

SEBI ENHANCES FOREIGN INVESTMENT LIMIT FOR INDIVIDUAL AMCS, RETAINS OVERALL MUTUAL FUND INDUSTRY CAP

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

In a circular issued today, the Securities and Exchange Board of India (Sebi) enhanced the foreign investment limit per fund house from 300 million USD to 600 million USD. The move comes after several AMCs approached the regulator to increase the limit as [Mint reported here](#).

A surge of interest in international investing pushed some AMCs close to the previous foreign investment limit of USD 300 million.

In the fund of funds (FoF) category, overseas assets under management (AUM) touched 6,496 crore at the end of September 2020, according to data from the Association of Mutual Funds in India (Amfi). This figure does not include funds that primarily buy local stocks, but also invest part of their corpus abroad.

"We welcome the move to enhance the foreign investment limit per fund house. It will allow Indian investors to diversify their portfolios through the mutual fund route in a low cost, efficient manner," said Neil Parikh, CEO, PPFAS Mutual Fund which invests up to 35% of the corpus of its flagship scheme outside India.

The market regulator has however retained the overall industry cap of USD 7 billion set by a 2008 circular. However it increased the limit per fund house. The regulator also set up a separate limit for investment in foreign exchange traded funds (ETFs) of USD 200 million per fund house within an overall industry limit of USD 1 billion. This had been previously set at USD 50 million per fund house and USD 1 billion for the industry.

A mutual fund launching a new scheme intending to invest overseas will be required to specify the amount it will invest outside India and use the limit specified within 6 months.

For existing schemes, the regulator specified a headroom of 20% of the AUM in overseas securities in the previous three calendar months, for investment in foreign securities

subject to the overall limit of USD 600 million. "This is to check explosive growth in AUM in certain AMCs investing abroad who are consuming their limit rapidly. They will have to grow at a more measured pace," said a senior compliance executive at a mid

sized fund house on condition of anonymity. AMCs would have to report utilisation of the foreign limit to Sebi on a monthly basis, within 10 days from the end of each month. There are 44 AMCs in India implying that all fund houses will not be able to use the USD

600 foreign limit without breaching the industry cap of USD 7 billion. Hence Sebi has reserved an amount of USD 50 billion per fund house. "This effectively reserves around 2.2 billion out of the 7 billion, leaving another 4.8 billion vacant," said the aforementioned executive.

However the first-come-first-serve system created by the regulator may spawn a race among AMCs to consume the unreserved industry limit before it is taken up by competitors.

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