

# Sebi invites comments on proposal for new asset class bridging between mutual funds and PMS

*The new asset class seeks to provide investors with a regulated investment product featuring higher risk-taking capabilities and higher ticket size, Sebi said.*

**Neha Joshi, Neil Borate**

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*In the consultation paper, Sebi noted that the investment management landscape in India had significantly evolved over the years. (Photo: Reuters)*



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The Securities and Exchange Board of India (Sebi) has invited comments on its proposal to introduce a new asset class or product category aimed at bridging the gap between mutual funds (MFs) and Portfolio Management Services (PMS).

In a consultation paper released today, Sebi clarified that the new asset class sought to provide investors with a regulated investment product featuring higher risk-taking capabilities and higher ticket size. It aimed to curb the proliferation of unregistered and unauthorized investment products.

*Mint* had reported in October about Sebi's communication to the Association of Mutual Funds in India (Amfi) seeking the views of individual asset management companies on a new mutual fund category.

At an event in December, [Sebi chairperson Madhabi Puri Buch](#) also expressed that the regulator "saw room for an asset class between PMS and mutual fund."

In the consultation paper, Sebi noted that the investment management landscape in India had significantly evolved over the years.

"Sebi has adopted a segmented risk-based approach to regulation of these products depending on their complexity, sophistication of target investors, minimum investment size, etc., with the over-arching objective of diversifying investment avenues while protecting the interest of investors," the paper said.

The current investment products range between mutual fund schemes which are retail-oriented with a low-ticket size, PMS with a ticket size of ₹50 lakh and alternative investment funds (AIFs) with a minimum investment value of ₹1 crore.

An opportunity for a new asset class has emerged between mutual funds and PMS in terms of flexibility in portfolio construction, Sebi said, pointing out that the absence of such a product would inadvertently propel investors of this segment towards unregistered and unauthorized investment schemes/entities.

Sebi accordingly proposed a regulatory framework for the new asset class to enable higher risk-taking than mutual funds while maintaining safeguards and risk mitigation measures.

The minimum investment under this class has been fixed at ₹10 lakh per investor.

The regulator also proposed that the MFs or asset management companies (AMCs) that are offering this new asset class should have been in operation for at least 3 years with an average Asset Under Management (AUM) of ₹10,000 crore in the immediately preceding 3 years.

It was proposed that the new asset class be positioned as a product distinct from the traditional mutual funds both from branding and advertisement

perspectives, Sebi said.

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Sebi clarified that the new asset class would be able to take exposure in derivatives for purposes other than hedging and portfolio rebalancing. It stated further that the gross exposure in investable instruments should not exceed 100% of the net assets of the investment strategy. For exchange-traded derivative instruments the limit was 50% of the net assets of the investment strategy and for derivatives of a single stock it was limited to 10% of the net assets of the investment strategy.

Deepak Shenoy, founder and CEO of Capital Minds said, "In many ways this consultation paper allows MFs to go beyond PMS and do things PMS cannot do like the use of derivatives and in a tax-efficient manner. I hope over time even PMS managers are allowed to launch strategies using this structure. Since the exposure minimum is ₹10 lakh across the whole asset class, an investor can take exposure to it across multiple strategies—let's say by investing a few lakhs in each strategy."

Sebi's move is a perfect chain effect which was missing all this while, and crucial for taking into consideration the new investors' potential, Ramanan Venkateswaran, founder and managing director at Pygmalion Wealth, said.

"This is a fantastic scheme for the new, young investor who will know the benefits of direct equities. The investor will know where the money is being invested unlike in the MF schemes. Tax efficiency-wise PMS investors may want to move to this new asset category, but the ultra HNIs (high networth individuals) who have existing investments may not move. But with this scheme and based on the customers' experience, a lot of new investors will originate in the future for PMS industry even if it may see a dip in the AUM presently," he said.

Ritul Sarraf, associate in Financial Services & Regulatory Practice at Nishith Desai Associates, said that the new product category could cater to the emerging needs of the new-age retail investors who wish to take exposure to a more sophisticated asset class than an MF but cannot satisfy the minimum

ticket size for a PMS account. Further, this should also lead to the mitigation of the financial scams conducted by persons portrayed as PMS in the market, she added.

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The Midcap index outperformed the Nifty 50, with the Nifty Midcap 50 closing 0.92% higher. Additionally, small-cap stocks also showed strong performance, as the Nifty Small Cap 100 ended at 19,332.15, up by 216.75 points, representing an increase of 1.12%.

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Bank Of Maharashtra

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**63.07**

↑ 4.65 (7.96%)

Godrej Properties

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**3,193.50**

↑ 204.8 (6.85%)

Deepak Fertilisers & Petrochemicals Corporation

03:50 PM | 23 SEP 2024

**1,036.95**

↑ 66 (6.8%)

Adani Total Gas

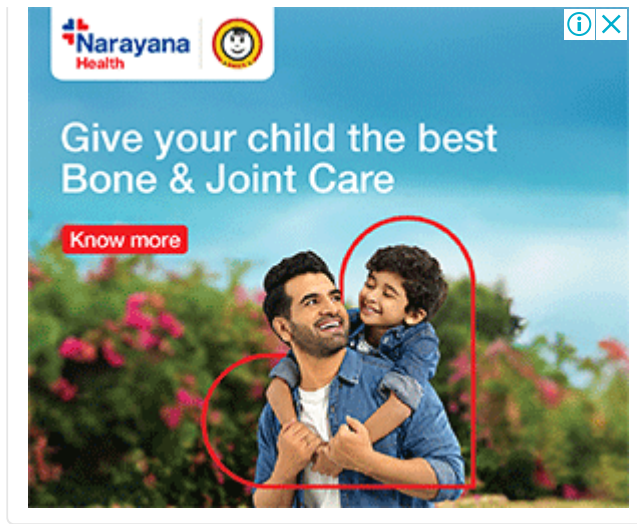
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**836.10**

↑ 47.5 (6.02%)

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