भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/IMD/DF4/CIR/P/2021/032 **March 10, 2021**

All Mutual Funds (MFs)/Asset Management Companies (AMCs)/
Trustee Companies/ Boards of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)

Sir / Madam,

Subject: Review of norms regarding investment in debt instruments with special features, and the valuation of perpetual bonds.

A. Review of Norms of Investment in Instruments having Special Features

1. Mutual Funds invest in certain debt instruments with special features viz. subordination to equity (absorbs losses before equity capital) and /or convertible to equity upon trigger of a pre-specified event for loss absorption. Additional Tier I bonds and Tier 2 bonds issued under Basel III framework are some instruments which may have above referred special features. The debt instruments having such special features as referred above, which otherwise are Non-Convertible Debentures, may be treated as debt instruments until converted to equity.

2. Further, presently there are no specified investment limits for these instruments with special features and these instruments may be riskier than other debt instruments. Therefore, following prudential investment limits have been decided for such instruments.

   i. No Mutual Fund under all its schemes shall own more than 10% of such instruments issued by a single issuer.

   ii. A Mutual Fund scheme shall not invest –

      a. more than 10% of its NAV of the debt portfolio of the scheme in such instruments; and
      b. more than 5% of its NAV of the debt portfolio of the scheme in such instruments issued by a single issuer.

      The above investment limit for a mutual fund scheme shall be within the overall limit for debt instruments issued by a single issuer, as specified at clause 1 of the Seventh Schedule of SEBI (Mutual Fund) Regulations, 1996, and other prudential limits with respect to the debt instruments.

3. The investments of mutual fund schemes in such instruments in excess of the limits specified under paragraph 2 above as on the date of this circular may be grandfathered and such mutual fund schemes shall not make any fresh investment in such instruments until the investment comes below the specified limits.

B. Provisions for Segregated Portfolio in the Scheme Information Document

4. Further, debt schemes which have investment in such instruments referred at para 'A' above or debt schemes that have provision to invest in such instruments shall ensure that the Scheme Information Document (SID) of the scheme has provisions for segregated portfolio. The provision to enable creation of segregated portfolio in the existing schemes shall be subject to compliance with Regulation 18(15A) of SEBI (Mutual Funds) Regulations, 1996.

5. If the said instrument is to be written off or converted to equity pursuant to any proposal, the date of said proposal may be treated as the trigger date. However, if the said instruments are written off or converted to equity without proposal, the date of write off or conversion of debt instrument to equity may be treated as the trigger date.

6. On the said trigger date, AMCs may, at their option, create segregated portfolio in a mutual fund scheme subject to compliance with relevant provisions of SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018, SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/127 dated November 07, 2019 issued with respect to 'Creation of segregation portfolio in mutual fund schemes' and any other relevant Regulations/Circulars/Guidelines issued in the future from time to time.

7. Further, Asset Management Companies/Valuation Agencies shall ensure that the financial stress of the issuer and the capabilities of issuer to repay the dues/borrowings are reflected in the valuation of the securities from the trigger date onwards.

C. Valuation of Perpetual Bonds

8. As regards the valuation of bonds with call and/or put options, it is clarified that the bonds shall be valued in line with the SEBI circular No. MRD/CIR/8/92/2000 dated September 18, 2000 irrespective of the nature of issuer. Further, the maturity of all perpetual bonds shall be treated as 100 years from the date of issuance of the bond for the purpose of valuation.

9. SEBI circular No SEBI/IMD/CIR No.12/147132/08 dated December 11, 2008 permits close ended debt scheme to invest only in such securities which mature on or before the date of the maturity of the scheme. Accordingly, close ended debt schemes shall not invest in perpetual bonds.

10. This Circular shall come into effect from April 01, 2021.

11. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

Lamber Singh
Deputy General Manager
Tel no.: 022-26449667
Email: lambers@sebi.gov.in