



## AMFI guidelines

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The **Association of Mutual Funds in India (AMFI)** has recently issued guidelines on how fund managers should write down debt and handle below investment grade paper.

- AMFI has suggested lower provisioning for secured debt of infrastructure and real estate firms, hotels, hospitals and the contentious so-called loan against share or LAS paper.
- It has requested the asset management companies (AMCs) to be proactive in applying the standard hair-cut matrix on sub-standard investment-grade debt securities without waiting for rating agencies to downgrade them.
  - According to SEBI guidelines, any security which has a **rating below BBB-** is considered to be below investment grade.
  - **Haircut** is mutual funds writing off the principal amount and the interest in case of a default.
- So far, every asset management company (AMC) and fund manager used to write down or decide on haircut on its own. These guidelines will bring about uniformity in the valuation of distressed securities across the industry.
- AMCs fear that applying the standard haircut matrix would lead to heavy redemptions, which can potentially bring down the net asset value of their fund drastically.
- These guidelines have come after a recent SEBI circular. The circular asked AMFI and the valuation agencies – Crisil and Icra Management Consulting Services Limited (IMaCS) -- to develop a valuation methodology for such investment grade paper.

**AMFI:** AMFI, the association of SEBI registered mutual funds in India, was incorporated on August 22, 1995, as a non-profit organisation. It is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of mutual funds and their unit holders.

**Asset Management Company (AMC):** An asset management company (AMC) is a firm that invests pooled funds from clients, putting the capital to work through different investments

including stocks, bonds, real estate, master limited partnerships, and more. Those that offer public mutual funds or exchange-traded funds (ETFs) are also known as investment companies or mutual fund companies.