To, 20th August, 2021

Securities and Exchange Board of India (SEBI)
Via email to: swingpricing@sebi.gov.in

Sub: Comments on Consultation Paper for introduction of Swing Pricing

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our comments to the **Consultation Paper for introduction of Swing Pricing.**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 6000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 170,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals(CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

The recommendations put forth in the consultation paper on swing pricing in mutual funds in India in implemented will play a great role in protecting the interest of existing investors in a mutual fund scheme in case there are large outflow which can potentially disrupt the portfolio. We support the SEBI’s effort to protect long term unit holders from value erosion during a phase of heavy redemption or liquidity crunch periods.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

A. Details of our Organisation:

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B. Key Contributors:

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C. Suggestions / Comments:

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Sr. No.	**Paragraph**	**Suggestion/Comments**	**Rationale**
1.	7.1. Whether there is a need for introducing swing pricing mechanism?	We appreciate and support SEBI's recommendation to propose swing pricing in debt Mutual funds as a first step. Similar to other jurisdictions such as Luxembourg, USA, UK, there is also a case of swing pricing implementation in other market segments which also suffer from illiquidity i.e. equity small cap funds and can have significant impact cost due to large inflows and outflows. We recommend SEBI to look deeper into other markets and implement swing pricing in a phased manner to other market segments also. Further, we believe that swing pricing may be a good measure to reduce the first mover advantage and reducing redemption risk during normal markets, but in case of market dislocation swing pricing will need to be combined with other regulatory measures to protect the investors.	Swing pricing implementation in MFs is a useful tool to protect existing investor's interest in cases of large inflows or redemptions from Mutual funds. The cost of such large transactions is borne by the new investor instead of the existing investor. Swing pricing in combination with other regulatory measures such as segregated pockets etc., can provide financial stability to the system. The swing pricing implementation can reduced the first mover advantage and reduces the degree of redemptions in high market stress scenario. The IMF working paper on " Swing pricing and Fragility in Open-end Mutual Funds" supports that swing pricing eliminates the first mover advantage arising from traditional pricing rules and significantly reduces redemptions during stress

			periods.
2.	7.2. Whether full swing/partial swing or hybrid model as proposed above be made applicable?	We support the hybrid model proposed by SEBI. But, we would recommend to SEBI that the criteria for applying swing needs to be made uniform and should not be left to the discretion of fund houses.	The recommendation to tighten the norms and reduce discretion because from past experience we have seen that, though certain measures like side pocketing were available to the fund houses, they were only applied until after the regulator stepped in.
3.	7.3. Whether swing pricing be facilitated in normal times/market dislocation /both?	We support the option to facilitate swing pricing in both normal and market dislocation conditions. The proposal to give optional minimum swing threshold and maximum swing factor during normal time to provide greater flexibilities to market participants is welcome. But, we would recommend to still propose some boundary conditions for funds managers, as given the highly competitive nature of the industry the fear is that the swing pricing may end up becoming a differentiation criteria between schemes and which can actually lead to the dilution of its effectiveness during normal times.	The recommendation to tighten the norms of optional swing pricing is important to avoid swing pricing presence or absence becoming a tool for marketing schemes.
4.	7.4. Whether swing pricing be made mandatory across all open ended debt schemes or only for those schemes which have High or Very High risk on the risk-o-meter and fall in certain cells of PRC matrix as mentioned above?	We support the idea of mandatory applying swing pricing to high risk schemes during market dislocation, but we recommend that SEBI should have the option to widen the scope of swing pricing to other schemes during market stress, as the	The option to apply swing pricing can act as an effective preventive tool to offset the run risks and stop the spread of panic in various segments of market.

		stress can actually spread to other segments of the market quickly.	
5.	7.5. Should risk be evaluated as per Risk-o-meter scale or as depicted by the Potential risk class matrix or combination of both?	We would recommend that Risk-o-meter scale alone can be used as an evaluation metric for identifying funds to a apply swing pricing. This will simplify the criteria and avoid any complexity or ambiguity. We recommend that instead of the broad risk category for classification, the actual numeric value obtained in risk-o-meter can be used for evaluation.	The reasons to recommend Risk-o-meter alone as the parameter for mutual funds is that: • The new risk-o-meter is a simple and dynamic tool to capture the risk in mutual funds which makes it easier to understand. • Also, the risk-o-meter prioritizes liquidity risk, which is the main criteria for applying swing pricing
6..	7.6. What should be the swing threshold, if partial swing is suggested by the respondent (during normal times and during market dislocation)?	We recommend that SEBI can recommend a swing pricing threshold of 10% of AUM for inflow and outflow which can be either on single day or cumulative over a period (say a week). Also, SEBI can recommend an absolute value as threshold for smaller AUM funds. The AMCs at their end should have the option to have lower actual thresholds for applying swing. We would also recommend that the actual thresholds should be kept confidential and not known to investors in advance, as any prior information can be used as a method to game the system and avoid swing pricing.	The rationale to recommend the consideration to consider cumulative outflows for activating swing pricing is that if a fund has large inflows or outflows in a very short time, this will have the similar impact as in case of inflow or outflow single day. Further, non disclosure of threshold in advance is important, as any such information can be used by investors to keep the inflow and outflow amount just below threshold to avoid swing pricing costs. This is also supported by the SEBI consultation paper section 3.6.2, where it states “Swing threshold Internationally, in case of many fund houses (although not all cases), the thresholds are confidential, in order to prevent any

			attempt to avoid a price swing by subscribing / redeeming in an amount just below the threshold. USA SEC rules also do not require a fund to disclose its swing threshold.”
7.	7.8. Whether Swing Pricing be applicable to all unitholders or with an exemption for redemptions upto Rs. 2 lacs for all unitholders and upto Rs. 5 lacs for senior citizens at scheme level / mutual fund level/PAN level in order to keep retail investor and senior citizen insulated from the applicability of swing pricing to certain extent?	We would recommend that there is no need to allow exemption to any unit holder as all the benefits and costs should be apportioned among all the investors in the scheme. We recommend this as this would lead to the other investors subsidizing the costs, which actually defeats the purpose of applying swing pricing in the first place.	The reason to recommend to not providing any exemption is that it creates a moral hazard among small investors and may actually lead to small investors taking unwanted risks.
8.	7.9. Whether the evaluation of scheme performance with respect to benchmark be done without adjusting NAV for swing factor during market dislocation (when swing pricing is mandatory to the extent of mandatory swing factor) and adjusting NAV for swing factor during normal times (when swing pricing is optional or optional higher swing factor during stress times)?	We recommend to SEBI that in order to avoid any confusion or ambiguity, the scheme performance should be presented both with and without adjusting for swing factor. We recommend that the scheme can have specific disclosures about how many days swing pricing was applied and also the reason for the same.	We are recommending a uniform NAV representation as this would avoid any misrepresentation of performance and make the scheme performance comparable.
9.	7.10. What should be the leading indicators for assessing market dislocation?	We agree with the criteria listed by SEBI for assessing the market dislocation in section 6.6 of the consultation paper. “SEBI will determine ‘market dislocation’ either based on Association of Mutual Funds in India (AMFI)’s recommendation or based on combination of various factors like net redemption	

		build up at industry level, global market indicators, Indian market indicators as well as bond market indicators. Once market dislocation is declared, it will be broadcasted that swing pricing will be applicable for a certain period, which can be extensible.”	
10.	7.11. Whether there are any other risks w.r.t. swing pricing mechanism which need to be addressed?	There are certain risks related to swing pricing implementation that it may lead to investor capture in underperforming schemes, as it discourages investors to dilute their holdings. The other risks swing pricing is that by acting as an anti dilution tool, it encourages fund managers to take more liquidity risks and overtime maintain less cash buffers, which can actually lead to have worse effects in market stress scenarios	The BIS working paper “Is the price right? Swing pricing and investor redemptions” shows that swing pricing dampens outflows in reaction to weak fund perform. Furthermore, swing pricing supports fund returns, while raising accounting volatility, and may lead to lower cash buffers. The BIS paper also recommends swing pricing should be enhanced with other policy tools such as minimum liquidity requirement for funds or liquidity stress testing.

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA at +91 98196 30042 or at advocacy@iaipirc.org.

Sincerely yours,
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Director - Research and Advocacy Committee
Indian Association of Investment Professionals, Member Society of CFA Institute