AMFI

Association of Mutual Funds in India

135/BP/ 108 /2023-24 May 25, 2023

To,
<u>All AMFI Members</u>

Dear Members,

AMFI Best Practices Guidelines Circular No. 108 / 2023-24
<u>Investments by Mutual Funds in Public Issues/ Private Placements</u>

Considering the need for uniformity and minimum standard in the investment policy of every mutual fund on investments made in public issues/ private placements, SEBI had advised AMFI to undertake a study of best practices followed by each mutual fund and based on the results of the study, prepare draft guidelines on policy for investments by mutual funds in public issues/ private placements. SEBI had further stipulated that the said guidelines shall be issued by AMFI in consultation with SEBI and all mutual funds shall be required to ensure that they have an investment policy which, at minimum, includes guidelines issued by AMFI.

Accordingly, AMFI had requested all AMCs to share a copy / extract of their investment policy on investments made in public issues/ private placements in respect of their respective fund houses, highlighting the best practices followed by them. The information gathered from all AMCs was collated and referred to a Working Group comprising of members from AMFI Valuation Committee and AMFI Equity CIOs' Committee to study and analyse the inputs from the AMCs and identify the industry best practices and to prepare the draft guidelines for submission to SEBI for consideration.

The Working Group, after studying the inputs from the AMCs and identifying the industry best practices, submitted their recommendations as per Annexure A & B and the same was submitted to SEBI for consideration and further guidance in the matter.

SEBI has taken note of the above recommendations, after the same was placed before and approved by MFAC at the meeting held on December 13, 2023 for being issued as best practice guidelines.

Accordingly, Members are requested to take note of the above for uniform implementation at the earliest, but latest by July 01, 2023. Members are also requested to place the same before their Trustee & AMC Boards for information at their next meeting.

With best regards,

B. M. Kini
Dy. Chief Executive

Annexure A

Best Practices for Investments in Public / Private Issuances for Debt Securities

Private placement market dominates the Debt market Issuance with ~98% of issuance in term of amount and ~99% in term of Issuance. The dominance of Private Placement in Debt Market is due to below mentioned reasons:

1. Debt Fund raise unlike equity is regular and more frequent depending upon the ongoing requirements. Individual Debt Issuance would depend upon the specific requirement like
   - Specific End Use
   - Maturity
   - Security Structure etc.
2. Many debt instruments are not amenable to a Public Issue format, like Money Market Instruments, Securitized Debt etc.
3. Reissuance of Debt unlike Equity (single ISIN) need to consider various specification
   - Bunching up of the Maturity
   - Availability of Security
   - Specific requirement of the Investors
   - Timeliness of money
4. Debt Issuance under the Private placement route can we made tailor made to meet the Issuer and Investor specific requirements.

Further, there are built in regulatory and market filters which ensure adequate information dissemination, investor protection and relative market liquidity in either format.

- Disclosure Requirements and security creation under Private Placement and Public Issuance are streamlined by SEBI by its circular dated 10 August 2021 (Operational Circular for issue and listing of Non-convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper).
- Investor Protection and security creation guideline are well-regulated.
- Liquidity of Securities Issued by any Issuer in Debt Secondary Market depends more on the credit worthiness of the issuer and not on the mode of issuance .i.e Private placement or Public issue.
- Investor holding 100% of the issue of the issuer (ISIN) may still be minuscule holder of the total outstanding debt of the Issuer. Hence the Holding/Issuance of single issue may not materially have difference either in terms of concentration risk or in terms of market acceptance / liquidity risk.

Due to above reasons, Best Practices related to AMC Investment Policy & Process need not differentiate between the mode of issuance (Public Issuance / Private Placement).

It may however be ensured by the AMC that the Investment Policy & Process captures certain best practices across AMCs for debt investments irrespective of the mode of issuance (Private / Public) as mentioned hereinbelow –

1) **New Issuer Approval & Limit Creation**:
   There should be a documented process of New Issuer Approval, which shall include the following:
   a. Adequate due diligence shall be conducted on the issuer / issuance. Approval notes and allied documents that need to be created and preserved.
   b. The aforesaid should be approved by designated authorities.
   c. Each approval should be defined in terms of amount (Limits) and nature (Issue level / specific instrument level), if any

2) **Limit maintenance:**
   Once a new issuer approval and limit creation exercise is done, these limits have to be maintained and adhered to on an ongoing basis, till such approvals are changed / modified by the designated authority.

3) **Inhouse Research at the time of approval and on an ongoing basis :**
   Each AMC should have a dedicated research team which shall conduct periodic review of all issuers / issuances where the limits have been created and are continuing.

4) **Order & allocation:**
   Once the limits are in place, all investments done by individual schemes, will be driven by the overall / scheme level limits in place, specific orders for that scheme, and approved trade order allocation policy.

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Annexure B

Best Practices for Investments in Public / Private Issuances for Equities

1. A research report should be prepared on the issuing company before applying for an IPO i.e. a first-time issuer.
   i. Format of the report would be as per the AMC's template.
   ii. The report should not be more than 6 months old.

2. The AMC's policy should define the designated authority for approving addition of an IPO company to the investment universe.
   - Rationale should be recorded by the Fund manager as per extant regulations.

3. There should be a specific disclosure in the IPO research report in case the issuing company is an associate/group company. Every AMC should have a policy relating to participation in IPO of Sponsors and its subsidiaries.

Note: there are extant regulations relating to sponsor. No mutual fund [scheme] shall make any investment in, — (a) any unlisted security of an associate or group company of the sponsor; or (*b*) any security issued by way of private placement by an associate or group company of the sponsor; or (*c*) the listed securities of group companies of the sponsor which is in excess of 25 per cent of the net assets.

4. There should be documentation of bids at scheme level during the anchor book building process of the IPO. The allocation to schemes should be done proportionately (in case the allocation is less than the bid) to ensure equitable treatment of schemes.
   - Note as regards the main IPO book - bidding is done at scheme level and allotment would be done by the issuing company as per extent regulations.
5. AMCs should have a defined policy in place for prudential exposure.
   i. % Maximum limit of scheme AUM per IPO company. This limit applies only to exposure in the IPO company (anchor and main book allocation) and is not relevant after the IPO closure.
   ii. % Maximum Limit of shareholding in the IPO company at fund house level. This limit applies only to bids in the IPO company and is not relevant after the IPO closure
   iii. The limit cannot exceed applicable regulatory limits.

6. These guidelines will also apply to investments made in overseas/international IPOs.

7. All IPO investments must be compliant with applicable SEBI ICDR & MF regulations.

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