

MFs seek clarity from Sebi on scheme split plan, flag risks

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Mutual fund (MF) houses have sought clarity from the capital markets regulator on its proposal to allow them to launch an additional scheme once the assets under management (AUM) of a particular scheme crosses ₹50,000 crore.

As per an 18 July draft circular of the Securities and Exchange Board of India (Sebi), the older scheme will then have to stop receiving subscriptions.

The draft paper had invited comments until 8 August.

“Even though the circular says that the existing scheme will have no new inflows, for now it is not clear what will happen to the existing systematic investment plans (SIPs); whether they would be allowed to be in the same scheme or not,” said a person from the mutual fund industry on the condition of anonymity. “We need to get more clarity on that.”

“A lot of questions are being sent to the regulator about what happens to existing SIPs,” said another person from the industry.

According to data from Value Research, in the equity and hybrid schemes category, the number of actively-managed schemes with more than ₹50,000 crore assets under



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management (AUM) is 13, with their combined AUM at over ₹9 trillion.

MFs are also not so keen on the idea of a new scheme launch within the same category, industry experts said.

If a fund with a strong decade-long track record is closed to new inflows and a new scheme

is launched, investors and distributors may prefer competitors with proven histories, rather than a new scheme with no track record,” said Neil Parikh, chairman and chief executive officer at

PPFAS Mutual Fund. Parikh said launching a second scheme is complex and could require a new fund management team, higher costs, and could also leave investors confused.

For a bigger fund house, the costs won't be that high as they already have large teams but a

small fund house may need to hire additional fund managers and bear scheme-related costs, Parikh said. Moreover, the individual stock limit is at a fund house level and not at a scheme level, so having more schemes will dilute the fund's best ideas, he added.

Moreover, if a fund is only seeing redemptions, it may be a negative for existing investors. “Imagine investors in the first scheme, which is closed for subscriptions and only allows outflows. In a ₹50,000 crore fund, where the manager is only selling stocks and not buying, the returns for existing investors will be impacted,” said a mutual fund executive on the condition of anonymity. “If redemptions increase, the fund manager sells more, the performance deteriorates, and because the performance is weak, more investors will redeem. It becomes a vicious spiral.”

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Mutual funds are not keen on the idea of a new scheme when an existing one crosses ₹50,000 crore in AUM