculum specifically states: "**The investor has the option to approach the relevant court.**" The law of limitation (which sets a time limit for different types of complaints) needs to be considered when approaching courts. The judicial process includes the Consumer Protection Act courts. Similarly, after exhausting Insurance Ombudsman remedies, the investor can approach normal courts. ODR/SCORES are designed to provide faster and cheaper alternatives to litigation — but they do not foreclose the option of seeking judicial remedy.