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Title : Sebi Gives MFs Leeway on IPOs
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UNSHACKLED Regulator allows funds linked to merchant bankers to play role of anchor investor
Mutual funds belonging to the same group as merchant bankers of an initial public offering (IPO) may soon be able to invest as anchor investors in issues managed by them.

The capital market regulator, in a recent communication to merchant bankers, said, "The restriction envisaged in Schedule XI, Part (A), 10(K) of Sebi (ICDR) Regulations, 2009, shall not be applicable to mutual funds sponsored by entities related to merchant banker."

The regulator also clarified that the restriction would, however, be applicable to other group entities related to the merchant banker.

Sebi had received representations seeking to clarify on eligibility of qualified institutional buyers (QIBs) like banks, mutual funds and insurance companies related to the merchant banker to invest in the anchor portion of the public offerings managed by the said merchant banker.

In 2009, when Sebi introduced the concept of anchor investor in public issues, it had said any person related to the promoter promoter group or merchant bankers cannot apply under the anchor investor category in order to ensure there is no conflict of interest."If investments are made out of proprietary account, then it is not allowed. But if it is made out of the fund that manages retail investors' money, it is fine," said an official familiar with the development. "If the ULIP (unit-linked insurance plan) money is maintained in a separate fund account, then it should not be a problem," the person said.

Sebi rules allow a certain quantum of the QIB portion to be made availa ble for anchor investors and the allotment is done on a discretionary basis with a lock-in of 30 days. "The restriction on participation in the IPO by group entities is mostly driven by two key factors i.e. insider related issues and conflicts of interest. The insider issue is not a concern as mutual funds, insurance companies and banks are all regulated and operate independently at arm's length. Group QIBs are anyway allowed to participate in IPO in QIB portion with proportionate allotment. However, the conflict of interest issue in anchor portion is tricky to overcome as allotment is discretionary and it will be difficult to establish fairness of the basis of allotment," said Mehul Savla, director of RippleWave Equity Advisors.

"While it may be tempting to address this through regulation, it is important to note that most developed markets have discretionary allotment in IPOs," Savla said.

Sebi had said the curbs are designed to ensure there is no conflict of interest in public offerings

The Grip Loosens

- **The allotment** to anchor investors is done on a discretionary basis with a lock-in of 30 days
- **The catch** is the bar stays for other group entities related to the merchant banker
- **Two factors** at work here – insider related issues and conflict of interest