

Proposal of New Asset Class under Mutual Funds By SEBI



Main Objective

The Main
objective

Bridging the gap between mutual funds and portfolio management services thereby providing flexibility in portfolio construction.

behind
proposing

To provide investors a regulated investment product with higher risk-taking capabilities and a higher ticket size.

new asset
class:

Also aims at curbing the proliferation of unregistered and unauthorized investment products.

Background

- 1 The landscape of investment management in India has significantly evolved over the years
- 2 The existing range of investment products lies between Mutual Fund schemes with a ticket size of INR 50 lakhs to AIFs with a minimum investment value of INR 1 Crore
- 3 These schemes are intended to meet the investment needs of retail, high net-worth and institutional investors
- 4 The absence of better investment product appears to have inadvertently propelled the investors towards unregistered and unauthorized investment schemes/entities.
- 5 Such schemes/entities, often promise unrealistically high returns and exploit the **investors'** expectations for better yields, leading to potential financial risks.

Characteristics of New Asset Class

New Asset Class would provide a regulated and structured investment suited to the investors in this segment.

This new class have Higher risk-taking capability with a higher ticket size to meet the needs of the emerging category of investors

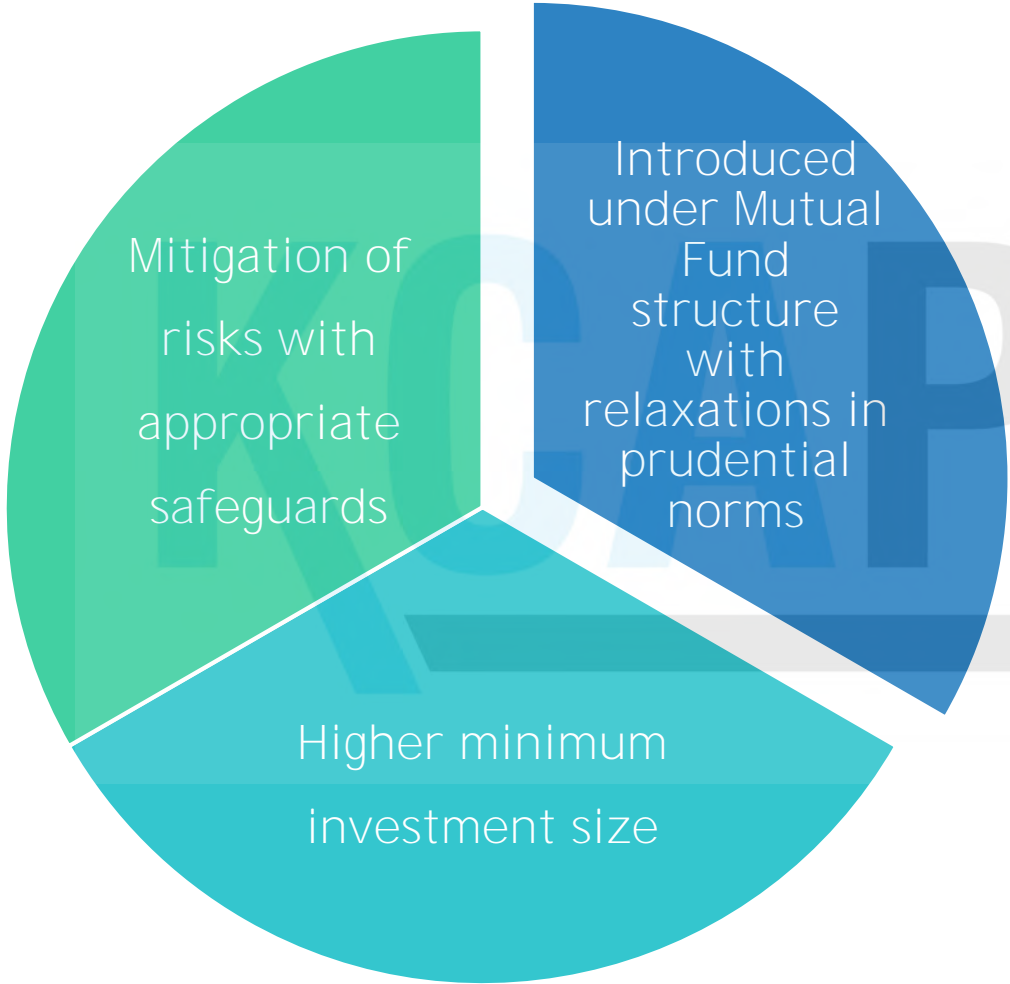
This will fill the gap between MFs & PMS by offering a regulated product featuring greater flexibility

New Asset Class is intended to have a risk-return profile between MFs and PMS

This new class contains commensurate safeguards and risk mitigation measures

To deter retail investors from unregistered schemes

Proposed Regulatory Framework



Eligibility Criteria

Two Routes for Eligibility

Strong Track Record

Minimum 3 years of operation; and

Average AUM of not less than INR 10,000 Crores in immediately preceding 3 years

No action initiated or taken against the sponsor/AMC, u/s 11, 11B and 24 of SEBI Act, 1992 during the last 3 years.

Alternate Route

Appointment of CIO with exp. of at least 10 years & managing AUM of not less than 5000 Crores

An additional Fund Manager with exp. of at least 7 years & managing AUM of not less than 3000 Crores

No action initiated or taken against the sponsor/AMC, u/s 11, 11B and 24 of SEBI Act, 1992 during the last 3 years.

Registration and Approval

The Trustees/sponsor of a Mutual Fund shall file an application, along with non-refundable application fees, with SEBI for providing services under the New Asset Class

SEBI, upon being satisfied that the applicant fulfils the necessary requirements, shall provide its approval to the applicant to commence operations under the New Asset Class.

The registration process for New Asset Class shall be a two-stage process, consisting of in-principle and final approvals, similar to the registration process currently followed for Mutual Funds.

the New Asset Class shall represent a new arm/service offered under the broader umbrella of Mutual Funds.

All provisions of existing SEBI (Mutual Funds) Regulations, 1996, SEBI Master Circular for Mutual Funds and any other circular issued thereunder shall apply to the New Asset Class unless otherwise specified, ensuring a consistent regulatory approach and investor protection measures

Proposed Structure

Mutual Funds registered with SEBI

Mutual Fund schemes

New Asset Class



Existing Mutual Fund Structure

Proposed New Asset Structure

Branding of the New Asset Class

Branding of products under the New Asset Class shall be clearly distinction from traditional Mutual Funds as New Asset Class is relatively riskier

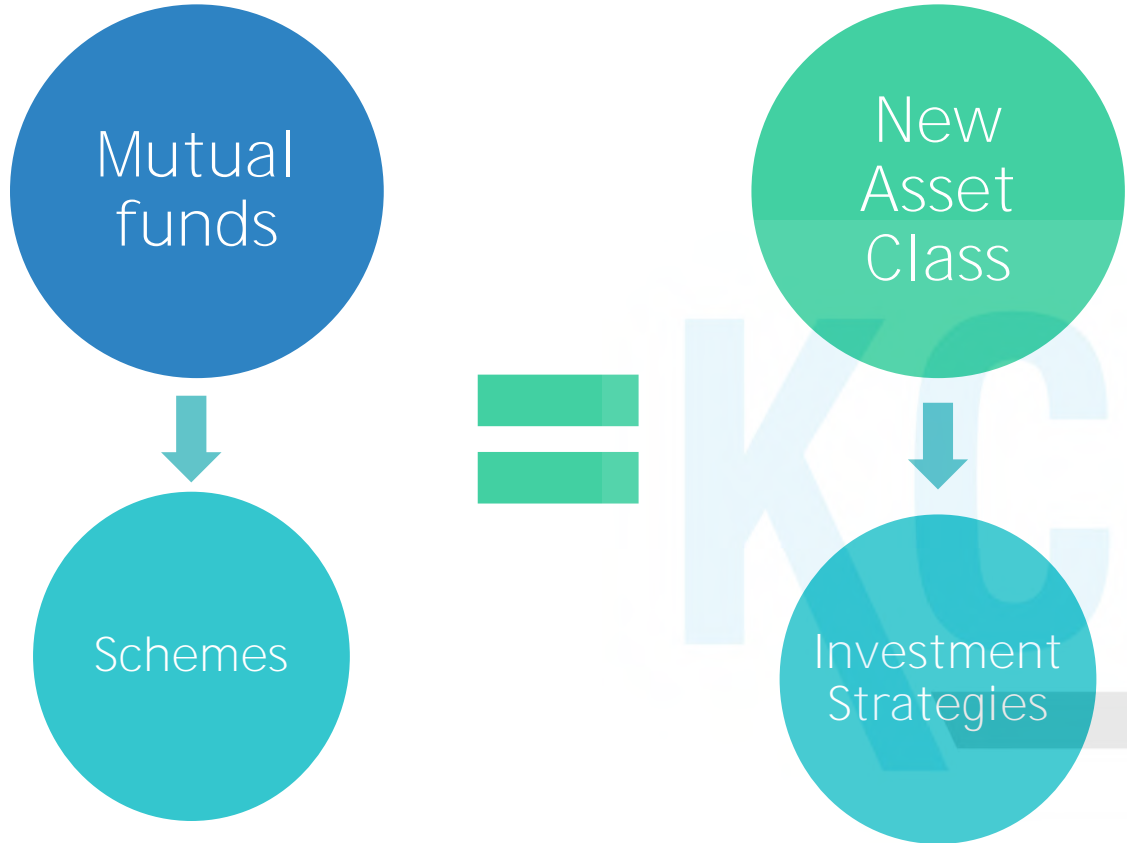


New Asset Class is positioned as a product distinct from the traditional Mutual Funds both from the purview of Branding and Advertisement perspectives, including the manner of usage



The reason for using distinct branding techniques shall prevent from any potential misconduct/ failure in performance of the New Asset Class

Structure of the New Asset Class



As AMC makes offer through Schemes under mutual funds, here AMC shall offer through **“Investment Strategies”** as pooled fund

The redemption frequency of these Investment Strategies can be daily/weekly/fortnightly/monthly/quarterly/annually/fixed maturity based on the nature of investment.

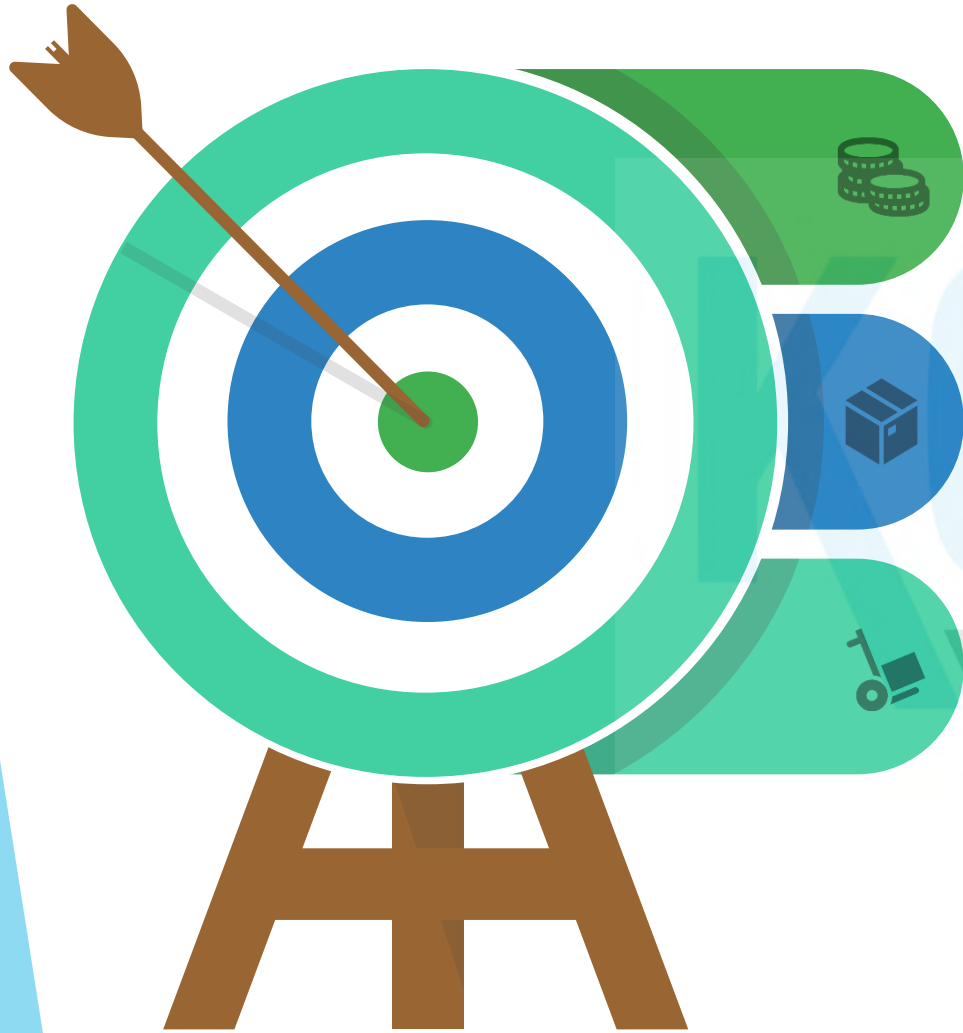
AMCs may implement appropriate notice or settlement periods for redemption from these funds to protect the interest of investors

The units of the investment strategies may also be listed on the recognized stock exchanges

All provisions regarding the offer documents shall be same as that of schemes

Only **‘Investment Strategies’** that are specified by SEBI from time to time, can be launched under the New Asset Class. For eg. Long-short Equity Fund, Inverse ETF/Fund etc.

Minimum Investment Threshold



MINIMUM INVESTMENT

The minimum investment amount for investment under the New Asset Class shall be INR 10 lakh per investor at the level of the New Asset Class within the AMC/MF. This threshold shall deter retail investors who are today being drawn to unauthorized and unregistered portfolio management service providers.

SIP/SWP

Investors may have an option of systematic plans:

- Systematic Investment Plan (**'SIP'**),
- Systematic Withdrawal Plan (**'SWP'**) and
- Systematic Transfer Plan (**'STP'**)

for investment strategies under the New Asset Class.

MAINTENANCE OF AMOUNT INVESTED

- Total invested amount of an investor should not fall below INR 10 lakh due to actions of the investor such as withdrawals or systematic transactions etc.
- However, the total amount may fall below INR 10 lakh due to depletion of the value of investments.

Permissible Investments

All investments permissible to Mutual Funds under the SEBI (Mutual Funds) Regulations, 1996

The 'Investment Strategies' shall only borrow for the purpose to meet temporary liquidity needs

Exposure in derivatives for purposes other than hedging and portfolio rebalancing

Relaxations to Investment Restrictions

S. No.	Details	Proposed limits for New Asset Class
1	Minimum investment size	INR 10 lakh per investor across investment strategies at the level of New Asset Class within the AMC/MF
2	Single issuer limit for debt securities	20% of NAV (+5% with approval of trustees and AMC Board)
3	Credit risk based single issuer limit for debt securities	AAA - 20% of NAV; AA - 16% of NAV; A & below - 12% of NAV (+5% with approval of trustees and AMC Board)
4	Ownership of paid-up capital carrying voting rights	No New Asset Class under all its strategies should own more than 15 % of any company's paid up capital carrying voting rights.
5	Percentage of NAV in equity and equity related instruments of any company	No 'Strategy' of New Asset Class shall invest more than 15 per cent of its NAV in the equity shares or equity related instruments of any company
6	Investment in REITs & InvITs	<ul style="list-style-type: none"> • Single issuer limit at New Asset Class level across all investment strategies - 20% • No 'Strategy' shall invest more than 20% of NAV in units of REITs and INVITs with not more than 10% of its NAV in units of REIT and INVIT issued by a single issuer
7	Sector level limits for debt securities	25% in a particular sector
8	Derivatives	May also be allowed for the purpose of taking exposure

Investment in Derivatives

New Asset Class may invest in derivatives or derivative strategies as a way of taking exposure in the Market.

All investable instruments including derivatives and any other instruments as may be permitted by SEBI from time to time should not exceed 100% of the net assets of the investment strategy.

The total exposure through exchange traded derivative instruments shall not exceed 50% of the net assets of an investment strategy

- a. The total exposure through derivatives of a single stock shall not exceed 10% of the net assets of an investment strategy.
- b. Such limit of 50% shall not be applicable in case of Index funds / ETFs launched under the New Asset Class, on such indices as may be specified by SEBI.

Disclosures

Risk-o-meter/ Risk Band: Similar to Mutual Fund schemes, the investment strategies under the New Asset Class shall also be categorized under a Risk-o-meter. This might have have a different depiction and nomenclature eg. **'Risk Band'**

Portfolio Disclosure: The New Asset Class shall disclose portfolio of all its **'Investment Strategies'** on its website on monthly basis.

Constitutional documents: All constitutional documents (i.e. SID / SAI /KIM) shall be publicly available.

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