

SEBI working on new norms to label risks for various MF categories

Updated at September 17, 2020 00:56 IST

Depending on the risk profile, mutual fund (MF) schemes are currently divided into five buckets, ranging between 'low risk' and 'high risk'. After overhauling the investment framework for multi-cap schemes, markets regulator Securities and Exchange Board of India (Sebi) is working on the new guidelines for calculating and labelling risks for various categories.

Depending on the risk profile, mutual fund (MF) schemes are currently divided into five buckets, ranging between 'low risk' and 'high risk'. Sources said Sebi could introduce another category which could be termed 'extreme' or 'very high' risk to help warn investors.

Sources said on the equities side, schemes with very high exposure to the small-cap universe could be placed in this category. On the debt side, credit risk funds and schemes with high exposure to corporate paper could be labelled 'extremely risky'.

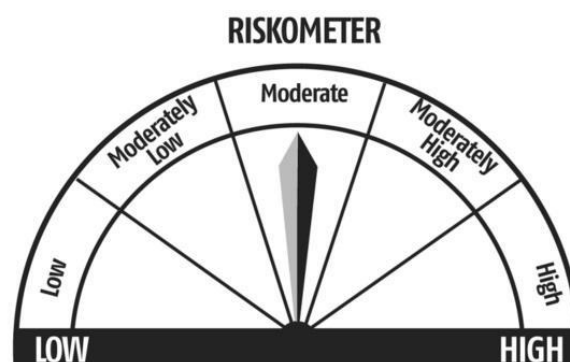
"Sebi is working on new parameters for product labelling. It could introduce new investment categories and risk labels," said a regulatory official.

The move to introduce 'extreme risk' category for debt schemes was triggered by the winding up of six debt schemes of Franklin Templeton in April. The move had sent shockwaves through the industry, with investors pulling out their investments from credit risk funds.

"There is scope to improvise and fine-tune the current norms. A lot of MF investors still don't fully understand the risk. Many still believe that investing in debt schemes is entirely risk-free," said the regulatory official.

The concept of product labelling for the MF industry was introduced in 2013. Over the years, the markets regulator has been making changes to the framework. In the beginning, schemes had to be colour-coded in green indicating 'low risk' and red denoting 'high risk'.

Later in 2015, Sebi did away with the colour codes and introduced the 'risk-o-meter' — a large graphical indicator depicting the risk level, based on the perceived risk for the principal investment amount.



Disclaimer: The content above is taken from the source mentioned

Resource: Business Standard, 17 Sep 2020

Copyright © 2019 Aparajitha Corporate Services Pvt., Ltd. All Rights Reserved.

Making Corporate India Comply

Sources said Sebi is taking feedback from industry body Association of Mutual Funds in India (Amfi) and other stakeholders to help investors take educated bets. In recent months, Sebi has been asking Amfi to underscore the investment risks in its advertisements.

In a recent ad campaign, India's top cricketers Sachin Tendulkar and Mithali Raj tell a greenhorn investor to start his MF journey by investing in overnight funds, which have low investment risk and are highly liquid. Incidentally, overnight funds have the 'low risk' label.

Separately, reports suggest industry body Amfi has written to Sebi on various options MFs can choose to avoid large-scale rebalancing of multi-cap schemes. Among the options, the industry has asked for a new category called 'flexi-cap', which will allow fund managers to dabble in large-cap, mid-cap, and small-cap stocks without any investment threshold.

Alternatively, the industry has asked Sebi to set a threshold, based on the composition of the market, where large-caps account for 74 per cent of India's total market capitalisation.