Concerns of Related Party Deals in Stock Market

Why in news?

\n\n

The Securities Exchange Board of India's (SEBI) asked ICICI Prudential Mutual Fund to refund Rs.240 crore to investors in its schemes.

\n\n

What is the reason behind this decision?

\n\n

\n
- SEBI's decision on ICCI Mutual Fund comes after the hidden governance issues for mutual fund (MF) investors.
\n
- The issue pertains to ICICI Pru MF's decision to invest Rs. 640 crore in the recent IPO of ICICI Securities.
\n
- In this regard the market regulator has reached a Private advisory and issued a notice to the asset manager ICICI MF to refund Rs.240 crore plus interest to investors in its schemes.
\n
- The regulator's contention is that the fund house has effectively engaged in an act of bailing out its sister firm when its IPO was in danger of failing.
\n

\n\n

What are the issues with response from ICICI?

\n\n

\n
- The fund house's defence is that it did not violate the prudential limits set out in SEBI's mutual fund regulations and that it made a bona fide investment, based on ICICI Securities' prospects.
\n
- But such defence is weak, for SEBI has found that ICICI Mutual Fund did not place its IPO bids at one go.

\n
- After investing Rs.400 crore on Day One of the book-built offer, it invested another Rs.240 crore on the last day.
\n
- If the fund managers were really convinced that the group firm was a great investment opportunity, there would be no need to break up the bids, or wait until the eleventh hour.
\n

\n\n

What are the grey areas to SEBI's actions?

\n\n

\n
- SEBI having decided to ask the fund house to make refunds, it has taken refuge in a private 'advisory' to ICICI MF instead of passing a public order to this effect.
\n
- This forces investors to rely on conjecture and hearsay on this issue, and sets no precedent for the future.
\n
- While there are obvious conflicts of interest to a MF investing in group entities, SEBI's MF regulations do not specifically forbid funds from taking group exposures.
\n
- While there are scheme-specific caps on stock, sector and group exposures to avoid concentration risks, MFs dealing with associates or group firms are required to make only half-yearly disclosures of such deals, post facto.
\n
- But investors seldom peruse the half-yearly accounts of their MFs and such disclosures come too late to make a difference.
\n

\n\n

What measures are needs to address related party deal?

\n\n

\n
- Private sector MFs now dominate the industry and the sponsors of leading MFs have their finger in many pies NBFCs, investment banking, brokerage and corporate lending.
\n

- Laxity on related-party deals can seriously compromise both governance and investor confidence in the vehicle.
  \n
- To address this, SEBI can consider setting tight aggregate exposure limits for mutual funds looking to invest in group entities, with index names alone excluded from these curbs.
  \n
- MFs must also be required to make immediate public disclosures of any investment in a group firm with a clear rationale.
  \n
- SEBI must force the Trustees overseeing AMCs to take their fiduciary duties to investors more seriously, instead of mechanically rubber-stamping all of the asset managers' decisions.
  \n

\n\n

\n\n

Source: Business Line

\n

