



To,
Securities and Exchange Board of India
Via email to: pit-mf@sebi.gov.in

29th July, 2022

Sub: Comments on Consultation Paper on applicability of SEBI (Prohibition of Insider Trading), Regulations, 2015 to Mutual Fund (MF) units

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 on applicability of SEBI (Prohibition of Insider Trading), Regulations, 2015 to Mutual Fund (MF) units.**

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 for PIT regulations to MF units is a positive step and we realize the need to regulation after the incidents which transpired in an AMC in the past few years but we have some suggestions on refining the proposed mechanism, which we have put forth in our comments.

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:

| Name of Entity/Person: Indian Association of Investment Professionals (CFA Society India) Contact Number & Email Address: +91 99021 17087 (Ravi Gautham, CFA); advocacy@iaipirc.org | | | |
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| Sr. No. | Paragraph | Suggestion/Comments | Rationale |
| 1. | <p>3.5.2. Definition of Unpublished Price Sensitive Information (UPS):</p> <p><i>Whether the proposed definition need to be modified? If so, reasons thereof?</i></p> | <p>We appreciate the SEBI's effort to bring out regulations to tighten the norms for insider trading in Mutual funds.</p> <p>We strongly believe that there is a need to make sure that any investment vehicle offered to retail investors have the highest level of safeguards in place, so that investor rights are protected.</p> <p>However, we have our reservations about including pooled investment vehicle like MFs in the insider trading regulations, as we believe that in most of the cases, insiders won't be able to take advantage of the information.</p> <p>We suggest that apart from the information items detailed on the UPSI, SEBI may also include large ticket inflow or outflow of funds.</p> <p>We would also like to suggest that there must be a well-</p> | <p>We believe that such large ticket fund inflow/outflow can materially impact the NAV or in turn the prices of stocks, especially in smaller AUM schemes or schemes dealing in illiquid securities.</p> <p>Further, there is a need for having uniform disclosure so that any change in portfolio uniformly (especially credit and debt funds), and AMCs must avoid any ad hoc inter month disclosures to select corporate investors or other high value investors (else do a full public disclosure to ensure equal opportunity).</p> <p>This will give equal information to every investor and there will no information asymmetry which can be utilized by one type of investors.</p> |



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| | | <p>defined process and frequency to disclose entire portfolios among investors</p> <p>Alternatively, SEBI May consider disclosure of any corporate bonds purchased and sold within the same month and which did not form part of any month end portfolio disclosure to ensure its consistent with the strategy being communicated to investors.</p> | |
| 2. | <p>3.5.3. Definition of "Generally available information":</p> <p>Question for public comments – : Comments are sought as to whether such independent platforms shall be the platform owned by AMFI or platforms collectively owned by all AMCs (like MFU) or be the stock exchange platforms (It may be noted that there is no compulsion to list units of open-ended schemes which constitute 98% of the AUM of the MF industry on the Stock Exchange. However, units of the Mutual Funds are also transacted on the platforms of the stock exchanges).</p> | <p>As the exchanges do not have large part of MF investments listed, we believe that such a platform should be owned by AMFI or platforms collectively owned by all AMCs (like MFU).</p> | <p>Exchanges do not have a large role in MF industry and AMFI has over the years grown as a website or platform where MF investors can look for MF related data.</p> |
| 3. | <p>3.5.5. Designated Persons: <i>Whether the proposed definition need to be modified? If so, reasons thereof?</i></p> | <p>We believe that the definition of Designated person has been defined very well.</p> <p>We would like to add all employees working in the Product division of AMC in this definition, as they have access to or are directly involved in</p> | <p>We are suggesting to add employees working in Product Division of AMC as a designated person, as they definitely have material information related to changes in any fund definition or characteristics.</p> |



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| | | <p>executing fund related addendums (and it's discussions at some stage), and filings or material discussions on strategy and Portfolio performance evaluation with the designated access persons and possibly Material private data.</p> <p>Further, some of the material information is known throughout the organization, so we believe certain restrictions need to be on all the employees of the AMCs and not just the defined designated persons.</p> | |
| 4. | <p>3.6. Defenses available to an insider <i>Whether the above defenses are appropriate? Any inclusion or exclusion is required?</i></p> | <p>Regarding the systematic transactions, we would suggest that the time period be kept at 1 month (30 days) before and after to such transactions</p> <p>Also, we believe that there can be amount threshold defined for example, 10 lakhs below which transactions are excluded from this regulation.</p> <p>Additionally, we believe that for some of the mutual fund schemes like liquid funds, overnight funds etc. which are used by investors for daily cash management should not be included in the PIT regulations.</p> | <p>We believe that some of the defenses or regulations need to have a bit more leeway, so that the AMC employees or designated persons with good intent, can execute their normal investment transactions without hassle.</p> |
| 5. | <p>3.9. Closure period: <i>Whether the above provisions with respect to closure period requirements are adequate? Any specific</i></p> | <p>We believe that this is an effective method to avoid any such insider trading transactions and support this measure.</p> | <p>We are supporting the closure period proposal, as this is already being adopted in various organization especially on the equity research or M&A side.</p> |



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| | <p><i>comments/suggestions to offer in this regard?</i></p> | <p>These silent periods will help so that any such insider information becomes irrelevant by the time anyone can utilize such information for investing or redeeming in MF units.</p> <p>We also suggest that there is a need to define the meaning of silent period and daily email being a mode of communication to employees to desist from dealing in those funds in that day.</p> <p>The triggers for closure periods could be any information considered material private data and includes management discussions on material outflows, change of fund key features, adverse items in the portfolio expected to impact performance directly or indirectly. Duty if access persons and compliance to monitor and identify such situations to declare silent periods.</p> | <p>This tool helps to effectively neutralize any impact of information arbitrage that the designated persons have over the other investors.</p> |
| <p>6.</p> | <p>3.10. Pre-clearance of Mutual Fund transactions: <i>Whether there are any specific comments/suggestions to offer with respect to pre-clearance of Mutual Fund transactions?</i></p> | <p>We believe considering the closure period requirement above, pre-clearance of Mutual fund transaction will become onerous for designated persons.</p> <p>The closure period requirement should be able to reduce the materiality of any information, so pre-clearance for each transaction would be too onerous.</p> | <p>We would again request SEBI to relook so that the AMC employees or designated persons with good intent, can execute their normal investment transactions without hassle.</p> <p>We would rather suggest to have minimum holding period requirement for designated person, so that they are not able to take any undue advantage of any</p> |



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| | | <p>We suggest that may be other methods such as minimum holding period requirements for investments in MF units (except etfs, liquid and money market) for designated access persons in investment, dealing, product, AMC board members, fund trustees, and executive management. This can help to further strengthen the regulations.</p> | <p>event or information in the short term.</p> |
| 7. | <p>3.11. Applicability of PIT Regulations to units of other Pooled Investment Vehicles (PIVs): Question for public comments –: <i>Whether there are any specific comments/suggestions to offer with respect to treatment of trading in Pooled Investment Vehicles under PIT Regulations?</i></p> | <p>We have our reservations about including pooled investment vehicle in the insider trading regulations, as we believe that in most of the cases, insiders won't be able to take advantage of the information but we would suggest that they are treated on par with MF units.</p> <p>We also believe that SEBI may evaluate each case involving Pooled Investment vehicles and check for willful intent to access and profit (or avoid loss) with the acquired material private info and exclude any rigid regulations across the board since it may be very difficult to implement.</p> | <p>Though, we believe that for pooled investment vehicles it is difficult for designated persons to take advantage of material information but we would suggest that they are treated on par with MF units.</p> |
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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. Ravi Gautham, CFA at +91 99021 17087 or at advocacy@iaipirc.org.

Sincerely yours,
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Indian Association of Investment Professionals, Member Society of CFA Institute