Cash investment cap in MFs may soon be raised to Rs 50,000

Investors might soon be allowed to buy in cash mutual funds (MFs) worth up to Rs 50,000, without declaring their Permanent Account Number (PAN). The Securities & Exchange Board of India (Sebi) is planning to increase the cap for cash payment in mutual fund products from the current Rs 20,000.

After the issue was discussed at a meeting of the Financial Stability and Development Council (FSDC) last month, the market regulator is expected to shortly issue a circular permitting the higher limit.

At the meeting, Sebi Chairman U K Sinha had said such a move might help increase penetration of mutual funds in small towns and villages, where some people preferred to invest in cash.

The increase in cap will lower the disadvantage faced by mutual funds vis-a-vis insurance products but not bring in a level playing field, as there is no cash limit for investing in insurance products. Also, according to the income-tax rules, if an investment in financial instruments exceeds Rs 50,000, the investor is required to furnish PAN. So, the information will go to the I-T department, which could, potentially, ask the investor to reveal the source of this money.

Two major concerns were raised over increasing cash payment limit for MFs. First, such a move might encourage people to park their illicit money in MFs. According to officials present at the meeting, Finance Minister P Chidambaram allayed this fear by saying the proposed move would encourage people to prefer MFs to unproductive assets like gold.

The second concern was that mutual fund houses might have to invest in infrastructure to be able to accept cash which would increase their costs in small areas, where they could currently be running one-man shops. However, Sebi is likely to go ahead with the proposal, keeping the larger interest of customers in mind.

“Sebi is saying if you go to small towns and villages, people will give cash. But the other view is that people who invest in MFs don’t mind paying in cheque. In fact, mutual funds say very few people use even the present limit of Rs 20,000. Apparently, the old UTI, which has presence across India, is among the few MFs that get cash. So, it might not amount to much,” said a finance ministry official who did not want to be named.

Some mutual fund houses are of the view that handling cash will be a problem, as they will have to maintain cash-chest security. That is not the case in acceptiong cheques, which are crossed. They argue it’s one person in, say, two months who comes with cash to invest in MFs.

“We discourage cash payments because one anyway needs a bank account for MF redemption,” says V Krishnan, president, Integrated Enterprises. Cash payments may encourage some people to park their unaccounted money in MFs, he adds. “Everything needs to be transparent.”

There also is a counter view — the same rules across all financial products, at least for up to Rs 50,000 of investment, will help bring down arbitrage. Besides, it will give more choice to the customers in selecting mode of investment.

“From customers’ point of view, it will be beneficial. To increase the penetration of your product and provide convenience to investors, you have to do that. You need to empower customers with more choices,” says Jaideep Bhattacharya, managing director, Baroda Pioneer Mutual Fund.

The issue is expected to be discussed again at the next FSDC meeting, scheduled for March 7.

SOME EASING

* The increase in cap on cash investment in MFs will lower the disadvantage faced by mutual funds vis-a-vis insurance products

* However, the move will not bring in a level playing field, as there is no cash limit for investing in insurance products

* According to I-T rules, if an investment in financial instruments exceeds Rs 50,000, the investor is required to furnish PAN

* So, the I-T department could ask the investor to reveal the source of money invested

(Business Standard)