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SEBI's 'True-to-Label' Norms Face Pushback from Fund Houses

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The Securities and Exchange Board of India (SEBI) is facing resistance from mutual fund houses over its proposed “true-to-label” investing norms aimed at improving transparency and reducing portfolio overlap. The draft circular, released by SEBI earlier this month, outlines measures to ensure that funds with similar names and categories maintain distinct portfolios to protect investor interests.

One of the key proposals is a 50 percent cap on portfolio overlap between equity schemes with similar themes. SEBI wants mutual fund houses to ensure that sectoral and thematic funds do not significantly mirror other equity schemes in terms of holdings. Fund houses would be required to monitor portfolio overlap semi-annually. If overlaps exceed the threshold, fund managers must rebalance holdings within 30 business days or give investors the option to exit the scheme without any exit load.

Several asset management companies have raised concerns, questioning the practicality of the rules and their potential impact on fund management. Industry leaders argue that even a 15 percent overlap could challenge the uniqueness of schemes and blur the distinction between product offerings.

Dhirendra Kumar, CEO of Value Research, expressed support for the idea of true-to-label investing but emphasized that differentiation should be evident in actual portfolio composition rather than just in fund names and promotional materials. He said SEBI's efforts are a move in the right direction but stressed the need for genuine substance in implementation.

SEBI's proposals also include allowing mutual fund houses to launch a second scheme within the same category, subject to specific conditions. The original fund must be at least five years old and have assets under management exceeding ₹50,000 crore. The new scheme must closely match the investment objective and expense ratio of the original. Once the second scheme is introduced, the original will be closed to new investments.

These proposals are part of a broader consultation paper released by SEBI on July 18. The paper outlines 20 recommendations aimed at improving mutual fund categorization and ensuring greater clarity for retail investors. The regulator has invited public comments on the draft by August 8.