

Press Release:



AMFI fully supports SEBI's objective of fair valuation.

Mumbai, March 12, 2021: Securities and Exchange Board of India (SEBI) came out with a circular on Review of Norms regarding Investment in debt Instruments with special features and the valuation of perpetual bonds on March 10, 2021. Perpetual bonds or Additional Tier I Bonds are issued without any maturity date but are usually issued with call option(s) and qualify for Tier I capital. Banks have been majority issuers of Perpetual bonds. Perpetual Bond market is reasonably active with regular trades in Large and Higher rated issuances. Most trades in Perpetual Bonds happen on a yield to call basis. This is based on the established market convention, locally as well as globally, that the issuer will exercise the call option on the due date.

SEBI had engaged with Association of Mutual Funds in India (AMFI) on treatment of Perpetual Bonds as it is a hybrid instrument and carries a differentiated risk reward ratio than a normal debt instrument. Treatment of Perpetual Bonds was discussed in Mutual Fund Advisory Committee (MFAC) where several members of AMFI participated.

AMFI fully supports the need and spirit of the circular in capping exposure to Perpetual bonds. Most of the mutual fund schemes are well below the cap specified in the circular. In Few of the schemes where Perpetual bond exposure is higher than the SEBI prescribed cap, grandfathering is kindly permitted by SEBI to ensure that there is no unnecessary market disruption.

AMFI also supports SEBI's objective of Fair Valuation. Market Determined Price is the best price to arrive at a valuation which is fair to Investors who are subscribing, redeeming or staying invested in a mutual fund scheme. AMFI under guidance from SEBI has worked over the years to create a robust valuation process. Two Independent agencies administer the process to ensure Industry wide fair and common valuation for the Debt Portfolio across Mutual Funds.

The above referred circular continues the tradition of the primacy of traded prices. Perpetual bond market sees active participation from various players viz. Banks, Corporates, Mutual Funds and Individual Investors. Only in the event of lack of traded prices, the question arises as to whether the bond should be valued to call or to maturity. Given a reasonably active market with regular trades, the issue is narrower than it appears.

AMFI is in discussion with SEBI to further smoothen the process of implementation of this circular. AMFI recognises that the risk profile of such instruments is higher than regular bonds. The Regulator has always been concerned about any potential mispricing of risk in any kind of instruments. AMFI recognises that mispricing of risk is not in the best interest of its investors and is therefore committed to working with SEBI to ensure fair valuation of its investments. It's also fully committed to SEBI's objectives of Investor Protection and Development of Markets in India with highest level of transparency. While in the short-term prices can be influenced by many factors, in the long-term fundamentals will prevail. Past experience does suggest that Investors have benefitted from ignoring short term volatility.



About AMFI

AMFI was incorporated on August 22, 1995, as a non-profit organisation. As of now, all the 44 asset management companies that are registered with SEBI, are its members.

The Association of Mutual Funds in India (AMFI) is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of mutual funds and their unit holders.

AMFI, the association of SEBI registered mutual funds in India of all the registered Asset Management Companies, was incorporated on August 22, 1995, as a non-profit organisation.

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