

Impact of SEBI's 2025–2026 Expense Ratio Reforms on Retail Investors: A Comparative Analysis of Cost Savings, Transparency, and Fund Performance in Direct and Regular Plans

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ABSTRACT

Purpose: This research basically looks at how SEBI's 2025–2026 reforms moved mutual funds away from the old system where everything was crammed into one Total Expense Ratio (TER) number, and switched it to the new Base Expense Ratio (BER) model under the SEBI (Mutual Funds) Regulations, 2026. What I really wanted to dig into is this thing I started calling the “Transparency-Cost Paradox”: on paper, the management fees look cheaper because of the new BER caps, but since all the statutory taxes and levies (like GST, STT, stamp duty) are now shown separately instead of hidden, does the total amount retail investors actually end up paying go down — or does it pretty much stay the same (or even creep up a little in some cases)?

The whole point is to figure out whether these changes give everyday SIP investors — people doing monthly investments, especially in places like Bengaluru, real savings in their long-term corpus, or if the biggest thing they get is just clearer visibility into where their money is actually going. In other words, is this reform genuinely putting more money back in investors' pockets, or is it mostly about making the costs easier to understand?

Design or Methodology: A purposeful selection of six high-AUM mutual fund schemes is used in this quantitative deductive analytical investigation. A five-step estimation process has been created to forecast post-reform expenses. It includes rationalized brokerage caps, unbundled statutory taxes (such as GST at 18% and STT at 0.1%), and tiered BER slabs. 10-year monthly compounding SIP wealth accumulation formulas are used to model long-term outcomes.

Findings: The numbers show that SEBI's 2025–2026 reforms do bring down the headline management fees (BER) by about 10–15 basis points thanks to the new caps and unbundling. But when you look closer, separating out the statutory levies (GST, STT, and so on) means investors now have to pay the full weight of those transactional taxes directly, which leads to a small net increase in the effective total cost (around 6–19.5 bps for Direct Plans). For a 10-year SIP of ₹10,000 per month, this works out to a marginal drop in final corpus of roughly 1.2%–1.5% for active funds, while passive index funds are barely affected (just 0.18%–0.30% reduction) because they have lower levies and benefit from the special 0.90% BER cap. That said, removing the extra

5-bps allowance tied to exit loads and cutting brokerage caps by around 50% (from 8.59–12 bps down to 6 bps for cash trades) does create some meaningful operational efficiencies. Overall, these reforms give investors much clearer visibility into costs rather than delivering dramatic savings which really highlights why choosing direct plans and passive strategies makes a bigger difference for long-term SIP investors (Value Research, 2025).

Social Implications: The reforms act as a transparency safeguard built into the system, and I believe they'll quietly encourage more everyday people to get involved in mutual funds while slowly closing that "awareness- participation gap" we've seen for years.

By making the true cost of Regular plans crystal clear, especially the commission drag that can eat 60–90 bps annually, the changes naturally push investors toward Direct plans, where they keep more of their returns. At the same time, the special 0.90% BER cap for index funds and the lower turnover- related charges give passive strategies a real edge in the new environment.

In practice, this doesn't mean a sudden flood of people switching overnight, but over time it creates a structural tilt: disciplined SIP investors who pay attention to costs will gradually move away from Regular plans and toward low-cost passive funds. The reforms don't force the change — they just remove some of the fog, letting market logic and investor choice do the rest. For retail participants, especially in places like Bengaluru where SIPs are already a habit, that clarity could end up being the most lasting benefit.

Keywords: Base Expense Ratio (BER), Total Expense Ratio (TER), SEBI Reforms 2026, Systematic Investment Plan (SIP), Direct Plans, Mutual Fund Transparency.

I. Introduction

The mutual fund industry in India has grown into something really important for regular people trying to save and build wealth over the long run. Rising awareness about money, easy access through apps, and support from regulators have all played a part. By November 2025, the total Assets Under Management had gone past ₹80.55 lakh crore, and a huge chunk of that came from retail investors putting money in through SIPs, with yearly inflows crossing ₹3 lakh crore (AMFI, 2025; CRISIL, 2025). This trend is especially strong in cities like Bengaluru, where platforms like Groww and Zerodha have made direct plans simple and popular for anyone who wants to invest regularly (Value Research, 2025).

Even with all this growth, expense ratios have always been a headache for retail investors. High fees quietly eat into returns, reduce the power of compounding, and hit small monthly SIP investors the hardest — the ones who depend on steady, long-term saving (Basu & Stremeier, 2019; Singh & Jain, 2020). Research has repeatedly shown that expense ratios pull down performance; higher costs mean less alpha and less money in the end for investors (Agarwal et al., 2021; Deb & Banerjee, 2022). The introduction of direct plans back in 2013 and the TER cap cuts from 2018–2022 were meant to fix some of this, but retail investors still struggle with unclear cost breakdowns and not getting the full benefit (Kumar & Sharma, 2023; RBI, 2023).

Studies over the years have made it pretty clear that expense ratios are one of the few things that reliably affect how well mutual funds perform. Basu and Stremeier (2019) looked at Indian equity funds from 2010 to 2018 and found that every 1% jump in TER cut alpha by about 0.8–1.2% a year. Singh and Jain (2020) studied 150 equity funds and saw that a 1% higher expense ratio

shaved off 0.85% of returns, with active funds suffering the most since they often fail to beat benchmarks after fees. **Joshi and Shah (2021)** took it further into SIPs and showed that expensive funds can leave investors with 10–15% less corpus after 10 years compared to low-cost options.

Retail investors pay a lot of attention to how transparent and fair the costs feel. **Agarwal et al. (2021)** found that high TERs put off new people, especially first-timers starting SIPs because they don't like surprises in fees. **Kumar and Sharma (2023)** pointed out the ongoing 60–90 bps gap between direct and regular plans due to distributor commissions, with direct plans ending up giving 15–25% more corpus over 10 years. Earlier SEBI moves (2018–2022) helped with some transparency but didn't fully solve the issue of bundled levies (RBI, 2023).

Then came the big update on 17 December 2025: SEBI approved a major overhaul of mutual fund rules, kicking in from 1 April 2026. The reforms replace the old bundled TER with a Base Expense Ratio (BER) that only covers core AMC costs, pull out statutory levies (GST at 18%, STT at 0.1%, stamp duty, exchange fees) to charge them separately, tighten brokerage caps (6 bps cash equity, 2 bps derivatives), and scrap the extra 5 bps allowance tied to exit loads (**SEBI, 2025**). Early commentary from the industry suggests small savings (5–10 bps net from brokerage cuts and allowance removal), with the main win being transparency investors can finally see what's AMC fees versus unavoidable taxes (**Moneycontrol, 2025; Economic Times, 2025; Value Research, 2025**).

Even with these changes, there's not much academic work yet looking at what happens after the reforms how the unbundled structure affects real costs, how much clearer things feel to investors, or how different active vs passive funds and direct vs regular plans are impacted. Most studies stick to pre-reform TER effects (**Basu & Stremeier, 2019; Singh & Jain, 2020**) or earlier rule changes (**Deb & Banerjee, 2022; RBI, 2023**), so there's still a gap in understanding the latest shift and what it means for retail SIP investors. This paper tries to fill that gap by estimating the cost changes, transparency improvements, and performance differences using a selection of equity and index funds.

2. Research Gap

Although a good amount of research has looked into how the old bundled TER affects fund performance, almost nothing has been done on the new unbundled "actuals" approach after the reforms. Most studies still focus on pre-2025 TER patterns or the early days of Direct plans back in 2013. This paper tries to fill that space by modelling how the new tiered BER slabs interact with the separate statutory levies to show what the real net wealth outcome looks like for retail SIP investors in the 2026 framework.

3. Research Design

3.1 Statement of the Problem

The core problem is whether SEBI's 2026 structural modifications translate to meaningful net cost savings for retail investors, or if the unbundling of levies merely reshuffles the expenses while shifting a higher disclosed "actuals" burden to the unit holder.

3.2 Need of the Study

With SIP inflows reaching record highs of nearly ₹30,000 crore monthly by 2026, understanding the "Transparency-Cost Paradox" is essential for retail financial planning. Investors need a data-

driven basis to decide between active versus passive funds and Direct versus Regular plans in a changing cost landscape.

3.3 Research Questions

1. What were the main structural changes SEBI brought in during December 2025 to the mutual fund expense ratio rules - especially the move from the old bundled TER to the new Base Expense Ratio (BER) and how do these changes actually change the way costs hit investors?
2. How much real difference (increase, decrease, or no change) do the 2025–2026 SEBI reforms make to the effective total expense ratio for Direct and Regular plans in selected equity-oriented mutual funds, once we factor in the unbundled levies and the revised brokerage limits?
3. How do the changes in effective total expense ratio after the reforms affect the estimated 10-year SIP corpus differently across active vs passive funds and Direct vs Regular plans, when we use historical gross returns and projected net returns?

3.4 Objectives of Study

1. To analyze the structural modifications introduced by SEBI in December 2025, particularly the transition from the bundled Total Expense Ratio (TER) to the Base Expense Ratio (BER).
2. To estimate the magnitude of actual post-reform cost changes for Direct and Regular plans of selected equity-oriented mutual funds.
3. To evaluate the differential impact of these reforms on net 10-year SIP wealth accumulation across active versus passive funds and Direct versus Regular plans.

4.5 Scope of Study

The study is limited to the Indian open-ended equity mutual fund segment, focusing on high-AUM schemes in the Flexi-Cap, Large-Cap, and Mid-Cap categories.

4. Research Methodology

4.1 Type of Study

This is a descriptive, quantitative, and deductive analytical research project based entirely on secondary data.

4.2 Variables of Study

Independent Variables: BER caps, brokerage limits, unbundled statutory levies (GST/STT/Stamp Duty).

Dependent Variables: Effective Total Expense Ratio, 10-year SIP terminal corpus.

4.3 Population and Sample Size

The population for this study is the Indian equity mutual fund universe, comprising around 48 asset management companies (AMCs) offering equity-oriented schemes as of late 2025 (AMFI, 2025).

A purposive sample of six schemes was selected based on high retail popularity, significant AUM, and availability of reliable Direct Plan data. The sample includes a balanced mix of active and passive funds across flexi-cap, large-cap, and mid-cap categories to allow meaningful comparison of reform impacts.

This approach ensures the sample reflects funds commonly used by retail SIP investors while remaining manageable for detailed pre- and post-reform analysis.

4.4 Type of Sample (Sample Selection)

The study utilizes **Purposive Sampling** of leading schemes to ensure market representativeness. The selected sample includes:

- **Active Flexi-Cap:** Parag Parikh Flexi Cap, HDFC Flexi Cap.

- **Active Large-Cap:** ICICI Pru Bluechip.
- **Active Mid-Cap:** Nippon India Growth.
- **Passive Index:** UTI Nifty 50 Index, Motilal Oswal Nifty 50 Index.

4.5 Data Collection

Data was derived through a multi-source extraction protocol to ensure empirical validity:

- **Regulatory Framework:** Parameters extracted from SEBI Gazette notifications (Notification F. No. SEBI/LAD-NRO/GN/2026/294).
- **Industry Statistics:** Assets Under Management (AUM) and category averages sourced from the AMFI database.
- **Financial Portals and Databases:** Real-world historical TERs and 5-year annualized returns were extracted and cross-verified via **Value Research Online**, **Moneycontrol**, and **Economic Times**.
- **Fintech Platforms:** Portfolio turnover and current direct/regular plan pricing were cross-referenced using **Groww**, **IndMoney**, **Upstox**, **Zerodha (Coin)**, and **Paytm Money** as of February 2026.
- **Official Disclosures:** Individual AMC factsheets and statutory disclosures from HDFC, ICICI Prudential, PPFAS, Nippon India, UTI, and Motilal Oswal.

4.6 Tools and Analysis

The analysis was carried out using financial modeling in Microsoft Excel, with built-in functions for future value calculations and simple arithmetic for cost estimations. All work is fully replicable and based only on secondary data from December 2025–January 2026. Two main analytical approaches were used:

4.6.A Estimation of Post-Reform Actual Base Expense Ratio (BER) Since actual BER values aren't available yet (post-1 April 2026), I created a five-step estimation process to forecast realistic BER levels for Direct Plans, combining regulatory caps with historical competition and reform benefits.

Step-by-step process:

- 4.6.A.1** Identify the new BER upper cap (SEBI, 2025): e.g., 0.95% for large AUM equity schemes, 0.90% flat for index funds.
- 4.6.A.2** Calculate historical competitive discount: % Gap = [(Old Max TER Cap – Actual Direct TER) / Old Max TER Cap] × 100 (late 2025 data).
- 4.6.A.3** Apply the gap to the new cap: Estimated BER before benefit = New BER Cap – (New BER Cap × % Gap / 100).
- 4.6.A.4** Adjust for reform benefits: Subtract 5 bps (0.05%) for unbundling of levies and removal of the 5 bps exit-load allowance (mid-point from Moneycontrol, 2025; Value Research, 2025).
- 4.6.A.5** Apply minimum realistic floor: ≥ 0.02–0.10% for passive, ≥ 0.50% for active (based on current low-cost peers; NSE, 2024).

Formula Summary Estimated Post-Reform Actual BER (%) = Current Direct TER (%) – 0.05% (reform benefit) – [New BER Cap × Historical % Gap / 100] (subject to cap and floor)

4.6.B Calculation of Future Value (FV) of SIPs To assess long-term impact on retail investors, SIP corpus was projected using the standard monthly compounding formula:

$$FV = P \times \left[\frac{(1+r)^n - 1}{r} \right] \times (1+r)$$

Where:

- $P = ₹10,000$ (monthly SIP)
- $r = \text{monthly net return} = (\text{Annual net return} / 12) / 100$
- $n = 120$ months (10 years)

Annual net return = Gross 5-year return (Direct) – Effective TER (pre: current TER; post: estimated new total TER).

Excel formulas (replicable): Pre-Reform Corpus: =FV((Pre-Net/100/12), 120, -10000, 0, 0)/100000 Post- Reform Corpus: =FV((Post-Net/100/12), 120, -10000, 0, 0)/100000

This is standard in mutual fund studies (Value Research, 2025; Agarwal et al., 2021). Values are rounded to two decimals.

4.6.C Other Analytical Techniques

- Net Change: $\text{New Effective Total TER (\%)} - \text{Current Direct TER (\%)} \times 100$ (in bps).
- Sensitivity Analysis: Low/mid/high scenarios for other charges (20/29.5/35 bps active; 10/16/20 bps passive) to check robustness.

4.7 Limitations of the Study The study relies on forward-looking estimates using industry mid-point averages for levies. It assumes constant historical returns and does not include market volatility, taxation, or inflation. Actual post-reform costs will vary by fund turnover and will be disclosed separately from April 2026.

5. Data Analysis

5.1 Structural BER Transition

This new framework compresses base caps significantly across AUM tiers.

Table 1: Comparative AUM-Based BER Slabs (Equity Schemes)

AUM Slab (₹ Crore)	Pre-2026 TER Cap (%)	New BER Cap (%)	Net Reduction (bps)
Up to 500	2.25	2.10	15
750 – 2,000	1.75	1.60	15
Above 50,000	1.05	0.95	10
Index Funds	1.00(Flat)	0.90(Flat)	10

(Source: Secondary data)

5.2 Plumbing and Execution Gains

Significant efficiency is gained from tightening transaction limits.

Table 2: Rationalization of Execution Costs (Dec 2025 Reforms)

Aspect	Pre-2026 Impact	Post-2026 Net Limit	Net Operational Gain
Cash Brokerage	~8.59 bps	6 bps	~2.59 bps
Derivative Brokerage	~3.89 bps	2 bps	~1.89 bps
Exit Load Allowance	+5 bps	Removed	5.00 bps

5.3 Historical Market Realities (Gaps vs. Caps)

Competition, rather than regulation, has historically driven low fees in Direct plans.

Table 3: Historical Gaps – Actual Direct TERs vs. Old Caps (Late 2025)

Fund Name	Category	Old Max Cap (%)	Actual Direct TER (%)	Historical Gap (bps)	Gap % of Cap
Parag Parikh Flexi Cap					

	Active	1.05	0.63	42	-40%
ICICI Pru Bluechip	Active	1.05	0.85	20	-19%
UTI Nifty 50 Index	Index	1.00	0.19	81	-81%
MotilalOswal Nifty50	Index	1.00	0.12	88	-88%

6. Results and Discussions

6.1 Objective 1: Structural Modifications (Transition Analysis)

The 2025–2026 SEBI reforms replace the old bundled TER with a clearer Base Expense Ratio (BER) that covers only core AMC costs, while statutory levies (GST, STT, stamp duty, etc.) are now charged separately on actuals. This unbundling makes the headline BER look lower, but the explicit addition of levies often offsets the 10–15 bps cap reduction, resulting in a modest net cost increase (6–19.5 bps in most cases). For a 10-year SIP, active funds see a marginal corpus drop of ~1.2%–1.5%, while passive funds are minimally affected due to lower levies and the special 0.90% BER cap. The real value lies in transparency rather than dramatic savings, with brokerage caps and removal of the 5-bps exit-load allowance providing the main efficiency gains.

6.2 Objective 2: Magnitude of Cost Changes (Transparency Paradox)

Effective total costs are projected to rise by 9 to 18.5 bps for Direct plans. This confirms the reform is a **transparency reset** rather than a cost-cut for low-cost schemes.

6.3 Objective 3: Impact on SIP Wealth Accumulation (Empirical Outcomes) Table 4: Projected 10-Year SIP Corpus for ₹10,000 Monthly Investment

Fund Name	Pre-Reform Corpus (₹ Lakh)	Post-Reform Corpus (₹ Lakh)	Corpus Diff. (₹ Lakh)	% Difference
Parag Parikh Flexi Cap	33.82	33.43	-0.39	-1.158%
HDFC Flexi Cap	42.25	41.74	-0.51	-1.197%
ICICI Pru Bluechip	31.06	30.75	-0.32	-1.019%
UTI Nifty 50 Index	25.35	25.22	-0.14	-0.537%
Motilal Oswal Nifty 50	25.49	25.34	-0.15	-0.597%
Nippon India Growth	45.19	44.76	-0.43	-0.948%

Source: Authors compilation

7. Implication of Study

Portfolio Turnover Sensitivity With STT and brokerage now explicit and charged on actuals, funds with high Portfolio Turnover Ratios (PTR) will naturally appear more expensive to investors. Active funds that frequently buy and sell securities will show higher visible transaction costs, making low- turnover or passive strategies look comparatively more attractive. This could encourage AMCs to adopt more disciplined, long-term investment approaches and discourage excessive trading to keep costs competitive.

Regulatory Efficiency The drastic 54% reduction in regulatory word count under the new SEBI (Mutual Funds) Regulations, 2026 simplifies compliance significantly for asset management companies. The shorter, clearer framework reduces administrative burden, interpretation errors, and indirect costs passed to investors, making it easier for AMCs to focus on performance rather than navigating complex rules.

Incentive Alignment The move toward performance-linked elements in the BER structure (where applicable) better aligns fund manager earnings with actual alpha delivered to investors. By reducing reliance on pure AUM-based fees and emphasizing outcomes, the reforms encourage managers to prioritize genuine outperformance over simply growing assets, which benefits long-term retail SIP participants.

8. Conclusion

After digging through the numbers, factsheets, and SEBI circulars, one thing stands out: the 2025–2026 expense ratio reforms aren't the big money-saver everyone hoped. The shift from bundled TER to BER, unbundling GST/STT/stamp duty, and tighter brokerage caps do make costs much clearer — investors can finally see exactly what goes to the AMC versus government taxes. But net savings? Modest at best.

My calculations show a small rise in effective total expense (6–19.5 bps for direct plans), which means a 10-year SIP of ₹10,000/month might end up with ₹0.06 lakh to ₹0.95 lakh less, depending on the fund. Active funds feel it more; passive index funds barely notice, thanks to the special 0.90% BER cap and lower levies. The reforms cut some hidden costs (like the 5 bps exit-load add-on) and brokerage slightly, but statutory levies were always there — just invisible before.

For the average SIP investor in Bengaluru — someone commuting on Outer Ring Road, saving for a home in Electronic City or their child's future — the real takeaway isn't in the bps. It's the clarity. The reforms give us a sharper lens to see true costs. And that points to the bigger truth: the most powerful savings come from our own choices.

Switch to direct plans — cut out the 60–90 bps commission drag and watch your corpus grow noticeably more. Lean toward passive index funds — they benefit most from the new rules and keep costs lowest. These decisions compound far more powerfully than any cap or unbundling ever could.

The reforms are a quiet step toward fairness. But real wealth creation starts when we use the transparency they give us.

Recommendations

- For retail investors: Move to direct plans and lean toward passive index funds — small choices today that become lakhs tomorrow.

- For AMCs: Embrace transparency — lower BER to stay competitive and build trust.
- For SEBI: Consider further reducing statutory levies (GST on fees, STT on trades) to turn clarity into real savings.

Future research should revisit this after April 2026 — when actual BER and levy figures are disclosed

— to see if the transparency promise fully materializes. Until then, for the millions of SIP investors quietly building their future in Bengaluru and beyond, the message is simple: the rules have changed, but the biggest difference is still in the choices we make.

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