SEBI refines mutual fund laws to prevent tail-gating by portfolio management companies

The Securities Exchange Board of India has authorized the modifications made to Sebi (Mutual Funds) Regulations, 1996 to curb the practices of forward-trading (front-running) in portfolio managing companies. This activity usually takes place when securities are traded based on information about upcoming orders or projected market moves. It usually happens when a trader or broker prioritizes their trades over those of their clients or the public by leveraging their authority or sophisticated expertise.

The Association of Mutual Funds of India (AMFI) was asked to elaborate on the range of procedures required for turning this into a reality. Currently, the directives placed by SEBI for these mechanisms include improved oversight protocols, escalation techniques, and surveillance systems to recognize, track, and deal with particular forms of wrongdoing, such as insider dealing, front running, and improper usage of confidential information. Similarly, caps placed on non-convertible redeemable preference shares (NCRPS) and non-convertible debentures (NCDs) were further slashed from ₹1 lakh to ₹10,000 for individual investors.

Subject to certain restrictions, FPIs located in the IFSC are eligible for a 100% corpus contribution from NRIs, OCIs, and domestic residents. At this point, an individual NRI cannot contribute more than 25% of an FPI corpus, although they may allocate up to 49% of the corpus as a team. Usually, mutual fund programs are prohibited from allocating more than 25% of their net asset value (NAV) to the sponsor's group companies. SEBI has permitted for introduction of passive equity schemes in such cases. This would now result in the total amount of money that the passive plans might invest in the sponsor's group firms to be at 35%.

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