Sebi tightens debt investing norms for mutual funds

Regulator also clears framework for dissenting

The Securities and Exchange Board of India (Sebi) on Monday announced tighter norms governing mutual fund investments in debt securities. The regulator has reduced single security exposure, sector exposure and group exposure for debt schemes.

The move comes within months of a crisis at JPMorgan Asset Management Company due to a payment default on debentures by Amtek Auto.

The maximum a debt scheme can invest in the securities of a company has been reduced from 15 per cent to 10 per cent of the corpus. Single sector exposure for a scheme has been reduced from 30 per cent to 25 per cent.

The exposure to housing finance companies within the finance sector has been reduced to five per cent from the earlier 10 per cent.

Sebi said the tightening would help mitigate credit risks and would lead to a rise in diversification.

“It is a prudent move from the regulator, particularly when investors see debt schemes as safe instruments. By diversifying, risk will be reduced. Such measures will instil confidence in investors,” said G Pradeep kumar, chief executive officer, Union KBC Mutual Fund.

Assets under management of debt mutual fund schemes are nearly Rs.8 lakh crore.

Sebi has also asked fund houses to merge credit exposure limits for single issuers of money market instruments and non- money market instruments at the scheme level.

DEBT MF INVESTMENT NORMS TIGHTENED:

Reduced cap on single issuer, single sector and group level investment IMPACT: Mitigate credit risks, diversification GREEN BONDS: Issuance and listing of green bonds cleared IMPACT: Opens new fundraising avenue domestically for financing needs in the renewable energy space

EXIT OPTION FOR DISSENTING

SHAREHOLDERS: Exit option for shareholders if company wishes to change objects of issue IMPACT: Investors in an IPO or public issue to get refund if company decides to use proceeds for a purpose other than mentioned in the offer document.

Move will bring more accountability and discipline the fundraising process

PRIMARY MARKET DEBT OFFERING THROUGH PRIVATE PLACEMENT ON

ELECTRONIC BOOK: Electronic book mechanism made mandatory for private placement of bonds over ~ 500 crore IMPACT: Will bring more efficiency and transparency in price discovery mechanism; reduce costs.

(Business Standard)