SEBI cuts expense ratio for MF schemes

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Highlights

- The Securities and Exchange Board of India (SEBI) has broadly accepted the recommendations of the H.R. Khan Committee on Know-Your-Client requirements for foreign portfolio investors (FPIs), while lowering the total expense ratio (TER) for open-ended equity schemes, thereby making it less expensive for investors to invest in mutual funds.
- The board of the capital markets regulator, which met, decided to amend the contentious circular issued in April and issue a separate circular to address the concerns raised by overseas investors.
- In another major decision, the regulator has capped the maximum expense ratio at 1.05% for open-ended equity schemes with assets under management (AUM) in excess of Rs.50,000 crore.
- Currently, schemes with AUM in excess of Rs.300 crore charge 1.75% as total expense ratio.
- Further, SEBI has laid down a range of 1.05% to 2.25% to be charged as expense ratio depending on the AUM of the scheme. Earlier the range was 1.75% to 2.5%.

Additional expense

- The regulator has, however, allowed an additional expense ratio of 30 basis points for retail flows from beyond the top 30 cities.
- More importantly, the additional expense will not be allowed for flows from corporates and institutions.
- The regulator is of the view that the lower expense ratio would lead to investors saving Rs.1,300 crore to Rs.1,500 crore in commissions.
- The regulator has framed the SEBI (Settlement Proceedings) Regulations 2018 which bar offences that cause a marketwide impact, loss to investors or affects the integrity of the market, to be settled through the consent route.
- While serious offences like insider trading or front running can be settled through consent, the regulator has said that it would use a principle-based approach while deciding on such matters.
- Meanwhile, the regulator will also not settle any proceedings wherein the applicant is a wilful defaulter or if an earlier application for the same offence has been rejected.
- The board of the capital markets has also approved a framework for permitting foreign entities having an exposure in physical commodity market to hedge in the commodity derivatives segment.

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