

SEBI tightens inter-scheme transfer of securities within fund house cases

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In close-ended funds, IST allowed within 3 days from allotment; in open-ended schemes, can happen only under redemption pressure

SEBI has tightened regulations for inter-scheme transfers (IST) within the same mutual fund house by banning transfer of investment in close-ended schemes after three business days of allotment. At present, transfers of securities from one scheme to another scheme in the same mutual fund is allowed only if such transfers are done at the prevailing market price and the securities so transferred are in conformity with its investment objective.

To ensure that such IST of securities are in conformity with regulation, SEBI said in case of close-ended schemes, IST purchases would be allowed within “three” business days of allotment after new fund offer. Thereafter, no ISTs will be permitted.

Open-ended schemes

For open-ended schemes, ISTs may be allowed only for meeting liquidity requirement due to unanticipated redemption pressure. AMCs should have an appropriate liquidity risk management model at a scheme level approved by trustees to ensure reasonable liquidity requirements, said SEBI.

If the fund house is not able to meet the liquidity after attempting all the options, then out of the remaining securities, outward ISTs of the optimal mix of low duration paper with highest quality shall be effected. The use of market borrowing before ISTs will be optional and fund manager may use his/her discretion to take decision in the best interest of unitholders.

If the option of market borrowing and selling of security is not used, the reason needs to be recorded with evidence, said SEBI. For sector and group rebalancing, ISTs should be allowed only to rebalance the breach of regulatory limit. ISTs will be allowed where any one of duration, issuer, sector and group balancing is required in both the transferor and transferee schemes.

Credit Risk Scheme

To prevent misuse of ISTs in Credit Risk scheme, SEBI said trustees should ensure a mechanism to reduce the performance incentives of fund managers and CIOs, in case the transferred security becomes default grade within one year. Such negative impact on performance should also be reflected in the existing mechanism for performance incentives of the AMC.

No ISTs of a security should be allowed, if there is negative news or rumours in the mainstream media or an alert is generated about the security, based on internal credit risk assessment during the previous four months, it said.