

Important Vocab For the Editorial

1. **norm** (noun) – standard, convention, regulation.
2. **mutual fund** (noun) – a type of investment in which investors pool their money together to buy a portfolio of stocks, bonds or other securities in order to take advantage of diversification and professional portfolio (investments, shares/securities/bonds) management at a reasonable cost.
3. **framework** (noun) – structure, scheme/system, organisation.
4. **credit rating** (noun) – an assessment of the probability of default on payment of interest and principal on a debt instrument (Courtesy: www.sebi.gov.in).
5. **credit rating agency (CRA)** (noun) – a credit rating agency is an entity which assesses the ability and willingness of the issuer company for timely payment of interest and principal on a debt instrument (Courtesy: www.sebi.gov.in).
6. **come up with** (phrasal verb) – produce, propose/put forward, submit/recommend.
7. **stringent** (adjective) – strict/stern, severe, tough/rigorous.
8. **come under** (phrasal verb) – be subjected to.
9. **scrutiny** (noun) – observation, inspection, examination.
10. **redemption** (noun) – recovery, retrieval, return.
11. **come to grief** (phrase) – fall through, fail, collapse.
12. **roll over** (phrasal verb) – manage, extend, contrive/orchestrate (a financial obligation/arrangement).
13. **redeem** (verb) – save, rescue; recover.
14. **non-convertible debenture (NCD)** (noun) – unsecured bonds that cannot be converted to company equity or stock.
15. **debenture** (noun) – a long-term debt instrument (savings bond) issued by a company to borrow money that is paid back over a long period of time and at a fixed rate of interest.
16. **bar** (verb) – block/prohibit, barricade, obstruct.
17. **cap** (noun) – limit, upper limit, ceiling.
18. **modicum** (noun) – little bit, small amount, particle.
19. **liquidity** (noun) – a measure of activity (i.e. the ability to buy or sell easily) in a market.
20. **sectoral** (adjective) – Relating to a particular part or area.
21. **diversify** (verb) – enlarge/expand, widen, branch out.
22. **standstill** (noun) – halt, stop, stand.
23. **debt instruments** (noun) – a financial asset (bonds, loans, leases and etc) that is tradable; like bonds (government or corporate) and mortgages.
24. **standstill agreement** (noun) – it refers to various forms of agreement which businesses may enter into in order to delay action which might otherwise take place.
25. **mark-to-market (MTM)** (noun) – the reasonable value of an account that can vary over a period depending on assets and liabilities. Mark-to-market provides a realistic estimate of a financial situation (Courtesy: The Economic Times).
26. **reflect** (verb) – indicate, show/display, reveal.
27. **commendable** (adjective) – admirable, praiseworthy, laudable.
28. **unintended** (adjective) – careless, neglectful, ill-advised.
29. **watching** (noun) – supervision, observation, scrutiny/surveillance.
30. **exit load** (noun) – a fee or an amount charged from an investor for exiting or leaving a scheme or the company as an investor. (Mutual funds companies collect an amount from investors when they join or leave a scheme. This fee charged is generally referred to as a 'load').

31. **hinder** (verb) – obstruct, impede, inhibit.
32. **bond market** (noun) – debt market; the market where debt instruments (like bonds (government or corporate) and mortgages) are traded.
33. **quite** (adverb) – completely, fully, entirely.
34. **discipline** (verb) – punish, penalize, take disciplinary action against.
35. **intermediary** (noun) – mediator, conciliator, arbitrator.
36. **ripple effect** (noun) – the continuing and spreading results of an event/action repeatedly.
37. **default** (noun) – non-payment, failure to pay, non-remittance.
38. **roll-over** (noun) – the extension/transfer of a financial arrangement.
39. **perspective** (noun) – view/outlook, aspect, approach.

New framework: on SEBI's norms for mutual fund investments

The SEBI regulations for mutual funds will help restore investor confidence

After introducing a **new standard framework for credit rating agencies** last month, the Securities and Exchange Board of India came up with more stringent regulations to govern the **management of mutual funds**. The mutual fund industry came under its scrutiny after some mutual funds in the last few months had to postpone redemption of their fixed maturity plans (FMPs). HDFC Mutual Fund and Kotak Mutual Fund came to grief and had to roll over or proportionately reduce redemption of their FMPs in April after some Essel group companies failed to redeem their non-convertible debentures where the funds had invested. According to the new SEBI regulations, liquid mutual fund schemes will have to invest at least 20% of their funds in liquid assets like government securities. They will be barred from investing more than 20% of their total assets in any one sector; the current cap is 25%. When it comes to sectors like housing finance, the limit is down to 10%. These measures are aimed to prevent situations such as the one being witnessed now. While the mandated investment in government securities will ensure a modicum of liquidity, the reduction in sectoral concentration will discipline funds and force them to diversify their risks. Some mutual funds entered into standstill agreements with companies in whose debt instruments the funds had invested. This is not a welcome practice and goes against the interests of investors in the mutual fund. SEBI has done the right thing by banning funds from entering into such standstill agreements. Further, SEBI has required that assets of mutual funds be valued on a mark-to-market basis in order to better reflect the value of their investments.

While SEBI's intent to deal with the risks within the financial system is commendable, there could be unintended consequences to the regulator's actions — which need watching. One of the new regulations introduced by SEBI is to increase the exit load on short-term investments in liquid **mutual funds** to discourage sudden demands for redemption. This could possibly hinder fund flow into the bond market, which in India is already quite undeveloped when compared to the rest of the world. While SEBI is doing a commendable job in disciplining the markets and intermediaries, the larger question is whether the regulator can really protect investors beyond a certain point. Market investments involve risk, and investors seeking high returns may in fact be willing to assume the increased risk that comes with such investment. That said, what the regulator is probably more concerned about is the ripple effect of defaults and roll-overs on the system. Investor confidence can be shaken by defaults and that will have consequences for the economy. Viewed from this perspective, the regulator's latest rules should be welcomed.