

Exchange Traded Funds (ETFs)

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Context

SEBI has recently issued directions for Mutual Funds as inflows in these overseas **Exchange Traded Funds (ETFs)** have come close to the mandated investment limit of \$1 billion in foreign ETFs.

SEBI's Direction to MFs

- Markets regulator **Securities and Exchange Board of India (SEBI)** has directed mutual fund (MF) houses to stop accepting any more inflows in schemes which invest in overseas ETFs, starting April 1, 2024.
- The capital marketplace regulator has asked asset management companies (AMCs) not to only accept funds in mutual fund plans that invest in overseas ETFs as the upper limit of \$1 billion for those investments is close to being breached.
- This is due to the fact the mutual fund industry has already reached 95% or (\$ 950 million) of the \$1 billion limit.

What is an Exchange Traded Fund (ETF)?

- An ETF is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund.
- Unlike regular mutual funds, an ETF trades like common stock on a stock exchange.
- The traded price of an ETF changes throughout the day like any other stock, as it is bought and sold on the stock exchange.
- The trading value of an ETF is primarily based on the net asset value of the underlying shares that an ETF represents.

- ETFs generally have higher every day liquidity and decrease prices than mutual fund schemes, making them an attractive alternative for man or woman investors.
- ETFs are considered to be more tax efficient in comparison to other mutual fund schemes.
- There are in particular five sorts of ETFs – equity ETF, bonds ETF, commodity ETF, global ETF and sectoral/thematic ETF.

What is the Overall Limit for MFs to Invest in Overseas ETFs?

- Currently, there is an overall cap of \$7 billion set by the **Reserve Bank of India (RBI)** for fund houses to invest in overseas stocks or mutual funds.
- MFs are also accredited to make investments as much as \$1 billion in overseas exchange traded funds.
- Mutual fund industry has been demanding the RBI to hike the overseas investment limit of \$7 billion.
- In January 2024, when the RBI Governor was asked about plans to revisit the limit on the remote places investment by mutual funds, he stated the decision on it will be taken while RBI is assured that the rupee has stabilized on a durable basis.

Source: The Indian Express

UPSC Prelims Practice Question

Q. Indian Government Bond Yields are influenced by which of the following? (2021)

1. Actions of the United States Federal Reserve
2. Actions of the Reserve Bank of India
3. Inflation and short-term interest rates

Select the correct answer using the code given below.

- | | |
|-----------------|---------------|
| a. 1 and 2 only | b. 2 only |
| c. 3 only | d. 1, 2 and 3 |

Ans – “d”