SEBI TIGHTENS DEBT INVESTING NORMS FOR MUTUAL FUNDS

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 Pradeepkumar, 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.

"The regulator has attempted to diversify the portfolio at an issuer, sector and group level. This is a positive for investors as they get a much more diversified portfolio. From an issuer's perspective, the demand for some sectors such as non-bank financial companies will go down," said Lakshmi Iyer, chief investment officer (debt), Kotak Mutual Fund.

Some mutual fund experts said more needed to be done than only pushing for diversification. "These are certainly good measures but a lot more needs to be done. The liquidity risk is a bigger issue, which has not been addressed. In most such crises investors tend to redeem units. There should be measures to expand, deepen and make the corporate bond market more versatile in order to make sure bonds are easily tradeable and there is no illiquidity," said Kaustubh Belapurkar, director (fund research) at Morningstar India.

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 fund raising 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 Rs 500 crore

IMPACT: Will bring more efficiency and transparency in price discovery mechanism; reduce costs

The latest move comes after months of discussions with the mutual fund industry and other stakeholders on the need for introduction of prudential limits to help the domestic fund industry better handle adverse credit events. Last year, JPMorgan AMC had to "gate" redemptions in two of its schemes that had Rs 200 crore worth of exposure to Amtek Auto debentures. The move created panic among investors who were worried over further defaults, given the deteriorating creditworthiness of some companies with high debt. Sebi is yet to set a date for applicability of the new norms. The announcement was made at Sebi's board meeting held on Monday.

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