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MUMBAI : Three new proposals by Indian asset managers to launch so-called 'metaverse funds', focusing on investments in metaverse, blockchain and internet of things (IoT) technology themes, may face regulatory hurdles.

"If any fund has an underlying which is not recognized as a security under the Sebi Act, the regulator will not clear it. Since the funds will be open for retail investors, Sebi cannot allow investments into unregulated assets/underlying," said a person directly aware of the regulator's thinking.

A similar proposal last year to invest in crypto had to be withdrawn. Invesco Mutual Fund had proposed to launch Invesco CoinShares Global Blockchain ETF Fund of Fund. The new fund offer was later withdrawn, considering that India's rules on crypto investments were still evolving. Invesco had then said such a launch would be premature.

In December, Sebi's top brass advised mutual funds against any fund offerings on crypto since the regulatory framework was still evolving.

"While it's good that such new products in mutual funds are coming to the market for investors, it will boil down to how Sebi perceives it. We will not be surprised if these offerings go down the Invesco route. There is also the possibility that the regulator may delay giving its observations. Sebi will also scrutinize what will be real underlying in such a case. We will have to see how Sebi reacts to this or if the regulator comes up with new guidelines for fund houses," said a partner at a leading law firm.

According to its offer papers, Navi's Metaverse ETF Fund of Fund (FoF) will invest in overseas ETFs, which provide exposure to companies that benefit from advances in the field of metaverse. Aditya Birla's blockchain and virtual digital assets (VDAs) ETF's FoF will be investing in the units of global ETFs focused on the global blockchain theme (including VDAs). Navi has also proposed to launch an IoT ETF fund of fund.

The metaverse is a digital space where people can socialize, work and play. ETFs focussing on the metaverse may be a portfolio of firms involved in developing the metaverse. Globally, there are already such ETFs. Navi's fund of fund proposes to invest in these ETFs. Navi's FoF will be benchmarked against Solactive Metaverse Theme Index, which comprises firms such as Apple Inc. and Meta Platforms.

According to its scheme information document, Aditya Birla's new fund can invest in overseas ETFs, including Amplify Transformational Data Sharing ETF and Siren Nasdaq NexGen Economy ETF.

"Sebi has approved similar concepts in the past and has no policy/track record of disallowing this theme...Since blockchain is a growing concept with actual applications in real world businesses, we are confident Sebi will see it positively. This fund proposes to invest in an overseas ETF investing in these assets," said Abhishek Singhal, head, passive and alternative

strategies, Aditya Birla Sun Life Mutual Fund, in an emailed response. An email sent to a spokesperson for Navi was not answered till press time.

Navi's internet of things ETF feeder fund will invest in units of overseas ETFs, which provide exposure to companies that benefit from the broader adoption of the Internet of Things (IoT) technology. It will be benchmarked against the Indxx Global Internet of Things Thematic Index.

"Metaverse has the potential of fundamentally revisiting settled legal principles around conduct, and liability challenges with regulating AI (artificial intelligence) will resurface with metaverse-run outlets," said Anu Tiwari, partner, Cyril Amarchand Mangaldas.

"In metaverse funds, the ultimate investment will be in a firm. Any company which will have an outlet in the metaverse is setting up an outlet in what it does, which can include selling cars or burgers, games, and importantly the underlying asset will be the company," Tiwari said. This poses the second regulatory hurdle, which involves a cap on overseas investment limits. If these funds are seen purely as overseas funds and not so-called 'metaverse funds', they will likely breach the overseas investments limit of up to \$1 billion per mutual fund.

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