Source : www.livemint.com Date : 2020-11-08

RECENT NEW MUTUAL FUND RULES ANNOUNCED BY SEBI

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

Here is the list of recent changes in mutual funds announced by Sebi.

Securities Exchange Board of India (Sebi), has recently announced a slew of measures for mutual funds industry. The market regulator has modified certain mutual funds rules to make them more investor friendly. The recent announcement of new 'flexi cap category' under equity schemes has cheered up investors who were cautious about their investments in multi cap funds due to the change in portfolio allocation rules announced by Sebi in September. Here we have listed the recent changes in mutual funds announced by Sebi:

Introduction of flexi cap category

The markets regulator has introduced a ‘flexi-cap category’ for mutual funds, which will be required to invest at least 65% of the corpus in equity but will have no restrictions on investing in large-, mid- or small-cap company stocks.

Earlier in September, Sebi announced to tweak the asset allocation rules for multi cap funds. According to the circular, a multi cap fund must invest a minimum of 75% in equity and equity related instruments with a minimum 25% allocation to large-, mid- and small-cap stocks.

The existing equity schemes will be able to reclassify themselves under the new category and continue to run their multi cap funds in the same manner without any change in portfolio allocation or investment process, just by changing the scheme's name.

Restoration of pre-covid cut-off time for mutual fund transactions

Sebi has restored the pre-covid cut-off timings of mutual funds, effective November 9. In April, Sebi had reduced the cut-off timings of all mutual funds to 1 pm from 3 pm and for liquid and overnight schemes to 12.30 pm from 1.30 pm.

On October 19, Sebi had restored the cut-off timings to 3 pm for all schemes except for debt schemes and conservative hybrid schemes.

Now, the cut-off time has been brought back to 3 pm for debt and conservative hybrid funds as well. The cut-off time for purchase of liquid and overnight funds would stand restored from 12.30 pm to 1.30 pm. The redemption cut-off time for equity, debt and liquid funds would stand restored to 3 pm. The Sebi action follows an RBI move extending debt market timings for most securities to 3.30 pm, also with effect from 9 November.

Enhancement of overseas investment for mutual funds

Sebi in a circular issued on November 5, doubled the foreign investment limit per mutual fund house to $600 million, from the existing $300 million. $50 million would be reserved for each mutual fund individually, within the overall industry limit of US $ 7 billion.

Mutual funds can invest in overseas Exchange Traded Fund (ETFs) subject to a maximum of US $ 200 million per mutual fund, within the overall industry limit of US $ 1 billion. According tote circular, a mutual fund launching a New Fund Offer (NFO) and intending to invest overseas will be required to specify the amount it will invest outside India and use the limit specified within six months.

For existing schemes, Sebi specified a headroom of 20% of the assets under management (AUM) in the previous three months in overseas securities, for investment in foreign securities subject to the overall limit of $600 million.

Holding liquid assets in open ended debt schemes

In another circular dated November 6, Sebi has requires open ended debt mutual funds, except liquid and overnight funds, to hold at least 10% of their corpus in liquid assets. Liquid assets are defined as cash, treasury bills, government securities and repo on government securities.

Liquid funds, since April 2020, were already required to hold at least 20% of their corpus in liquid assets. Overnight funds are allowed to invest in securities maturing in one day and hence also invest in liquid assets. Similarly gilt funds and gilt funds with 10 year constant maturity have been exempted because they are required to invest 80% of their assets in government securities, as per their category rules.

The circular has also required mutual funds to stress test their portfolios. The rules for liquid holdings will be with effect from 1st February 2021 and the stress testing rules will be effective from December 1, 2020.

END