

Sebi lays down code of conduct for AMCs

Jayshree P Upadhyay : 4-5 minutes : 30/09/2020

The markets regulator on Tuesday announced a raft of measures to make [mutual funds](#) more accountable, including a stricter code of conduct for fund managers, asset management companies (AMCs) and their dealers.

The Securities and Exchange Board of India's (Sebi's) move to tighten rules comes after several instances of mutual funds facing investor anger over entering into agreements with borrowers to pause invocation of stock pledges, investing in related companies and illiquid securities; and failing to put in place adequate risk-management mechanisms.

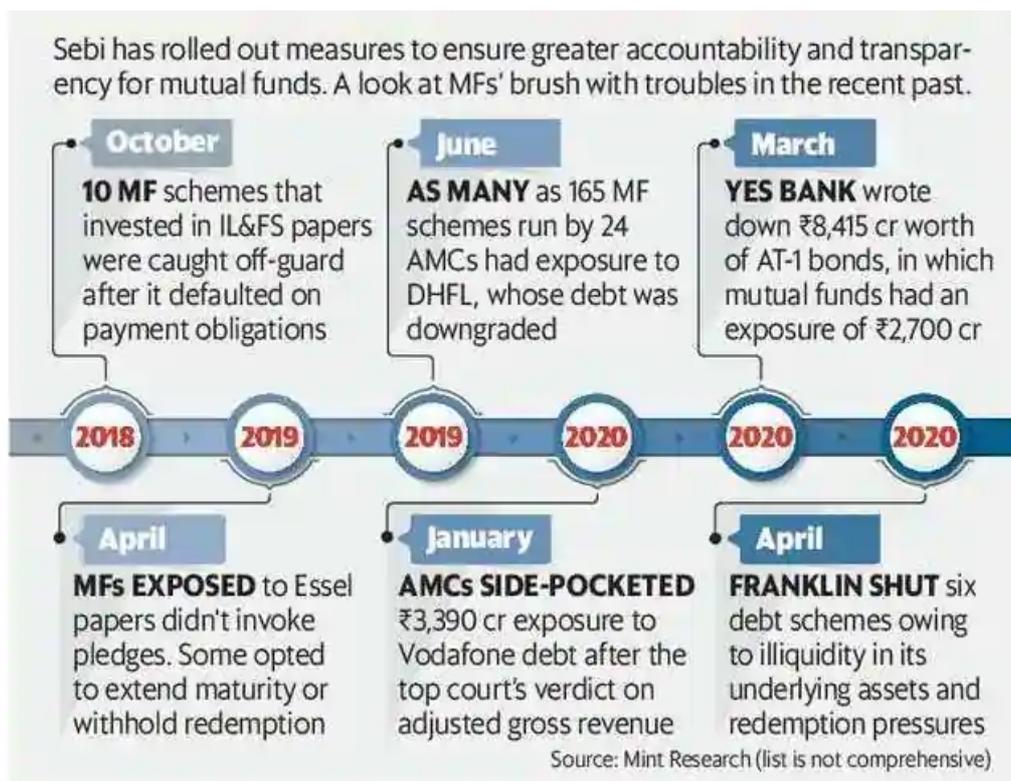
The detailed code of conduct will now be applicable to fund managers, including chief investment officers, and dealers of asset management companies.

"The chief executive officer will be responsible for ensuring that the code of conduct is followed," Sebi said in a statement.

The code of conduct under Sebi mutual fund regulations is currently applicable to trustees and the asset management companies.

"Through the policy, the regulator is moving from regulating the conduct of asset management companies and trustees to demanding closer scrutiny of the conduct of designations (officers). More focus on personal trading by fund managers, conflict of interest and product quality and enhanced disclosure requirements are likely. Perhaps, it is not the kind of regulation, but the enforcement that may bring accountability," said Sumit Agrawal, a partner at Regstreet Law Advisers and a former Sebi officer.

The regulator also allowed mutual funds to become self-clearing members of exchanges.



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Currently, orders are placed by a mutual fund as a client, which goes through a broker and then through a clearing member.

The move is expected to translate into lower costs for investors, industry experts said.

To address the information asymmetry among various investor classes, the regulator also made it mandatory for listed companies to disclose forensic audit reports and management commentary through stock exchange filings.

Investigations initiated by regulators and enforcement agencies are, however, exempted.

The decision, some experts say, will discourage companies from ordering such audits.

"Usually, the findings of such reports are kept highly confidential as they contain a lot of private and proprietary information. It will chill future initiation of forensic audits and thus may not be a good idea. Companies should be allowed to redact," said Sandeep Parekh, managing partner, FinSec Law Advisors.

Among the other measures, the regulator also strengthened the role of debenture trustees by empowering them to conduct an independent inspection of assets on which a charge is being created.

This would lead to a much higher oversight obligations on them.

Debenture trustees represent the interest of bondholders and act as a liaison between them and the issuer company.

With this, debenture trustees would need to convene a meeting of debenture holders for enforcement of security (selling underlying assets, invoking pledges), joining the inter-creditor agreement (under the framework specified by Reserve Bank of India).

The regulator also gave whistle-blowers three years to report violations of insider trading rules.

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