SEBI norms for Mutual Fund

Why in news?

Securities and Exchange Board of India's (SEBI) norms for mutual fund (MF) investments has given MF industry a new framework.

What are the new norms?

- The liquid mutual fund schemes will have to **invest at least 20%** of their funds **in liquid assets** like government securities mandatorily.
- They will be **barred from investing more than 20%** of their total assets in any one sector (the current cap is 25%).
- The limit is down to **10% for sectors** like housing finance.

What is the need?

- After some mutual funds had to postpone redemption of their fixed maturity plans (**FMPs**), this industry came under SEBI's scrutiny.
- After introducing a new **standard framework for credit rating agencies** in June month, the SEBI came up with more stringent regulations for MFs.

What are its significance?

- The mandated investment in government securities will **ensure a modicum of liquidity**.
- The reduction in sectoral concentration will **discipline funds** and **diversify their risks**.
- Some MFs entered into **standstill agreements** with companies in whose debt instruments the funds had invested, which are not a welcome practice.
- It goes against the interests of investors in the mutual fund.
- To increase the exit load on short-term investments in liquid MFs to **discourage sudden demands for redemption**.

Why should it be welcomed?

- SEBI has required that assets of mutual funds be valued on a **mark-to-market basis** in order to better reflect the value of their investments.
- To increase the exit load on short-term investments could possibly hinder fund flow into the bond market.

- SEBI is doing a commendable job in **disciplining the markets and intermediaries.**
- Market investments involve **risk**, and investors seeking **high returns** may be willing to assume the increased risk that comes with such investment.
- This is the **concern** of the regulator is probably more concerned about is the **ripple effect of defaults and roll-overs** on the system.
- **Investor confidence** can be shaken by defaults and that will have consequences for the economy.

Source: The Hindu

Quick Facts

Securities and Exchange Board of India (SEBI)

- It was established in 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992 (**SEBI Act)**.
- The basic **functions** of SEBI
  1. To protect the investors interests in securities.
  2. To be a platform to promote, develop and regulate the securities market in India as well as the relating matters that are connected with it.
  3. To approve rules and laws pertaining to the stock exchanges.
  4. Examines books of accounts of financial mediators and recognized stock exchanges.
  5. To urge respective companies to list their shares in stock exchanges and manage the registration of distributors or brokers.
- SEBI board has three main **powers** – Quasi judicial, quasi legislative and quasi executive.

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