



भारतीय प्रतिभूति और विनिमय बोर्ड  
Securities and Exchange Board of India

**MASTER CIRCULAR**

SEBI/HO/IMD/DF2/CIR/P/2020/156

August 24, 2020

All Mutual Funds/  
Asset Management Companies (AMCs)/  
Trustee Companies/ Boards of Trustees of Mutual Funds/  
Registrar and Transfer Agents (RTAs)/  
Association of Mutual Funds in India (AMFI)

Dear Sir/ Madam,

**Sub: Master Circular for Mutual Funds**

For effective regulation of the Mutual Fund Industry, Securities and Exchange Board of India (SEBI) has been issuing various circulars from time to time. In order to enable the industry and other users to have an access to all the applicable circulars at one place, Master Circular for Mutual Funds has been prepared.

This Master Circular is a compilation of all the circulars issued by SEBI on the above subject, which are operational as on date of this circular.

This Master Circular shall supersede the previous Master Circular No. SEBI/HO/IMD/DF5/CIR/P/2018/109 dated July 10, 2018.

Yours faithfully,

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# **MASTER CIRCULAR FOR MUTUAL FUNDS**

BY



## **SECURITIES AND EXCHANGE BOARD OF INDIA**

1. This Master Circular includes circulars issued upto March 31, 2020. Temporary relaxations with regards to certain compliance requirements for mutual funds in the wake of the COVID- 19 pandemic were provided vide SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/47 dated March 23, 2020, which may be referred to for the same.
2. In case of any inconsistency between the master circular and the applicable circulars, the contents of the relevant circular shall prevail.
3. Master Circular is a compilation of all the existing/applicable circulars issued by Investment Management Department of SEBI to Mutual Funds. Efforts have been made to incorporate certain applicable provisions of existing circulars (as on date) issued by other Departments/Divisions of SEBI relevant to Mutual Funds.

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FORMATS -----Refer the [attachment](#)  
ANNEXURES -----Refer the [attachment](#)

## **ABBREVIATIONS**

|   |        |
|---|--------|
| American Depository Receipt                         | ADR    |
| Asset Management Company                            | AMC    |
| Asset under Management                              | AUM    |
| Association of Mutual Funds in India                | AMFI   |
| Authorized Dealer                                   | AD     |
| Bombay Stock Exchange                               | BSE    |
| Central Board of Direct Taxes                       | CBDT   |
| Compliance Test Reports                             | CTR(s) |
| Common Account Statement                            | CAS    |
| Contingent Deferred Sales Charge                    | CDSC   |
| Compound Annual Growth Rate                         | CAGR   |
| Depository Participant                              | DP     |
| External Commercial Borrowings                      | ECB    |
| Financial Action Task Force                         | FATF   |
| Foreign Exchange Management Act                     | FEMA   |
| Foreign Institutional Investor                      | FII    |
| Foreign Portfolio Investor                          | FPI    |
| Fixed Maturity Plans                                | FMP(s) |
| Global Depository Receipt                           | GDR    |
| Gold Exchange Traded Fund                           | GETF   |
| Gold Monetization Scheme                            | GMS    |
| Hindu Undivided Family                              | HUF    |
| International Organization of Securities Commission | IOSCO  |
| Investor Service Center                             | ISC    |
| Key Information Memorandum                          | KIM    |
| Know Your Client                                    | KYC    |
| Monthly Cumulative Report                           | MCR    |

|  |   |
|--|---|
| Monthly Average Assets Under Management  | MAAUM                                   |
| Multilateral Memorandum of Understanding | MMOU                                    |
| National Stock Exchange                  | NSE                                     |
| Net Asset Value                          | NAV                                     |
| New Fund Offer                           | NFO                                     |
| Permanent Account Number                 | PAN                                     |
| Prevention of Money Laundering Act       | PMLA                                    |
| Qualified Foreign Investor               | QFI                                     |
| Regulation                               | Reg.                                    |
| SEBI (Mutual Funds) Regulations 1996     | Regulations                             |
| Securities and Exchange Board of India   | the Board                               |
| Scheme Information Document              | SID } Offer                             |
| Statement of Additional Information      | SAI } Document                          |
| Systematic Investment Plan               | SIP                                     |
| Systematic Transfer Plan                 | STP                                     |
| Systematic Withdrawal Plan               | SWP                                     |
| Trustee(s)                               | Board of Trustee(s)/<br>Trustee Company |
| Unique Client Code                       | UCC                                     |
| Unit Confirmation Receipt                | UCR                                     |

# **CHAPTER 1**

## **OFFER DOCUMENT FOR SCHEMES**

### ***1.1 Filing of Offer Document with the Board<sup>1</sup>***

- 1.1.1 The Offer Document shall have two parts i.e. Scheme Information Document (SID) and Statement of Additional Information (SAI). SID shall incorporate all information pertaining to a particular scheme. SAI shall incorporate all statutory information on Mutual Fund.
- 1.1.2 The Mutual Funds shall prepare SID and SAI in the prescribed formats<sup>2</sup>. Contents of SID and SAI shall follow the same sequence as prescribed in the format. The Board of the AMC and the Trustee(s) shall exercise necessary due diligence, ensuring that the SID/SAI and the fees paid<sup>3</sup> are in conformity with the Mutual Funds Regulations<sup>4</sup>.
- 1.1.3 All offer documents (ODs) of Mutual Fund schemes shall be filed with SEBI in terms of the Regulations<sup>5</sup>.

#### **1.1.3.1 Filing of Draft SID:**

- a. Draft SID of schemes of Mutual Funds filed with the Board shall also be available on SEBI's website – [www.sebi.gov.in](http://www.sebi.gov.in) for 21 working days from the date of filing.
- b. AMC shall submit a soft copy of draft SID to the Board in HTML or PDF format. For this purpose, AMC shall be fully responsible

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<sup>1</sup> SEBI Circular No. SEBI/IMD/CIR No.5/ 126096/08 dated May 23,2008 and SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

<sup>2</sup> For format of SID & SAI, please refer to the section on Formats

<sup>3</sup> The filing fees was revised via gazette notification No. LAD-NRO/GN/2014-15/03/1089 on SEBI (Payment of Fees) (Amendment) Regulations, 2014 dated 23 May, 2014, applicable from May 23, 2014.

<sup>4</sup> SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997.

<sup>5</sup> Regulation 28 (1) of SEBI (Mutual Funds) Regulation 1996

for the contents of soft copies of the SID. AMC shall also submit an undertaking to the Board while filing the soft copy of draft SID certifying that the information contained in the soft copy matches exactly with the contents of the hard copy filed with the Board.

- c. In case of any inaccurate filing, the SID will be returned and refiling will be required. 21 working days<sup>6</sup> shall be calculated from the date of refiling;<sup>7</sup>
- d. If any changes to the SID are made after filing, the 21 working day(s) period will recommence from the date of submission of the last additional statement(s)<sup>8</sup>

#### 1.1.3.2 Filing of SAI

- a. A single SAI (common for all the schemes) can be filed with Board along with first draft of SID or can be filed separately. After incorporating the comments/observations, if any, from the Board, AMC shall file a soft copy of SAI with the Board in PDF format along with printed copy of the same<sup>9</sup>, upload the SAI on its website and on AMFI website.

#### 1.1.3.3 Filing of Final SID

- a. Final SID (after incorporating comments of the Board) must reach the Board before it is issued for circulation. Soft copy of the final SID in PDF format along with a printed copy should be filed with Board seven<sup>10</sup> working days prior to the launch of

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<sup>6</sup> Regulation 29(3) of SEBI (Mutual Funds) Regulation 1996

<sup>7</sup> SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997.

<sup>8</sup> SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997, SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997.

<sup>9</sup> SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

<sup>10</sup> SEBI Circular No – SEBI/HO/IMD/DF2/CIR/P/2016/68 dated August 10, 2016



the scheme. AMC shall also submit an undertaking to the Board while filing the soft copy that information contained in the soft copy of SID to be uploaded on SEBI website is current and relevant and matches exactly with the contents of the hard copy and that the AMC is fully responsible for the contents of the soft copy of SID. The soft copy of SID should also be uploaded on AMFI website two working days prior to launch of the scheme<sup>11</sup>. Failure to submit the printed SID to the Board before it is issued for circulation shall invite penalties under the Mutual Funds Regulations<sup>12</sup>.

- b. In case of any difference, in nature of material alteration of the suggestions made by the Board<sup>13</sup> between the printed SID and the SID filed with the Board, immediate withdrawal of the SID from circulation will be ordered and such withdrawal shall be publicized by the Board<sup>14</sup>.

## **1.2 Updation of SID & SAI**

### 1.2.1 Updation of SID

- 1.2.1.1 For the schemes launched in the first half of a financial year, the SID shall be updated within 3 months from the end of the financial year. However, for the schemes launched in the second half of a financial year, SID shall be updated within 3 months of the end of the subsequent financial year. *(For example, for a scheme launched in May,*

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<sup>11</sup> SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

<sup>12</sup> SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997.

<sup>13</sup>Regulation 29(2) of the SEBI (Mutual Funds) Regulations, 1996

<sup>14</sup>The existing schemes shall adopt the SID and KIM format as soon as possible but not later than 12 months from the date of issuance of the circular- SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008. A confirmation in this regard shall be given in the half yearly trustee report.

2016 the SID shall be updated by June 30, 2017 and for a scheme launched in December 2015, the SID shall be updated by June 30, 2017) Thereafter, the SID shall be updated once every year.

1.2.1.2 The procedure to be followed in case of changes to the scheme shall be as under:

- a. In case of change in fundamental attributes in terms of Regulation<sup>15</sup>, SID shall be revised and updated immediately after completion of duration of the exit option.
- b. In case of other changes:
  1. The AMC shall be required to issue an addendum and display it on its website.
  2. The addendum shall be circulated to the entire distributors/brokers/Investor Service Centre (ISC) so that the same can be attached to copies of SID already in stock, till the SID is updated.
  3. In case any information in SID is amended more than once, the latest applicable addendum shall be a part of SID. *(For example, in case of changes in load structure the addendum carrying the latest applicable load structure shall be attached to all KIM and SID already in stock till it is updated).*
  4. A public notice shall be given in respect of such changes in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of region where the Head Office of the Mutual Fund is situated.

1.2.1.3 A copy of all changes made to the scheme shall be filed with Board within 7 days of the change. A soft copy of updated

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<sup>15</sup> Regulation 18 (15A) of SEBI (Mutual Funds) Regulation, 1996

SID shall be filed with Board in PDF Format along with printed copy of the same. AMC shall also submit an undertaking to the Board while filing the soft copy that information contained in the soft copy of SID to be uploaded on SEBI website is current and relevant and matches exactly with the contents of the hard copy and that the AMC is fully responsible for the contents of the soft copy of the SID<sup>16</sup>.

### 1.2.2 Updation of SAI

1.2.2.1 A printed copy of SAI shall be made available to the investor(s) on request. SAI shall be updated within 3 months from end of financial year and filed with SEBI.

1.2.2.2 Any material changes in the SAI shall be made on an ongoing basis by way of updation on the Mutual Fund and AMFI website. SEBI shall be intimated of the changes made in the SAI within 7 days. The effective date for such changes shall be mentioned in the updated SAI.

1.2.2.3 A soft copy of updated SAI shall be filed with SEBI in PDF format along with printed copy of the same. AMC shall also submit an undertaking to SEBI while filing the soft copy that information contained in the soft copy of SAI to be uploaded on SEBI website is current and relevant and matches exactly with the contents of the hard copy and that the AMC shall be fully responsible for the contents of soft copy of SAI<sup>17</sup>.

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<sup>16</sup> SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

<sup>17</sup> SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

### **1.3 Validity of SEBI Observations on SID**

- 1.3.1 The AMCs shall file their replies to the modifications suggested by SEBI on SID as required under Regulation 29 (2), if any, within six months from the date of the letter. In case of lapse of six-month period, the AMC shall be required to refile the SID alongwith filing fees.
- 1.3.2 The scheme shall be launched within six months from the date of the issuance of final observations from SEBI. If the AMC intends to launch the scheme at a date later than six months, it shall refile the SID with SEBI under Regulation 28 (1) along with filing fees.

### **1.4 Undertaking from Trustees for new Scheme<sup>18</sup>**

- 1.4.1 In the certificate submitted by Trustees with regard to compliance of AMC with Regulations,<sup>19</sup> the Trustees are required to certify as follows:

*“The Trustees have ensured that the (name of the scheme/Fund) approved by them is a new product offered by (name of the Mutual Fund) and is not a minor modification of any existing scheme/fund/product.”*

- 1.4.2 This certification shall be disclosed in the SID along with the date of approval of the scheme by the Trustees.
- 1.4.3 This certification is not applicable to close ended schemes except for those close ended schemes which have the option of conversion into open ended schemes on maturity.

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<sup>18</sup>SEBI Cir No IMD/CIR No.5/70559/06 dated June 30,2006

<sup>19</sup>Regulation 18 (4) of SEBI ( Mutual Funds) Regulations, 1996.

## **1.5 Standard Observations**

1.5.1 Standard Observations have been prescribed to ensure minimum level of disclosures in the SID and SAI<sup>20</sup>.

1.5.2 SEBI may revise the Standard Observations from time to time and in that case the date of revision shall also be mentioned.

While filing the SID and SAI, AMC shall highlight and clearly mention the page number of the SAI and SID on which each standard observation has been incorporated.

## **1.6 KIM**

1.6.1 Application forms for schemes of mutual funds shall be accompanied by the KIM in terms of Regulation 29 (4). KIM shall be printed at least in 7 point font size with proper spacing for easy readability.

### **1.6.2 Format of KIM**

1.6.2.1 Mutual Funds shall prepare KIM in the prescribed format<sup>21</sup>. The contents of KIM shall follow the same sequence as prescribed in the format.

### **1.6.3 Frequency of updation**

1.6.3.1 KIM shall be updated at least once a year and shall be filed with SEBI.

1.6.3.2 In case of changes in the SID other than changes in fundamental attribute in terms of Reg 18 (15A), the addendum

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<sup>20</sup>For Standard Observations, please refer to the section on Formats

<sup>21</sup> For format of KIM please refer to the section on Formats

circulated to all the distributors/brokers/investor Service Centre (ISC) shall be attached to KIM till the KIM is updated.

1.6.3.3 In case any information in SID is amended more than once, the latest applicable addendum shall be a part of KIM (For example, in case of changes in load structure the addendum carrying the latest applicable load structure shall be attached to all KIM and SID already in stock till it is updated).

## **1.7 Easy Availability of Offer Document**

1.7.1 Trustees and AMCs shall ensure that the SID of the schemes and SAI are readily available with all the distributors/ISCs and confirm the same to SEBI in the half yearly trustee report.

## **1.8 Selection of Benchmarks<sup>22</sup>**

1.8.1 In case of equity oriented schemes, mutual funds may appropriately select any of the indices available, (e.g. BSE (Sensitive) Index, S&P CNX Nifty, BSE 100, BSE 200 or S&P CNX 500 etc.) as a benchmark index depending on the investment objective and portfolio.

1.8.2 Benchmarks for debt oriented and balanced fund schemes<sup>23</sup> developed by research and rating agencies recommended by the AMFI on a regular basis shall be used by the Mutual Funds.

1.8.3 In case of sector or industry specific schemes, Mutual Funds may select any sectoral indices as published by the Stock Exchanges and other reputed agencies.

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<sup>22</sup>SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000, SEBI Circular No. MFD/CIR/16/400/02 dated March 26, 2002, SEBI Circular No. MFD/CIR/01/071/02 April 15, 2002.

<sup>23</sup>SEBI Circular No. MFD/CIR/01/071/02 dated April 15, 2002.

1.8.4 These benchmark indices may be decided by the AMC(s) and Trustees. Any change at a later date in the benchmark index shall be recorded and reasonably justified<sup>24</sup>.

1.8.5 Examples of benchmarks are illustrated below<sup>25</sup>:

1.8.5.1 Growth funds maintaining minimum 65% of their investments in equities shall always be compared against The Bombay Stock Exchange Ltd. (BSE) Sensex or The National Stock Exchange Ltd. (NSE) Nifty or BSE 100 or CRISIL 500 or similar standard indices.

1.8.5.2 Income funds maintaining 65% or more of investments in debt instruments shall be compared with a suitable index that is a representative of the fund's portfolio.

1.8.5.3 Balanced funds with equity investments of 40%-60% shall be compared with a tailored index having 50% of its weight selected from any equity index as above and the other 50% from an appropriate bond return index.

1.8.5.4 Money Market funds or liquid plans can be compared against a suitable Money Market Instrument or a combination of such instruments.

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<sup>24</sup>SEBI Circular No. MFD/CIR/16/400/02 dated March 26, 2002. Also please note that for review of scheme performance with benchmark indices please refer to section on governance norms.

<sup>25</sup>SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000

## **1.9 New Fund Offer (NFO) Period<sup>26</sup>**

- 1.9.1 In case of open ended and close ended schemes (except ELSS schemes), the NFO should be open for 15 days.
- 1.9.2 The NFO period in case of ELSS schemes shall continue to be governed by guidelines issued by Government of India.
- 1.9.3 Mutual Funds/AMCs are allowed to deploy the NFO proceeds in CBLO<sup>27</sup> <sup>28</sup> before the closure of NFO period. However, AMCs shall not charge any investment management and advisory fees on funds deployed in CBLOs during the NFO period. The appreciation received from investment in CBLO shall be passed on to investors. Further, in case the minimum subscription amount is not garnered by the scheme during the NFO period, the interest earned upon investment of NFO proceeds in CBLO shall be returned to investors, in proportion of their investments, along-with the refund of the subscription amount.
- 1.9.4 The mutual fund should allot units/refund of money and dispatch statements of accounts within five business days from the closure of the NFO and all the schemes (except ELSS) shall be available for ongoing repurchase/sale/trading within five business days of allotment.

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<sup>26</sup>SEBI Circular no MFD/Cir.No 9/120/2000 dated November 24, 2000. SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010. The provisions mentioned shall be applicable for all NFOs launched on or after July 01, 2010

<sup>27</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016.

<sup>28</sup> will be applicable for NFOs launched on or after April 1, 2016



## **1.10 Restriction on Redemption in Mutual Funds<sup>29</sup>**

1.10.1 Presently in terms of circular SEBI/IMD/CIR No.5/126096/08 dated May 23, 2008, facility of restriction on redemption under any scheme of the mutual fund can be made only after the approval from the Board of Directors of the Asset Management Company (AMC) and the Trustees. The provisions are general in nature and do not specifically spell out the circumstances in which restriction on redemption may be applied; leading to discretionary disclosures and practices in the industry.

1.10.2 As a philosophy, restriction on redemption should apply during excess redemption requests that could arise in overall market crisis situations rather than exceptional circumstances of entity specific situations. The circumstances calling for restriction on redemption should be such that illiquidity is caused in almost all securities affecting the market at large, rather than in any issuer specific securities.

1.10.3 Therefore, in order to bring more clarity and to protect the interest of the investors, the following requirement shall be observed before imposing restriction on redemptions:

1.10.3.1 Restriction may be imposed when there are circumstances leading to a systemic crisis or event that severely constricts market liquidity or the efficient functioning of markets such as:

1.10.3.1.1 Liquidity issues - when market at large becomes illiquid affecting almost all securities rather than any issuer specific security. AMCs should have in place

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<sup>29</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/57 dated May 31, 2016

sound internal liquidity management tools for schemes. Restriction on redemption cannot be used as an ordinary tool in order to manage the liquidity of a scheme. Further, restriction on redemption due to illiquidity of a specific security in the portfolio of a scheme due to a poor investment decision, shall not be allowed.

1.10.3.1.2 Market Failures, exchange closures - when markets are affected by unexpected events which impact the functioning of exchanges or the regular course of transactions. Such unexpected events could also be related to political, economic, military, monetary or other emergencies.

1.10.3.1.3 Operational Issues - when exceptional circumstances are caused by *force majeure*, unpredictable operational problems and technical failures (e.g. a black out). Such cases can only be considered if they are reasonably unpredictable and occur in spite of appropriate diligence of third parties, adequate and effective disaster recovery procedures and systems.

1.10.3.2 Restrictions on redemption may be imposed for a specified period of time not exceeding 10 working days in any 90 days period.

1.10.3.3 Any imposition of restriction would require specific approval of Board of AMC's and Trustees and the same should be informed to SEBI immediately.

1.10.3.4 When restriction on redemption is imposed, the following procedure shall be applied:

1.10.3.4.1 No redemption requests up to INR 2 lakh shall be subject to such restriction.

1.10.3.4.2 When redemption requests are above INR 2 lakh, AMCs shall redeem the first INR 2 lakh without such restriction and remaining part over and above INR 2 lakh shall be subject to such restriction.

1.10.4 **Disclosure:** The above information to investors shall be disclosed prominently and extensively in the scheme related documents regarding the possibility that their right to redeem may be restricted in such exceptional circumstances and the time limit for which it can be restricted.

1.10.5 The circular shall be applicable immediately for (i) all schemes to be launched on or after the date of this circular and (ii) all the existing schemes with effect from July 01, 2016.

### ***1.11 Discontinuation of the nomenclature – ‘Liquid Plus Scheme(s)’<sup>30</sup>***

1.11.1 The nomenclature “Liquid Plus Scheme(s)” has been discontinued from January 2009 since it gives a wrong impression of added liquidity.

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<sup>30</sup> SEBI/IMD/CIR No.13/150975 / 09 dated January 19, 2009

## **1.12 Fundamental Attributes<sup>31</sup>**

1.12.1 The words "fundamental attributes"<sup>32</sup> are elaborated below:

### 1.12.1.1 Type of a scheme

- a. Open ended/Close ended/Interval scheme
- b. Equity Schemes, Debt Schemes, Hybrid Schemes, Solution Oriented Schemes and Other Schemes<sup>33</sup>

### 1.12.1.2 Investment Objective(s)

- a. Main Objective - Growth/Income/Both.
- b. Investment pattern - The tentative Equity/Debt/Money Market portfolio break-up with minimum and maximum asset allocation, while retaining the option to alter the asset allocation for a short term period on defensive considerations.

### 1.12.1.3 Terms of Issue

- a. Liquidity provisions such as listing, repurchase, redemption.
- b. Aggregate fees and expenses charged to the scheme.
- c. Any safety net or guarantee provided.

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<sup>31</sup> SEBI Circular No- IIMARP/MF/CIR/01/294/98 dated February 4, 1998

<sup>32</sup> Sub-regulation (15A) of Regulation 18 of SEBI (Mutual Funds) Regulations, 1996

<sup>33</sup> SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017

**CHAPTER 2**  
**CONVERSION AND CONSOLIDATION OF SCHEMES AND LAUNCH**  
**OF ADDITIONAL PLAN**

**PART I - CONVERSION OF SCHEMES**

**2.1 Conversion of Close Ended Scheme(s) to Open Ended Scheme(s)<sup>34</sup>**

2.1.1 Although the procedure for conversion of close ended scheme(s) to open ended scheme(s) has been clearly enumerated in the Mutual Funds Regulations<sup>35</sup>, following requirements are clarified again:

2.1.1.1 Since the scheme(s) would reopen for fresh subscriptions, disclosures contained in the SID shall be revised and updated. A copy of the draft SID shall be filed with the Board as required under Regulation 28(1) of the Mutual Funds Regulations along with filing fees prescribed under Regulation 28(2) of the Mutual Funds Regulations. Instructions issued by the Board<sup>36</sup> for filing of the SID shall also be followed.

2.1.1.2 A draft of the communication to be sent to unit holders shall be submitted to the Board which shall include the following:

a. Latest portfolio of the scheme(s) in the prescribed format<sup>37</sup>

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<sup>34</sup> SEBI Circular No. MFD/CIR No.22/2311/03 dated January 30, 2003.

<sup>35</sup> Regulation 33(3) of the SEBI (Mutual Funds), Regulations, 1996.

<sup>36</sup> SEBI Circular No. SEBI/IMD/Cir No 5/126096/08 dated May 23, 2008

<sup>37</sup> Refer to format of half yearly portfolio disclosure under section on formats.

b. Details of the financial performance of the scheme(s) since inception in the format prescribed in SID<sup>38</sup> along with comparisons with appropriate benchmark(s)<sup>39</sup>.

c. The addendum to the SID detailing the modifications (if any) made to the scheme(s).

2.1.1.3 The letter to unit holders and revised SID (if any) shall be issued only after the final observations as communicated by the Board in terms of Regulation 29(3) of the Mutual Funds Regulations have been incorporated therein and final copies of the same have been filed with the Board.

2.1.1.4 Unit holders shall be given at least 30 days to exercise exit option. During this period, the unit holders who opt to redeem their holdings in part or in full shall be allowed to exit at the NAV applicable for the day on which the request is received, without charging exit load.

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<sup>38</sup> Please refer to format of SID under section on Formats.

<sup>39</sup> For examples of Benchmarks, refer to chapter on SID

## **PART II – CONSOLIDATION OF SCHEMES**

### **2.2 Consolidation of Schemes<sup>40</sup>**

2.2.1 Any consolidation or merger of Mutual Fund schemes will be treated as a change in the fundamental attributes of the related schemes and Mutual Funds shall be required to comply with the Mutual Funds Regulations in this regard<sup>41</sup>.

2.2.2 Further, in order to ensure that all important disclosures are made to the investors of the schemes sought to be consolidated or merged and their interests are protected; Mutual Funds shall take the following steps:

2.2.2.1 Approval by the Board of the AMC and Trustee(s):

- a. The proposal and modalities of the consolidation or merger shall be approved by the Board of the AMC and Trustee(s), after they ensure that the interest of unit holders under all the concerned schemes have been protected in the said proposal.

2.2.2.2 Disclosures:

- a. Subsequent to approval from the Board of the AMC and Trustee(s), Mutual Funds shall file the proposal with the Board, along with the draft SID, requisite fees (if a new scheme emerges after such consolidation or merger) and draft of the letter to be issued to the unit holders of all the concerned schemes.

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<sup>40</sup> SEBI Circular No. SEBI/MFD/CIR No.5/12031/03 dated June 23, 2003.

<sup>41</sup> Regulation 18(15A) of the Mutual Funds Regulations.

b. The letter addressed to the unit holders, giving them the option to exit at prevailing NAV without charging exit load, shall disclose all relevant information enabling them to take well informed decisions. This information will include, *inter alia*:

1. Latest portfolio of the concerned schemes<sup>42</sup>.
2. Details of the financial performance of the concerned schemes since inception in the format prescribed in SID<sup>43</sup> along with comparisons with appropriate benchmarks.
3. Information on the investment objective, asset allocation and the main features of the new consolidated scheme.
4. Basis of allocation of new units by way of a numerical illustration
5. Percentage of total exposure to securities classified as below investment grade or default and percentage of total illiquid assets to net assets of each individual scheme(s) as well the consolidated scheme.<sup>44</sup>
6. Tax impact of the consolidation on the unit holders.
7. Any other disclosure as specified by the Trustees.
8. Any other disclosure as directed by the Board.

2.2.2.3 Updation of SID shall be as per the requirements for change in fundamental attribute of the scheme<sup>45</sup>.

2.2.2.4 Maintenance of Records:

a. AMC(s) shall maintain records of dispatch of the letters to the unit holders and the responses received from them. A report giving information on total number of unit holders in the

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<sup>42</sup> Refer format of half yearly portfolio disclosure under section on Formats

<sup>43</sup> Please refer to SID Format under section on Formats

<sup>44</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019.

<sup>45</sup> Please refer to SID chapter for further details



schemes and their net assets, number of unit holders who opted to exit and net assets held by them and number of unit holders and net assets in the consolidated scheme shall be filed with the Board within 21 days from the date of closure of the exit option<sup>46</sup>.

2.2.2.5 Merger or consolidation shall not be seen as change in fundamental attribute of the surviving scheme if the following conditions are met<sup>47</sup>:

- a. Fundamental attributes<sup>48</sup> of the surviving scheme do not change. The 'surviving scheme' means the scheme which remains in existence after the merger.
- b. Mutual Funds are able to demonstrate that the circumstances merit merger or consolidation of schemes and the interest of the unit holders of surviving scheme is not adversely affected.
- c. After approval by the Boards of AMCs and Trustees, the mutual funds shall file such proposal with SEBI. SEBI would communicate its observations on the proposal within the time period prescribed<sup>49</sup>.
- d. The letter to unit holders shall be issued only after the final observations communicated by SEBI have been incorporated and final copies of the same have been filed with SEBI.

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<sup>46</sup> SEBI Circular No- SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

<sup>47</sup> SEBI Circular No- Cir / IMD / DF / 15/ 2010 dated October 22, 2010

<sup>48</sup> SEBI Circular No-IIMARP/MF/CIR/01/294/98 dated February 4, 1998

<sup>49</sup> Regulation 29(3) of SEBI (Mutual Funds) Regulations, 1996

## **PART III – LAUNCH OF ADDITIONAL PLANS<sup>50</sup>**

### **2.3 Launch of Additional Plans**

- 2.3.1 Additional plans sought to be launched under existing open ended schemes which differ substantially from that scheme in terms of portfolio or other characteristics shall be launched as separate schemes in accordance with the regulatory provisions.
- 2.3.2 However, plan(s) which are consistent with the characteristics of the scheme may be launched as additional plans as part of existing schemes by issuing an addendum. Such proposal should be approved by the Board(s) of AMC and Trustees. In this regard please note that:
- 2.3.2.1 The addendum shall contain information pertaining to salient features like applicable entry/exit loads, expenses or such other details which in the opinion of the AMC/ Trustees is material. The addendum shall be filed with SEBI 21 days in advance of opening of plan(s).
- 2.3.2.2 AMC(s) shall publish an advertisement or issue a press release at the time of launch of such additional plan(s).

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<sup>50</sup> SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15, 2009

## **2.4 Single Plan<sup>51</sup>**

- 2.4.1 Mutual funds/AMCs shall launch schemes under a single plan and ensure that all new investors are subject to single expense structure.
- 2.4.2 Existing schemes with multiple plans based on the amount of investment (i.e. retail, institutional, super-institutional, etc.) shall accept fresh subscriptions only under one plan.
- 2.4.3 Other plans will continue till the existing investors remain invested in the plan.

## **2.5 Direct Plan<sup>52</sup>**

- 2.5.1 Mutual funds/AMCs shall provide a separate plan for direct investments, i.e., investments not routed through a distributor, in existing as well as new schemes.
- 2.5.2 Such separate plan shall have a lower expense ratio excluding distribution expenses, commission, etc., and no commission shall be paid from such plans. The plan shall also have a separate NAV.

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<sup>51</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

<sup>52</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

## **PART IV – CATEGORIZATION AND RATIONALIZATION OF MUTUAL FUND SCHEMES<sup>53</sup>**

It is desirable that different schemes launched by a Mutual Fund are clearly distinct in terms of asset allocation, investment strategy etc. Further, there is a need to bring in uniformity in the characteristics of similar type of schemes launched by different Mutual Funds. This would ensure that an investor of Mutual Funds is able to evaluate the different options available, before taking an informed decision to invest in a scheme.

In order to bring the desired uniformity in the practice, across Mutual Funds and to standardize the scheme categories and characteristics of each category, it has been decided to categorize the MF schemes as given below:

### ***2.6 Categories of Schemes, Scheme Characteristics and Type of Scheme (Uniform Description of Schemes):***

2.6.1 The Schemes would be broadly classified in the following groups:

- i. Equity Schemes
- ii. Debt Schemes
- iii. Hybrid Schemes
- iv. Solution Oriented Schemes
- v. Other Schemes

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<sup>53</sup> SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017  
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The details of the scheme categories under each of the aforesaid groups along with their characteristics and uniform description are as under:

A. Equity Schemes:

| Sr. No. | Category of Schemes  | Scheme Characteristics  | Type of scheme (uniform description of scheme)  |
|---------|----------------------|---|---|
| 1       | Multi Cap Fund       | Minimum investment in equity & equity related instruments- 65% of total assets  | Multi Cap Fund- An open ended equity scheme investing across large cap, mid cap, small cap stocks |
| 2       | Large Cap Fund       | Minimum investment in equity & equity related instruments of large cap companies- 80% of total assets   | Large Cap Fund- An open ended equity scheme predominantly investing in large cap stocks           |
| 3       | Large & Mid Cap Fund | Minimum investment in equity & equity related instruments of large cap companies- 35% of total assets<br>Minimum investment in equity & equity related instruments of mid cap stocks- 35% of total assets | Large & Mid Cap Fund- An open ended equity scheme investing in both large cap and mid cap stocks  |
| 4       | Mid Cap Fund         | Minimum investment in equity & equity related instruments of mid cap companies- 65% of total assets   | Mid Cap Fund- An open ended equity scheme predominantly investing in mid cap stocks               |
| 5       | Small cap Fund       | Minimum investment in equity & equity related instruments of small cap companies- 65% of total assets   | Small Cap Fund- An open ended equity scheme predominantly investing in small cap stocks           |
| 6       | Dividend Yield Fund  | Scheme should predominantly invest in dividend yielding stocks.<br>Minimum investment in equity- 65% of total assets  | An open ended equity scheme predominantly investing in dividend yielding stocks                   |
| 7       | Value Fund*          | Scheme should follow a value investment strategy.<br>Minimum investment in equity & equity related instruments - 65% of total assets  | An open ended equity scheme following a value investment strategy                                 |
|         | Contra Fund*         | Scheme should follow a contrarian investment strategy.  | An open ended equity scheme following   |

|    |                       |  |  |
|----|-----------------------|--|--|
|    |                       | Minimum investment in equity & equity related instruments - 65% of total assets  | contrarian investment strategy   |
| 8  | Focused Fund          | A scheme focused on the number of stocks (maximum 30)<br>Minimum investment in equity & equity related instruments - 65% of total assets                               | An open ended equity scheme investing in maximum 30 stocks (mention where the scheme intends to focus, viz., multi cap, large cap, mid cap, small cap) |
| 9  | Sectoral/<br>Thematic | Minimum investment in equity & equity related instruments of a particular sector/ particular theme- 80% of total assets  | An open ended equity scheme investing in __ sector (mention the sector)/<br>An open ended equity scheme following __ theme (mention the theme)         |
| 10 | ELSS                  | Minimum investment in equity & equity related instruments - 80% of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by Ministry of Finance) | An open ended equity linked saving scheme with a statutory lock in of 3 years and tax benefit  |

\* Mutual Funds will be permitted to offer either Value fund or Contra fund.

#### B. Debt Schemes

| <b>Sr. No.</b> | <b>Category of Schemes</b> | <b>Scheme Characteristics</b>   | <b>Type of scheme (uniform description of scheme)</b>  |
|----------------|----------------------------|---|--|
| 1              | Overnight Fund**           | Investment in overnight securities having maturity of 1 day   | An open ended debt scheme investing in overnight securities  |
| 2              | Liquid Fund \$**           | Investment in Debt and money market securities with maturity of upto 91 days only   | An open ended liquid scheme  |
| 3 ++           | Ultra Short Duration Fund  | Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 months - 6 months | 'An open ended XYZ scheme investing in instruments such that the Macaulay duration of the portfolio is between A to B years (please refer to page no.__) # .'. |

|                 |                                 |  |  |
|-----------------|---------------------------------|--|--|
| 4 <sup>++</sup> | Low Duration Fund               | Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 6 months- 12 months  | 'An open ended XYZ scheme investing in instruments such that the Macaulay duration of the portfolio is between A to B years (please refer to page no.__) # .'. |
| 5               | Money Market Fund               | Investment in Money Market instruments having maturity up to 1 year  | An open ended debt scheme investing in money market instruments  |
| 6 <sup>++</sup> | Short Duration Fund             | Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 1 year - 3 years   | 'An open ended XYZ scheme investing in instruments such that the Macaulay duration of the portfolio is between A to B years (please refer to page no.__) # .'. |
| 7 <sup>++</sup> | Medium Duration Fund ^^         | Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 years - 4 years.<br><br>Portfolio Macaulay duration under anticipated adverse situation is 1 year to 4 years | 'An open ended XYZ scheme investing in instruments such that the Macaulay duration of the portfolio is between A to B years (please refer to page no.__) # .'. |
| 8 <sup>++</sup> | Medium to Long Duration Fund ^^ | Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 4 - 7 years.<br><br>Portfolio Macaulay duration under anticipated adverse situation is 1 year to 7 years       | 'An open ended XYZ scheme investing in instruments such that the Macaulay duration of the portfolio is between A to B years (please refer to page no.__) # .'. |
| 9 <sup>++</sup> | Long Duration Fund              | Investment in Debt & Money Market Instruments such that the Macaulay duration of the portfolio is greater than 7 years   | 'An open ended XYZ scheme investing in instruments such that the Macaulay duration of the portfolio is between A to B years (please refer to page no.__) # .'. |

|    |  |  |  |
|----|--|--|--|
| 10 | Dynamic Bond                             | Investment across duration   | An open ended dynamic debt scheme investing across duration  |
| 11 | Corporate Bond Fund                      | Minimum investment in corporate bonds- 80% of total assets (only in AA+ and above rated corporate bonds)   | An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds   |
| 12 | Credit Risk Fund ^                       | Minimum investment in corporate bonds- 65% of total assets (only in AA* and below rated corporate bonds)   | An open ended debt scheme predominantly investing in AA and below rated corporate bonds (excluding AA+ rated corporate bonds)  |
| 13 | Banking and PSU Fund                     | Minimum investment in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds - 80% of total assets                 | An open ended debt scheme predominantly investing in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds                  |
| 14 | Gilt Fund                                | Minimum investment in Gsecs- 80% of total assets (across maturity)   | An open ended debt scheme investing in government securities across maturity   |
| 15 | Gilt Fund with 10 year constant duration | Minimum investment in Gsecs- 80% of total assets such that the Macaulay duration of the portfolio is equal to 10 years   | An open ended debt scheme investing in government securities having a constant maturity of 10 years  |
| 16 | Floater Fund                             | Minimum investment in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/derivatives)- 65% of total assets | An open ended debt scheme predominantly investing in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/derivatives) |

*\*\*Provisions of SEBI Circular No SEBI/IMD/DF/19/2010 dated November 26, 2010 shall be followed for Uniform cut-off timings for applicability of Net Asset Value in respect of Liquid Fund and Overnight Fund.*



*\$ All provisions mentioned in SEBI circular SEBI/IMD/CIR No.13/150975/09 dated January 19, 2009 in respect of liquid schemes shall be applicable.*

*# Please refer to the page number of the Offer Document on which the concept of Macaulay's Duration has been explained*

*^ Words/ phrases that highlight/ emphasize only the return aspect of the scheme shall not be used in the name of the scheme (for instance Credit Opportunities Fund, High Yield Fund, Credit Advantage etc.)*

*\* excludes AA+ rated corporate bonds*

*^^ With respect to the Medium Duration Fund and Medium to Long Duration Fund, the characteristics of the scheme shall remain the same under normal circumstances as stated in the circular dated October 6, 2017. However, the fund manager, in the interest of investors, may reduce the portfolio duration of the aforementioned schemes up to one year, in case he has a view on interest rate movements in light of anticipated adverse situation. The AMC shall be required to mention its asset allocation under such adverse situation in its offer documents.*

Whenever the portfolio duration is reduced below the specified floors of 3 years and 4 years in respect of Medium Duration Fund and Medium to Long Duration Fund respectively, the AMC shall be required to record the reasons for the same with adequate justification and maintain the same for inspection. The written justifications shall be placed before the Trustees in the subsequent Trustee meeting. Further, the Trustees shall also review the portfolio and report the same in their Half Yearly Trustee Report to SEBI.

*++ It is clarified that Macaulay duration shall be at portfolio level.*

### C. Hybrid Schemes

| <b>Sr. No.</b> | <b>Category of Schemes</b> | <b>Scheme Characteristics</b>  | <b>Type of scheme (uniform description of scheme)</b>                   |
|----------------|----------------------------|--|---|
| 1              | Conservative Hybrid Fund   | Investment in equity & equity related instruments- between 10% and 25% of total assets;<br>Investment in Debt instruments- between 75% and 90% of total assets | An open ended hybrid scheme investing predominantly in debt instruments |
| 2              | Balanced Hybrid Fund @     | Equity & Equity related instruments- between 40% and 60% of total assets;  | An open ended balanced scheme investing in equity and debt instruments  |

|   |  |  |  |
|---|--|--|--|
|   |  | Debt instruments- between 40% and 60% of total assets<br>No Arbitrage would be permitted in this scheme  |  |
|   | Aggressive Hybrid Fund @                       | Equity & Equity related instruments- between 65% and 80% of total assets;<br>Debt instruments- between 20% 35% of total assets   | An open ended hybrid scheme investing predominantly in equity and equity related instruments |
| 3 | Dynamic Asset Allocation or Balanced Advantage | Investment in equity/ debt that is managed dynamically   | An open ended dynamic asset allocation fund  |
| 4 | Multi Asset Allocation ##                      | Invests in at least three asset classes with a minimum allocation of at least 10% each in all three asset classes  | An open ended scheme investing in __, __, __ (mention the three different asset classes)     |
| 5 | Arbitrage Fund                                 | Scheme following arbitrage strategy. Minimum investment in equity & equity related instruments- 65% of total assets  | An open ended scheme investing in arbitrage opportunities                                    |
| 6 | Equity Savings                                 | Minimum investment in equity & equity related instruments- 65% of total assets and minimum investment in debt- 10% of total assets<br>Minimum hedged & unhedged to be stated in the SID.<br>Asset Allocation under defensive considerations may also be stated in the Offer Document | An open ended scheme investing in equity, arbitrage and debt                                 |

@ Mutual Funds will be permitted to offer either an Aggressive Hybrid fund or Balanced fund

## Foreign securities will not be treated as a separate asset class

D. Solution Oriented Schemes:

| <b>Sr. No</b> | <b>Category of Schemes</b> | <b>Scheme Characteristics</b>   | <b>Type of scheme (uniform description of scheme)</b>   |
|---------------|----------------------------|---|---|
| 1             | Retirement Fund            | Scheme having a lock-in for at least 5 years or till retirement age whichever is earlier                    | An open ended retirement solution oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier)                           |
| 2             | Children's Fund            | Scheme having a lock-in for at least 5 years or till the child attains age of majority whichever is earlier | An open ended fund for investment for children having a lock-in for at least 5 years or till the child attains age of majority (whichever is earlier) |

E. Other Schemes:

| <b>Sr. No</b> | <b>Category of Schemes</b> | <b>Scheme Characteristics</b>  | <b>Type of scheme (uniform description of scheme)</b>                             |
|---------------|----------------------------|--|---|
| 1             | Index Funds/ ETFs          | Minimum investment in securities of a particular index (which is being replicated/ tracked)- 95% of total assets | An open ended scheme replicating/ tracking _ index                                |
| 2             | FoFs (Overseas/ Domestic)  | Minimum investment in the underlying fund- 95% of total assets   | An open ended fund of fund scheme investing in fund (mention the underlying fund) |

2.6.2 As per the above, the existing 'type of scheme' (presently mentioned below the scheme name in the offer documents/ advertisements/ marketing material/etc.) would be replaced with the type of scheme (given in the third column of the tables) as applicable to each category of scheme. This will enhance the existing disclosure.

2.6.3 In case of Solution oriented schemes, there will be specified period of lock in as stated in the above tables.

However, the said lock- in period would not be applicable to any existing investment by an investor, registered SIPs and incoming STPs in the existing solution oriented schemes as on the date on which such scheme is getting realigned with the provisions of this circular.

2.6.4 The investment objective, investment strategy and benchmark of each scheme shall be suitably modified (wherever applicable) to bring it in line with the categories of schemes listed above.

## **2.7 Definition of Large Cap, Mid Cap and Small Cap:**

2.7.1 In order to ensure uniformity in respect of the investment universe for equity schemes, it has been decided to define large cap, mid cap and small cap as follows:

- i. Large Cap: 1<sup>st</sup> -100<sup>th</sup> company in terms of full market capitalization
- ii. Mid Cap: 101<sup>st</sup> -250<sup>th</sup> company in terms of full market capitalization
- iii. Small Cap: 251<sup>st</sup> company onwards in terms of full market capitalization

2.7.2 Mutual Funds would be required to adopt the list of stocks prepared by AMFI in this regard and AMFI would adhere to the following points while preparing the list:

- i. If a stock is listed on more than one recognized stock exchange, an average of full market capitalization of the stock on all such stock exchanges, will be computed;

- ii. In case a stock is listed on only one of the recognized stock exchanges, the full market capitalization of that stock on such an exchange will be considered.
- iii. This list would be uploaded on the AMFI website and the same would be updated every six months based on the data as on the end of June and December of each year. The data shall be available on the AMFI website within 5 calendar days from the end of the 6 months period.
- iv. While preparing the single consolidated list of stocks, average full market capitalization of the previous six month of the stocks shall be considered<sup>54</sup>.

2.7.3 Subsequent to any updation in the list, Mutual Funds would have to rebalance their portfolios (if required) in line with updated list, within a period of one month.

## **2.8 Process to be followed for categorization and rationalization of schemes:**

2.8.1 Only one scheme per category would be permitted, *except*:

- i. Index Funds/ ETFs replicating/ tracking different indices;
- ii. Fund of Funds having different underlying schemes; and
- iii. Sectoral/ thematic funds investing in different sectors/ themes

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<sup>54</sup> SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2017/126 dated December 04, 2017  
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## **CHAPTER 3**

### **NEW PRODUCTS**

#### **3.1 Fund of Funds Scheme<sup>55</sup>**

- 3.1.1 The SID and the advertisements pertaining to Fund of Funds Scheme<sup>56</sup> shall disclose that the investors are bearing the recurring expenses of the scheme, in addition to the expenses of other schemes in which the Fund of Funds Scheme makes investments.
- 3.1.2 AMCs shall not enter into any revenue sharing arrangement with the underlying funds in any manner and shall not receive any revenue by whatever means/head from the underlying fund. Any commission or brokerage received from the underlying fund shall be credited into concerned scheme's account<sup>57</sup>.
- 3.1.3 Fund of funds mutual fund schemes shall adopt the total expense structures laid out in Regulations<sup>58</sup>, which Asset Management Companies shall clearly indicate in the SIDs.

#### **3.2 Gold Exchange Traded Fund Scheme<sup>59</sup>**

- 3.2.1 A Gold Exchange Traded Fund (GETF) Scheme<sup>60</sup> shall invest primarily in:

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<sup>55</sup> SEBI Circular No. MFD/CIR. No.04/11488/2003 dated June 12, 2003.

<sup>56</sup> Regulation 2(ma) of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O 632(E) dated May 29, 2003.

<sup>57</sup> SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

<sup>58</sup> Regulation 52(6)(a) of SEBI (Mutual Funds) Regulations, 1996

<sup>59</sup> SEBI Circular No. SEBI/IMD/CIR. No.4/58422/06 dated January 24, 2006, SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006, SEBI Circular No. SEBI/IMD/CIR No.14/84243/07 dated January 15, 2007.

<sup>60</sup> Regulation 2(mb) of the SEBI (Mutual Funds) Regulations, 1996 introduced vide Gazette Notification No. S.O. 38(E) dated January 12, 2006.

- 3.2.1.1 Gold and
- 3.2.1.2 Gold related instruments<sup>61</sup>. However investments in gold related instruments shall be done only after such instruments are specified by the Board<sup>62</sup>
- 3.2.1.3 Gold Deposit Scheme (GDS)<sup>63</sup> of banks had been designated as one such gold related instrument. However, as per RBI notification dated October 22, 2015, the Gold Monetisation Scheme, 2015 (GMS) will replace the Gold Deposit Scheme, 1999. Accordingly, it has been decided that GMS will also be designated as a gold related instrument<sup>64</sup>, in line with GDS of Banks.
- 3.2.1.4 Exchange Traded Commodity Derivatives (ETCDs)<sup>65</sup> having gold as the underlying, shall also be considered as 'gold related instrument' for GETFs.
- 3.2.1.5 Investment in GDS, GMS and ETCD having gold as the underlying by GETFs of mutual funds will be subject to following conditions:
  - a. The cumulative exposure to gold related instruments i.e. GDS of banks, GMS and ETCD having gold as the underlying shall not exceed 50% of net asset value of the scheme. However, within the 50% limit, the investment limit for GDS of banks and GMS as part of gold related instrument shall not exceed 20% of net asset value of the scheme. The unutilized portion of the limit for GDS of banks and GMS can be utilized for ETCD having gold as the underlying.
  - b. Before investing in GDS of Banks, GMS and ETCDs having gold as the underlying, mutual funds shall put in place a written policy

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<sup>61</sup> Regulations 2(mc) of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O. 38(E) dated January 12, 2006.

<sup>62</sup> SEBI Circular No. SEBI/IMD/CIR No. 4/58422/06 dated January 24, 2006.

<sup>63</sup> SEBI Circular No. CIR/IMD/DF/04/2013 dated February 15, 2013

<sup>64</sup> SEBI Circular No. CIR/IMD/DF/11/2015 dated December 31, 2015

<sup>65</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/65 dated May 21, 2019

with regard to such investments with due approval from the Board of the Asset Management Company and the Trustees. The policy should have provision to make it necessary for the mutual fund to obtain approval of trustees for investment proposal in GDS of any bank and GMS. The policy shall be reviewed by mutual funds, at least once a year.

- c. Certificates issued in respect of investments made by GETFs in GDS of banks and GMS can be held by the mutual funds in dematerialized or physical form<sup>66</sup>.

3.2.1.6 Existing investments by Gold ETFs of Mutual Funds under the GDS will be allowed to run till maturity unless these are withdrawn prematurely.

3.2.2 Valuation:

3.2.2.1 Gold shall be valued based on the methodology provided in Clause 3A of, Schedule Eight of the Mutual Funds Regulations<sup>67</sup>.

3.2.3 Determination of Net Asset Value<sup>68</sup>

3.2.3.1 The NAV of units under the GETF Scheme shall be calculated up to four decimal points as shown below:

$$\text{NAV (in Rs. terms)} = \frac{\text{Market or Fair Value of Scheme's investments + Current Assets - Current Liabilities and Provision}}{\text{Number of Units outstanding under Scheme on the Valuation Date}}$$

<sup>66</sup> SEBI Circular No. CIR/IMD/DF/16/2013 dated October 18, 2013

<sup>67</sup> SEBI Circular No. SEBI/IMD/CIR No.14/84243/07 dated January 15, 2007 read with Gazette Notification F. No. SEBI/LAD/DoP/82534/2006 dated December 20, 2006.

<sup>68</sup> SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.



### 3.2.4 Recurring Expenses<sup>69</sup>

3.2.4.1 The recurring expenses limits applicable to equity schemes<sup>70</sup> shall be applicable to GETF Scheme(s).

### 3.2.5 Benchmarks for GETF Scheme<sup>71</sup>

3.2.5.1 GETF Scheme(s) shall be benchmarked against the price of gold.

### 3.2.6 Half yearly report by Trustees<sup>72</sup>

3.2.6.1 Physical verification of gold underlying the Gold ETF units shall be carried out by statutory auditors of mutual fund schemes and reported to trustees on half yearly basis.

3.2.6.2 The confirmation on physical verification of gold as above shall also form part of half yearly report<sup>73</sup> by trustees to SEBI.

## **3.3 Capital Protection Oriented Scheme**<sup>74</sup>

3.3.1 The SID, KIM and advertisements pertaining to Capital Protection Oriented Scheme<sup>75</sup> shall disclose that the scheme is “oriented towards protection of capital” and not “with guaranteed returns.” It shall also be indicated that the orientation towards protection of capital

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<sup>69</sup> SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.

<sup>70</sup> Regulation 52(6) of the SEBI (Mutual Funds) Regulations, 1996.

<sup>71</sup> SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.

<sup>72</sup> SEBI Circular No. Cir/IMD/DF/20/2010 dated December 06, 2010

<sup>73</sup> Please refer to the section on Formats for the disclosures in the Half Yearly Trustee Report w.r.t physical verification of Gold. This will be effective from the half yearly report ending April 2011 by Trustees to SEBI.

<sup>74</sup> SEBI Circular No. SEBI/IMD/CIR No.9/74364/06 dated August 14, 2006.

<sup>75</sup> Regulation 2(ea), 33(2A) and 38A of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O. 1254(E) dated August 3, 2006.

originates from the portfolio structure of the scheme and not from any bank guarantee, insurance cover etc.

3.3.2 The proposed portfolio structure indicated in the SID and KIM shall be rated by a Credit Rating Agency registered with the Board from the view point of assessing the degree of certainty for achieving the objective of capital protection and the rating shall be reviewed on a quarterly basis.

3.3.3 The Trustees shall continuously monitor the portfolio structure of the scheme and report the same in the Half Yearly Trustee Reports<sup>76</sup> to the Board. The AMC(s) shall also report on the same in its bimonthly (CTR(s))<sup>77</sup> to the Board.

3.3.4 It shall also be ensured that the debt component of the portfolio structure has the highest investment grade rating.

### **3.4 Real Estate Mutual Funds<sup>78</sup>:**

3.4.1 A real estate mutual fund scheme<sup>79</sup> can invest in real estate assets in the cities mentioned in:

3.4.1.1. List of Million Plus Urban Agglomerations/Cities; or

3.4.1.2 List of Million Plus Cities

3.4.2 Such list appears in Census Statistics of India (2001) at [www.censusindia.gov.in](http://www.censusindia.gov.in). A printout of cities which appear in the

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<sup>76</sup> For format of Half Yearly Trustee Report please refer section on Formats

<sup>77</sup> For format of bimonthly CTR please refer section on Formats

<sup>78</sup> SEBI Circular No - SEBI/IMD/CIR No.4/124477/08 May 2,2008

<sup>79</sup> Regulation 49 A(a)(i) of SEBI (Mutual Fund) Regulations, 1996

foresaid categories taken from the said website is attached for ready reference at Annexure 4.

### **3.5 Infrastructure Debt Schemes<sup>80</sup>**

#### 3.5.1 Placement Memorandum:

3.5.1.1 Private Placement to less than 50 investors has been permitted as an alternative to New Fund Offer to the public, in case of Infrastructure Debt Funds (IDF). In case of private placement, the mutual funds would have to file a Placement Memorandum with SEBI instead of a Scheme Information Document and a Key Information Memorandum. However, all the other conditions applicable to IDFs offered through the NFO route like kind of investments, investment restrictions, etc. would be applicable to IDFs offered through private placement.

3.5.1.2 In terms of regulation 49-OA of the SEBI (Mutual Funds) Regulations, 1996, the Placement Memorandum shall be filed with SEBI as per the prescribed format<sup>81</sup>.

3.5.2 The Asset Management Companies shall ensure that the Placement Memorandum is uploaded on their respective websites after allotment of units, and on the website of such recognized Stock Exchange, where it is proposed to be listed, at the time of listing of the scheme.

#### 3.5.3 **FPIs which are long term investors**

3.5.3.1 The universe of strategic investors in the IDF has been expanded to include, inter alia, FPIs registered with SEBI which are long term investors subject to their existing

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<sup>80</sup> SEBI Circular No. CIR/IMD/DF/7/2013 dated April 23, 2013

<sup>81</sup> Please refer to section on Formats for requisite Formats

investment limits. With reference to regulation 49L of the SEBI (Mutual Funds) Regulations, 1996 the following categories of FPIs are designated as long term investors only for the purpose of IDF:

- a. Foreign Central Banks
- b. Governmental Agencies
- c. Sovereign Wealth Funds
- d. International/Multilateral Organizations/ Agencies
- e. Insurance Funds
- f. Pension Funds
- g. Foreign feeder funds, having at all times, at least 20% of their assets under management held by investors belonging to one of more of the above categories of FPIs<sup>82</sup>

#### 3.5.4 **Investments by the IDF scheme**

- 3.5.4.1 With reference to regulation 49P (1) of the SEBI (Mutual Funds) Regulations, 1996, the investments in bank loans shall be made only through the securitization mode.

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<sup>82</sup> SEBI Circular No. CIR/IMD/DF/20/2013 dated November 29, 2013

## **CHAPTER 4**

### **RISK MANAGEMENT SYSTEM<sup>83</sup>**

**4.1** An Operating Manual<sup>84</sup> for Risk Management has been developed to ensure minimum standards of due diligence and Risk Management Systems for all the Mutual Funds in various operational areas (for e.g. Fund Management, Operations, Customer Service, Marketing and Distribution, Disaster Recovery and Business Contingency, etc.) and is enclosed herewith as **Annexure 2**.

**4.2 The Risk Management practices covered in the Operating Manual are under three categories as detailed below:**

4.2.1 Existing Industry Practices:

4.2.1.1 Under each head of risk, the Manual covers the exemplary practices followed by some / most of Mutual Funds in India. However, the extent and degree of observance of these practices differs among the Mutual Funds. Mutual Funds shall accordingly develop their systems and follow these practices.

4.2.2 Practices to be followed on Mandatory Basis:

4.2.2.1 Mutual Funds shall follow the practices which have been indicated as mandatory in the operating manual. These are (i) Risk Management function that shall be assigned to Compliance Officer or Internal Risk Management Committee or to an external agency,

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<sup>83</sup> SEBI Circular No. MFD/CIR/15/19133/2002 dated September 30, 2002.

<sup>84</sup> The Manual has been developed by AMFI in association with Pricewaterhouse Coopers as a part of Indo-US Financial Institutions Reforms and Expansion Project.

- (ii) Disaster Recovery and Business Contingency plans, and
- (iii) Insurance cover against certain risks.

4.2.3 Best Practices to be followed by Mutual Funds:

4.2.3.1 Mutual Funds shall adopt these practices as a part of their due diligence exercise after considering the size of their operations.

**4.3 *Implementation of the Risk Management System***

4.3.1 Mutual Funds shall adopt the following approach to implement the Risk Management System:

4.3.2 Identification of observance of each recommendation:

4.3.2.1 Mutual Funds shall identify areas of current adherence as well as non-adherence of various Risk Management practices under each of the three categories. They shall examine the areas where development or improvement of systems is required.

4.3.2.2 After identifying the same, Mutual Funds shall review the progress made on implementation of the systems on a monthly basis and place the progress report in periodical meetings of the Board of the AMC and Trustees.

4.3.3 Review of Progress of implementation by Board of AMC and Trustee(s):

4.3.3.1 The Board of the AMC and Trustee(s) shall review the progress made by the Mutual Funds with regard to Risk Management practices and

the same shall be reported to the Board at the time of sending CTR(s) and Half Yearly Trustee Reports.

4.3.4 Review by Internal Auditors:

4.3.4.1 The review of Risk Management Systems shall be a part of internal audit and the auditors shall check their adequacy on a continuing basis. Their reports shall be placed before the Board of the AMC and Trustee(s) who shall comment on the adequacy of systems in the CTRs and Half Yearly Reports filed with the Board.

**4.4 *Stress Testing of Liquid Fund and Money Market Mutual Fund Schemes*** <sup>85</sup>

4.4.1 As a part of risk management framework, Mutual Funds (MFs) carry out stress testing of their portfolio, particularly for debt schemes. In order to standardize this practice across industry, AMFI came out with Best Practice Guidelines dated September 12, 2014 on stress testing of Liquid Funds and Money Market Mutual Fund Schemes (MMMMFs).

4.4.2 In order to further strengthen the risk management practices and to develop a sound framework that would evaluate potential vulnerabilities on account of plausible events and provide early warning on the health of the underlying portfolio of Liquid Fund and MMMF Schemes, it has been decided to stipulate the following guidelines:

4.4.2.1 As a part of the extant risk management framework, AMCs should have stress testing policy in place which mandates

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<sup>85</sup> SEBI Circular No. CIR/IMD/DF/03/2015 dated April 30, 2015.

them to conduct stress test on all Liquid Fund and MMMF Schemes.

- 4.4.2.2 The stress test should be carried out internally at least on a monthly basis, and if the market conditions require so, AMC should conduct more frequent stress test.
- 4.4.2.3 The concerned schemes shall be tested on the following risk parameters, among others deemed necessary by the AMC:
  - a) Interest rate risk;
  - b) Credit risk;
  - c) Liquidity & Redemption risk.
- 4.4.2.4 While conducting stress test, it will be required to evaluate impact of the various risk parameters on the scheme and its Net Asset Value (NAV). The parameters used and the methodology adopted for conducting stress test on such type of scheme, should be detailed in the stress testing policy, which is required to be approved by the Board of AMC.
- 4.4.2.5 Further, in the event of stress test revealing any vulnerability or early warning signal, it would be required to bring it to the notice of the Trustees and take corrective action as deemed necessary, to reinforce their robustness. Each AMC should also be required to have documented guidelines, to deal with the adverse situation effectively.
- 4.4.2.6 Such stress-testing policy shall be reviewed by the Board of AMC and Trustees, at least on an annual basis, in light



of the evolving market scenarios and should cover the following aspects:

- i. Adequacy of the documentation for various elements of the stress testing framework
- ii. Scope of coverage of the stress testing policy and the levels of stress applied
- iii. Integration of the stress testing framework in the day-to-day risk management processes
- iv. Adequacy of the corrective actions and the efficacy of the systems for their activation.

4.4.2.7 Further, Trustees shall be required to report compliance with this circular and steps taken to deal with adverse situations faced, if any, in the Half Yearly Trustee Report submitted to SEBI.

#### **4.5 Internal Credit Risk Assessment<sup>86</sup>:**

4.5.1 In order to ensure that mutual funds are able to carry out their own credit assessment of assets and reduce reliance on credit rating agencies, all AMCs are required to have an appropriate policy and system in place to conduct an in-house credit risk assessment/ due diligence of debt and money market instruments/ products at all points of time i.e. before investing in such instruments/ products and also on continuous basis in order to have proper assessment of the credit risk of the portfolio. Further, the internal policy should have adequate provisions to generate early warning signals (including yield based alerts) on deterioration of credit profile of the issuer. Based on the alerts

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<sup>86</sup>SEBI Circular No. SEBI/HO/IMD/DF2/CIR/2016/42 dated March 18, 2016 and SEBI Circular No. SEBI/HO/IMD/DF2/CIR/2019/104 dated October 01, 2019.

generated, the AMCs shall take appropriate measures and report the same to trustees.

#### **4.6 Creation of segregated portfolio in mutual fund schemes<sup>87,88</sup>**

4.6.1 In order to ensure fair treatment to all investors in case of a credit event and to deal with liquidity risk, it has been decided to permit creation of segregated portfolio of debt and money market instruments by mutual funds schemes.

4.6.2 For this purpose,

4.6.2.1 The term 'segregated portfolio' shall mean a portfolio, comprising of debt or money market instrument affected by a credit event, that has been segregated in a mutual fund scheme.

4.6.2.2 The term 'main portfolio' shall mean the scheme portfolio excluding the segregated portfolio.

4.6.2.3 The term 'total portfolio' shall mean the scheme portfolio including the securities affected by the credit event.

4.6.3 AMC may create segregated portfolio in a mutual fund scheme subject to the following:

4.6.3.1 Segregated portfolio may be created, in case of a credit event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA), as under:

- a. Downgrade of a debt or money market instrument to 'below investment grade', or

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<sup>87</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018.

<sup>88</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/127 dated November 07, 2019.

- b. Subsequent downgrades of the said instruments from 'below investment grade', or
  - c. Similar such downgrades of a loan rating.
- 4.6.3.2 In case of difference in rating by multiple CRAs, the most conservative rating shall be considered. Creation of segregated portfolio shall be based on issuer level credit events as detailed at paragraph 4.6.3.1-a and implemented at the ISIN level.
- 4.6.3.3 Segregated portfolio of unrated debt or money market instruments may be created only in case of actual default of either the interest or principal amount. Actual default by the issuer of such instruments shall be considered as credit event for creation of segregated portfolio.
- 4.6.3.4 AMCs shall inform AMFI immediately about the actual default by the issuer. Upon being informed about the default, AMFI shall immediately inform the same to all AMCs. Pursuant to dissemination of information by AMFI about actual default by the issuer, AMCs may segregate the portfolio of debt or money market instruments of the said issuer.
- 4.6.3.5 Creation of segregated portfolio shall be optional and at the discretion of the AMC. It should be created only if the Scheme Information Document (SID) of the scheme has provisions for segregated portfolio with adequate disclosures. All new

schemes<sup>89</sup> shall have the enabling provisions included in the SID for creation of segregated portfolio.

4.6.3.6 AMC shall have a detailed written down policy on creation of segregated portfolio and the same shall be approved by the trustees.

#### 4.6.4 **Process for creation of segregated portfolio**

4.6.4.1 AMC shall decide on creation of segregated portfolio on the day of credit event. Once an AMC decides to segregate portfolio, it shall

- i. seek approval of trustees prior to creation of the segregated portfolio.
- ii. immediately issue a press release disclosing its intention to segregate such debt and money market instrument and its impact on the investors. The mutual fund should also disclose that the segregation shall be subject to trustee approval. Additionally, the said press release shall be prominently disclosed on the website of the AMC.
- iii. ensure that till the time the trustee approval is received, which in no case shall exceed 1 business day from the day of credit event, the subscription and redemption in the scheme shall be suspended for processing with respect to creation of units and payment on redemptions.

4.6.4.2 Once trustee approval is received by the AMC,

- i. Segregated portfolio shall be effective from the day of credit event

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<sup>89</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/127 dated November 07, 2019.

- ii. AMC shall issue a press release immediately with all relevant information pertaining to the segregated portfolio. The said information shall also be submitted to SEBI.
- iii. An e-mail or SMS should be sent to all unit holders of the concerned scheme.
- iv. The NAV of both segregated and main portfolio shall be disclosed from the day of the credit event.
- v. All existing investors in the scheme as on the day of the credit event shall be allotted equal number of units in the segregated portfolio as held in the main portfolio.
- vi. No redemption and subscription shall be allowed in the segregated portfolio. However, in order to facilitate exit to unit holders in segregated portfolio, AMC shall enable listing of units of segregated portfolio on the recognized stock exchange within 10 working days of creation of segregated portfolio and also enable transfer of such units on receipt of transfer requests.

4.6.4.3 If the trustees do not approve the proposal to segregate portfolio, AMC shall issue a press release immediately informing investors of the same.

#### **4.6.5 Valuation and processing of subscriptions and redemptions**

4.6.5.1 Notwithstanding the decision to segregate the debt and money market instrument, the valuation should take into account the credit event and the portfolio shall be valued based on the principles of fair valuation (i.e. realizable value of the assets) in

terms of the relevant provisions of SEBI (Mutual Funds) Regulations, 1996 and Circular(s) issued thereunder.

4.6.5.2 All subscription and redemption requests for which NAV of the day of credit event or subsequent day is applicable will be processed as per the existing circular on applicability of NAV as under:

- i. Upon trustees' approval to create a segregated portfolio -
  - a. Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.
  - b. Investors subscribing to the scheme will be allotted units only in the main portfolio based on its NAV.
- ii. In case trustees do not approve the proposal of segregated portfolio, subscription and redemption applications will be processed based on the NAV of total portfolio.

#### 4.6.6 **Disclosure Requirements**

In order to enable the existing as well as the prospective investors to take informed decision, the following shall be adhered to:

4.6.6.1 A statement of holding indicating the units held by the investors in the segregated portfolio along with the NAV of both segregated portfolio and main portfolio as on the day of the credit event shall be communicated to the investors within 5 working days of creation of the segregated portfolio.

- 4.6.6.2 Adequate disclosure of the segregated portfolio shall appear in all scheme related documents, in monthly and half-yearly portfolio disclosures and in the annual report of the mutual fund and the scheme.
- 4.6.6.3 The Net Asset Value (NAV) of the segregated portfolio shall be declared on daily basis.
- 4.6.6.4 The information regarding number of segregated portfolios created in a scheme shall appear prominently under the name of the scheme at all relevant places such as SID, KIM-cum-Application Form, advertisement, AMC and AMFI websites, etc.
- 4.6.6.5 The scheme performance required to be disclosed at various places shall include the impact of creation of segregated portfolio. The scheme performance should clearly reflect the fall in NAV to the extent of the portfolio segregated due to the credit event and the said fall in NAV along with recovery(ies), if any, shall be disclosed as a footnote to the scheme performance.
- 4.6.6.6 The disclosures at paragraph 4.6.6.4 and 4.6.6.5 above regarding the segregated portfolio shall be carried out for a period of at least 3 years after the investments in segregated portfolio are fully recovered/ written-off.
- 4.6.6.7 The investors of the segregated portfolio shall be duly informed of the recovery proceedings of the investments of the segregated portfolio. Status update may be provided to the investors at the time of recovery and also at the time of writing-off of the segregated securities.

#### 4.6.7 **TER for the Segregated Portfolio**

- 4.6.7.1 AMC shall not charge investment and advisory fees on the segregated portfolio. However, TER (excluding the investment and advisory fees) can be charged, on a pro-rata basis only upon recovery of the investments in segregated portfolio.
- 4.6.7.2 The TER so levied shall not exceed the simple average of such expenses (excluding the investment and advisory fees) charged on daily basis on the main portfolio (in % terms) during the period for which the segregated portfolio was in existence.
- 4.6.7.3 The legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio in proportion to the amount of recovery. However, the same shall be within the maximum TER limit as applicable to the main portfolio. The legal charges in excess of the TER limits, if any, shall be borne by the AMC.
- 4.6.7.4 The costs related to segregated portfolio shall in no case be charged to the main portfolio.

#### 4.6.8 **Monitoring by Trustees**

- 4.6.8.1 In order to ensure timely recovery of investments of the segregated portfolio, trustees shall ensure that:
- i. The AMC puts in sincere efforts to recover the investments of the segregated portfolio.
  - ii. Upon recovery of money, whether partial or full, it shall be immediately distributed to the investors in proportion to their



holding in the segregated portfolio. Any recovery of amount of the security in the segregated portfolio even after the write off shall be distributed to the investors of the segregated portfolio.

- iii. An Action Taken Report (ATR) on the efforts made by the AMC to recover the investments of the segregated portfolio is placed in every trustee meeting till the investments are fully recovered/ written-off.
- iv. The trustees shall monitor the compliance of this circular and disclose in the half-yearly trustee reports filed with SEBI, the compliance in respect of every segregated portfolio created.

4.6.8.2 In order to avoid mis-use of segregated portfolio, trustees shall ensure to have a mechanism in place to negatively impact the performance incentives of Fund Managers, Chief Investment Officers (CIOs), etc. involved in the investment process of securities under the segregated portfolio, mirroring the existing mechanism for performance incentives of the AMC, including claw back of such amount to the segregated portfolio of the scheme.

4.6.9 AMCs desirous of having a provision of segregated portfolio in existing scheme shall ensure that all relevant disclosures are made in the SID of such schemes. The provision to enable creation of segregated portfolio in the existing scheme shall be subject to compliance with Regulation 18(15A) of SEBI (Mutual Funds) Regulations, 1996.

4.6.10 The existence of the provisions for segregated portfolio should not encourage the AMCs to take undue credit risk in the scheme portfolio.

Any mis-use of the provisions of segregated portfolio, would be considered serious and stringent action may be taken.

#### **4.7 Risk management framework for liquid and overnight funds<sup>90</sup>**

In order to augment the risk management framework for liquid and overnight funds, the following has been decided:

1. Liquid funds shall hold at least 20% of its net assets in liquid assets. For this purpose, 'liquid assets' shall include Cash, Government Securities, T-bills and Repo on Government Securities.

In case, the exposure in such liquid assets falls below 20% of net assets of the scheme, the AMC shall ensure compliance with the above requirement before making any further investments.

2. Liquid funds and Overnight Funds shall not park funds pending deployment in short term deposits of scheduled commercial banks.
3. Liquid funds and Overnight Funds shall not invest in debt securities having structured obligations (SO rating) and/ or credit enhancements (CE rating). However, debt securities with government guarantee shall be excluded from such restriction.

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<sup>90</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/101 dated September 20, 2019.

4. Mutual Fund shall levy exit load on investors who exit the Liquid Fund within 7 days of their investment.

To ensure uniformity across the industry, AMFI is advised to prescribe the minimum exit load in a liquid fund on a graded basis as specified above in consultation with SEBI.

#### **4.8 Cyber Security and Cyber Resilience Framework for Mutual Funds/ AMCs<sup>91</sup>**

- 4.8.1 With rapid technological advancement in securities market, there is greater need for maintaining robust cyber security and to have cyber resilience framework to protect integrity of data and guard against breaches of privacy.
- 4.8.2 As part of the operational risk management, the Mutual Funds / Asset Management Companies (AMCs) need to have robust cyber security and cyber resilience framework in order to provide essential facilities and services and perform critical functions in securities market.
- 4.8.3 Based on the recommendation of SEBI's High Powered Steering Committee - Cyber Security, it has been decided that the framework prescribed vide SEBI circular CIR/MRD/DP13/2015 dated July 06, 2015 on cyber security and cyber resilience also be made applicable to all Mutual Funds / AMC. Accordingly, all Mutual Funds / AMCs shall comply with the provisions of Cyber Security and Cyber Resilience as placed at Annexure-8.

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<sup>91</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/12 dated January 10, 2019

4.8.4 Mutual Funds / AMCs are advised to take necessary steps to put in place systems for implementation of this circular.

#### **4.9 Technology Committee for Mutual Funds/ AMCs<sup>92</sup>**

4.9.1 With rapid technological advancement in securities market, technology is playing a very important role in asset management business and have a major impact on the various processes and controls designed and implemented by AMCs. The role of technology related aspects has become even more critical in managing risks related to asset management business.

4.9.2 In order to deal with various technology related issues, AMCs are advised to constitute a Technology Committee comprising experts proficient in technology. Such committee shall have at least one independent external expert with adequate experience in the area of technology in Mutual Fund industry / BFSI.

4.9.3 The aforementioned committee shall, inter alia, review the cyber security and cyber resilience framework for Mutual Funds / AMCs in terms of Para 7 of Annexure-8 and also review the system audit related aspects of AMCs in terms of Para 4 of SEBI circular on system audit framework for mutual funds / AMCs.

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<sup>92</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/58 dated April 11, 2019

#### **4.10 Reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by Mutual Funds<sup>93</sup>**

4.10.1 There is increasing usage of AI (Artificial Intelligence) and ML (Machine Learning) as product offerings by market intermediaries and participants (e.g.: “robo advisors”) in investor and consumer facing products. SEBI is conducting a survey and creating an inventory of the AI / ML landscape in the Indian financial markets to gain an in-depth understanding of the adoption of such technologies in the markets and to ensure preparedness for any AI / ML policies that may arise in the future.

4.10.2 As most AI / ML systems are black boxes and their behavior cannot be easily quantified, it is imperative to ensure that any advertised financial benefit owing to these technologies in investor facing financial products offered by intermediaries should not constitute to misrepresentation.

#### **Scope definition**

4.10.3 Any set of applications / software / programs / executable / systems (computer systems) – cumulatively called application and systems,

- a. that are offered to investors (individuals and institutions) or used internally by Mutual Funds to facilitate investing and trading or for any other purpose,

OR

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<sup>93</sup> SEBI Circular No. SEBI/HO/IMD/DF5/CIR/P/2019/63 dated May 09, 2019

b. to disseminate investments strategies and advice,

OR

c. to carry out compliance / operations / activities,

where AI / ML is portrayed as a part of the public product offering or under usage for compliance or management purposes, is included in the scope of this circular. Here, “AI” / “ML” refers to the terms “Artificial Intelligence” and “Machine Learning” used as a part of the product offerings. In order to make the scope of this circular inclusive of various AI and ML technologies in use, the scope also covers Fin-Tech and Reg-Tech initiatives undertaken by market participants that involves AI and ML.

4.10.4 Technologies that are considered to be categorized as AI and ML technologies in the scope of this circular, are explained in *Annexure 9*.

### **Regulatory requirements**

4.10.5 All registered Mutual Funds offering or using applications or systems as defined in the Annexure 9, should participate in the reporting process by completing the AI / ML reporting format<sup>94</sup>.

4.10.6 All the registered Mutual Funds using AI / ML based application or system as defined in Annexure 9, are required to fill in the form as

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<sup>94</sup> Please see the formats section (SEBI Circular No. SEBI/HO/IMD/DF5/CIR/P/2019/63 dated May 09, 2019)

per the format<sup>94</sup> and make submissions on quarterly basis within 15 calendar days of the expiry of the quarter to AMFI.

4.10.7 AMFI shall consolidate the information on AI / ML applications and systems reported by Mutual Funds on quarterly basis and submit to SEBI at email id [AIML\\_MF@sebi.gov.in](mailto:AIML_MF@sebi.gov.in) within 30 calendar days of the expiry of the quarter.

4.10.8 AMFI shall ensure that confidentiality is maintained regarding the information received by them from Mutual Funds.

**CHAPTER 5**  
**DISCLOSURES & REPORTING NORMS**  
**PART I – DISCLOSURES**

**5.1 Portfolio Disclosures<sup>95</sup>**

5.1.1.

- a) Mutual Funds/ AMCs shall disclose portfolio (along with ISIN) as on the last day of the month / half-year for all their schemes on their respective website and on the website of AMFI within 10 days from the close of each month/ half-year respectively in a user-friendly and downloadable spreadsheet format.
- b) In case of unit holders whose e-mail addresses are registered, the Mutual Funds/ AMCs shall send via email both the monthly and half-yearly statement of scheme portfolio within 10 days from the close of each month/ half-year respectively.
- c) Mutual Funds/ AMCs shall publish an advertisement every half-year disclosing the hosting of the half-yearly statement of its schemes portfolio on their respective website and on the website of AMFI and the modes such as SMS, telephone, email or written request (letter) through which a unit holder can submit a request for a physical or electronic copy of the statement of scheme portfolio. Such advertisement shall be published in the all India edition of at least two daily newspapers, one each in English and Hindi.
- d) Mutual Funds/ AMCs shall provide a physical copy of the statement of its scheme portfolio, without charging any cost, on specific request received from a unit holder.

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<sup>95</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012 and SEBI/HO/IMD/DF2/CIR/P/2018/92 dated June 05, 2018



- 5.1.2. The format for monthly portfolio disclosure<sup>96</sup> shall be same as that of half yearly portfolio disclosures. The format<sup>97</sup> for disclosure for monthly and half yearly portfolio is placed at format section.
- 5.1.3. Mutual funds/AMCs may disclose additional information (such as ratios, etc.) subject to compliance with the Advertisement Code.
- 5.1.4. The format for disclosure for monthly and half yearly portfolio is placed at format section.

## **5.2 Disclosure of derivatives in Half Yearly Portfolios<sup>98</sup>**

- 5.2.1 A format<sup>99</sup> for the purpose of uniform disclosure of investments in derivative instruments by Mutual Funds in half yearly portfolio disclosure, annual report or in any other disclosures is prescribed.
- 5.2.2 Further, while listing net assets, the margin amounts paid should be reported separately under cash or bank balances.

## **5.3 Unaudited Half Yearly Financials<sup>100</sup>**

- 5.3.1 The publication of the unaudited half-yearly results shall be made in line with provisions of the Regulations<sup>101</sup>, in the format prescribed in Twelfth Schedule.
- 5.3.2 The half yearly disclosures<sup>102</sup> of the unaudited financial results on respective website should be made in a user-friendly and downloadable format (preferably in a spreadsheet).

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<sup>96</sup> Please refer to section on Formats for requisite Formats

<sup>97</sup> SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000, SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001, SEBI Circular No. MFD/CIR/14/18337/2002 dated September 19, 2002, SEBI Circular No. IMD/CIR 8/132968/2008 dated July 24, 2008

<sup>98</sup> SEBI Circular Cir/ IMD/ DF/ 11/ 2010 dated August 18, 2010

<sup>99</sup> For formats on disclosure of derivatives, please refer to the section on Formats

<sup>100</sup> SEBI Circular MFD/CIR/1/200/2001 dated April 20, 2001 & SEBI Circular No. IMD/CIR No.8/132968/2008 dated July 24, 2008

<sup>101</sup> Regulation 59 of SEBI (Mutual Funds) Regulations, 1996

<sup>102</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

## **5.4 Providing Annual Report or Abridged Summary** <sup>103</sup>

For providing annual report<sup>104</sup> or abridged summary thereof, the following shall be adhered

- 5.4.1 The scheme wise annual report shall be hosted on the website of the Mutual Funds/ AMCs and on the website of AMFI. The Mutual Funds/ AMCs shall display the link prominently on their websites and make the physical copies available to the unit holders, at their registered offices at all times.
- 5.4.2 Mutual Funds/ AMCs shall e-mail the scheme annual reports or abridged summary thereof to those unit holders, whose email addresses are registered with the Mutual Fund.
- 5.4.3 In case of unit holders whose email addresses are not registered with the Mutual Fund, the Mutual Funds/ AMCs shall undertake an exercise of communicating to the unit holders, through a letter enclosing self-addressed envelope enabling unit holders to 'opt-in' within 30 days, to continue receiving a physical copy of the scheme-wise annual report or abridged summary thereof.
- 5.4.4 To ensure that unit holders get sufficient opportunity to communicate their preference of 'opt-in' or 'opt-out' with respect to receiving the annual report or abridged summary thereof in physical copy, Mutual Funds/ AMCs shall conduct one more round of similar exercise for those unit holders who have not responded to the 'opt-in' communication as stated at paragraph 5.4.3 above, after a period of not less than 30 days from the date of issuance of the first communication. Further, a period of 15 days from the date of

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<sup>103</sup> SEBI Circular No. IMD/CIR No.8/132968/2008 dated July 24, 2008, Circular No.Cir/IMD/DF/16/2011 dated September 8, 2011 and SEBI/HO/IMD/DF2/CIR/P/2018/92 dated June 05, 2018

<sup>104</sup> For format of abridged scheme wise report, please refer the section on formats

issuances of the second communication may be given to unit holders to exercise their option of 'opt-in' or 'opt-out'.

5.4.5 Mutual Funds/ AMCs shall publish an advertisement every year disclosing the hosting of the scheme wise annual report on their respective website and on the website of AMFI and the modes such as SMS, telephone, email or written request (letter), etc. through which unit holders can submit a request for a physical or electronic copy of the scheme wise annual report or abridged summary thereof. Such advertisement shall be published in the all India edition of at least two daily newspapers, one each in English and Hindi.

5.4.6 Mutual Funds/ AMCs shall provide a physical copy of the abridged summary of the Annual Report, without charging any cost, on specific request received from a unit holder.

5.4.7 The 'opt-in' facility to receive physical copy of the scheme-wise annual report or abridged summary thereof shall be provided in the application form for new subscribers.

5.4.8 These websites should also be linked with AMFI website so that the investors and analyst(s) can access the annual reports of all mutual funds at one place<sup>105</sup>. However, as per the Regulations<sup>106</sup>, a copy of Scheme wise Annual Report shall be also made available to unit holder(s) on payment of nominal fees.

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<sup>105</sup> SEBI Cir No – MFD/CIR/15/041/2002 dated March 14,2002

<sup>106</sup> Regulation 56(1) & 56(3) of SEBI (Mutual Funds) Regulations, 1996

## **5.5 Disclosure of large unit holdings<sup>107</sup>**

5.5.1 The number of investors holding over 25 % of the NAV<sup>108</sup> in a scheme and their total holdings in percentage terms shall be disclosed in the Statement of Accounts issued after the NFO and also in the Half Yearly and Annual Results<sup>109</sup>.

## **5.6 Asset Under Management (AUM) disclosure<sup>110</sup>**

5.6.1 Wherever the Mutual Funds discloses the AUM figures for the fund, disclosure on bifurcation of the AUM into debt/equity/ balanced etc, and percentage of AUM by geography (i.e. top 5 cities, next 10 cities, next 20 cities, next 75 cities and others) shall be made. The Mutual Funds shall disclose the aforesaid data on their respective websites & to AMFI and AMFI shall disclose industry wide figures on its website.

5.6.2 Mutual Funds shall disclose the following on monthly basis on their website and also share the same with Association of Mutual Funds in India (AMFI)<sup>111</sup>:

- a. Monthly AAUM<sup>112</sup> from different categories of schemes such as equity schemes, debt schemes, etc.
- b. Contribution to Monthly AAUM from B-30<sup>113</sup> cities (i.e. other than top 30 cities as identified by AMFI) and T-30 cities (Top 30 cities).
- c. Contribution to Monthly AAUM from sponsor and its associates.

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<sup>107</sup> SEBI Circular No. MFD/CIR No.3/211/2001 dated April 30, 2001.

<sup>108</sup> For further details, refer Section II – Scheme Governance in the Chapter on Governance Norms

<sup>109</sup> Please refer the section on Formats for requisite formats

<sup>110</sup> SEBI Circular No.Cir/IMD/DF/13/2011 dated August 22, 2011

<sup>111</sup> SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014

<sup>112</sup> SEBI Circular No. CIR/IMD/DF/07/2014 dated April 2, 2014

<sup>113</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/16 dated February 02, 2018.

- d. Contribution to Monthly AAUM from entities other than sponsor and its associates.
  - e. Contribution to Monthly AAUM from investors type (retail, corporate, etc.) in different scheme type (equity, debt, ETF, etc.).
  - f. Monthly AAUM garnered through sponsor group/ non-sponsor group distributors.
  - g. State-wise/Union Territory-wise contribution to MAAUM.
- 5.6.3 In order to have a holistic picture, Mutual Fund wise and consolidated data on the above parameters shall also be disclosed on AMFI website. The above shall be disclosed as per the format<sup>114</sup>.
- 5.6.4 AMCs shall disclose the above on their website (in spreadsheet format) and forward to AMFI within 7 working days from the end of the month. AMFI in turn shall disclose the consolidated data in this regard on its website (in spreadsheet format).

## **5.7 Commission disclosure<sup>115</sup>**

- 5.7.1 Mutual Funds / AMCs shall disclose on their respective websites the total commission and expenses paid to distributors who satisfy one or more of the following conditions with respect to non-institutional (retail and HNI) investors:-
- 5.7.1.1 Multiple point of presence (More than 20 locations)
  - 5.7.1.2 AUM raised over Rs.100 crore across industry in the non-institutional category but including high net worth individuals (HNIs).

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<sup>114</sup> For formats, please refer to chapter on Formats

<sup>115</sup> SEBI Circular No. Cir/IMD/DF/13/2011 dated August 22, 2011

5.7.1.3 Commission received of over Rs.1 crore p.a. across industry

5.7.1.4 Commission received of over Rs.50 lakh from a single Mutual Fund/AMC.

5.7.2 Mutual Fund / AMCs shall, in addition to the total commission and expenses paid to distributors, make additional disclosures<sup>116</sup> regarding distributor-wise gross inflows (indicating whether the distributor is an associate or group company of the sponsor(s) of the mutual fund), net inflows, average assets under management and ratio of AUM to gross inflows on their respective website on an yearly basis.

In case the data mentioned above suggests that a distributor has an excessive portfolio turnover ratio, i.e. more than two times the industry average, AMCs shall conduct additional due-diligence of such distributors.

5.7.3 Mutual Funds / AMCs shall also submit the data mentioned in 5.7.1 and 5.7.2 to AMFI and the consolidated data in this regard shall be disclosed on AMFI website.

## **5.8 Scheme Related Disclosures <sup>117</sup>**

In order to improve transparency as well as ease of access to Mutual Fund (MF) scheme related information, it has been decided that: <sup>118</sup>

5.8.1 Mutual Funds shall provide the following additional disclosures in the offer documents (Scheme Information Document (SID) / Key

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<sup>116</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

<sup>117</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016

<sup>118</sup> Effective from June 30, 2016

Information Memorandum (KIM)) of Mutual Fund scheme (for existing scheme / new scheme, as applicable):

5.8.1.1 The tenure for which the fund manager has been managing the scheme shall be disclosed, along with the name of scheme's fund manager(s);

5.8.1.2 Scheme's portfolio holdings (top 10 holdings by issuer and fund allocation towards various sectors), along with a website link to obtain scheme's latest monthly portfolio holding;

5.8.1.3 In case of FoF schemes, expense ratio of underlying scheme(s);

5.8.1.4 Scheme's portfolio turnover ratio.

5.8.2 Further, the following additional disclosures shall be provided in SID of the MF scheme:

5.8.2.1 The aggregate investment in the scheme under the following categories:

- a) AMC's Board of Directors
- b) Concerned scheme's Fund Manager(s) and
- c) Other key managerial personnel.

5.8.2.2 Illustration of impact of expense ratio on scheme's returns (by providing simple example).

5.8.3 Separate SID / KIM for each MF scheme managed by AMC shall also be made available on MFs / AMCs website.

5.8.4 Each MF is required to have a dashboard on their website providing performance and key disclosures pertaining to each scheme managed by AMC. The information should include scheme's AUM,

investment objective, expense ratios, portfolio details, scheme's past performance, among others. Such information shall be provided in a comparable, downloadable (spreadsheet) and machine readable format.

## **5.9 Disclosure of scheme performance<sup>119</sup>**

AMCs shall disclose the performance of all schemes on the website of AMFI. AMFI shall facilitate the disclosure in the following manner:

5.9.1 In case of all schemes, the scheme returns vis-à-vis the benchmark return (Total Return Index) shall be disclosed in terms of CAGR for various periods viz. 1 year, 3 year, 5 year, 10 year and since inception.

Provided<sup>120</sup> that all schemes that are in existence for less than one year, other than overnight fund, liquid fund, ultra short duration fund, low duration fund, and money market fund as defined in Circular dated October 6, 2017 on Categorization and Rationalization of Mutual Fund Schemes, shall be exempted from the aforesaid disclosure.

5.9.2 In addition to the above, in case of schemes falling in categories such as overnight fund, liquid fund, ultra short duration fund, low duration fund, and Money Market Fund as defined in Circular dated October 6, 2017 on Categorization and Rationalization of Mutual Fund Schemes, scheme performance is also to be disclosed for a period of 7 days, 15 days, 1 month, 3 months and 6 months.

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<sup>119</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018

<sup>120</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019



- 5.9.3 The said disclosure should be made for all plans and shall be updated daily based on previous day NAV.
- 5.9.4 The said disclosure should be in investor friendly format with filtering feature based on scheme-type, plan-type, etc. and sorting feature based on return periods.
- 5.9.5 <sup>121</sup>The disclosure should include other important fields such as scheme AUM (excluding overnight and liquid scheme) and previous day NAV. In case of AUM of overnight and liquid schemes, the closing AUM and the AAUM of the previous month has to be disclosed on AMFI website on daily basis.

However, the day the AUM movement (both upward and downward) of both overnight and liquid scheme is more than 10% cumulatively from the previous disclosed AUM, the AUM of that day has to be disclosed. Such disclosed AUM becomes the reference AUM for future disclosure of AUM for the month.

Further, it has been decided that an appropriate disclosure regarding the AUM of overnight and liquid schemes disclosed on AMFI website on monthly basis including the trigger limit of 10% is to be made as an explanation through footnote.

- 5.9.6 Trustees and AMCs shall ensure compliance of the provisions mentioned at 5.9 above and trustees shall confirm the same to SEBI in the half yearly trustee report.

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<sup>121</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

## **5.10 Annual report of the AMC**<sup>122</sup>

5.10.1 Annual report containing accounts of the asset management companies should be displayed on the website of the mutual funds. It should also be mentioned in the annual report of the mutual fund schemes that the unit holders, if they so desire, may request for a copy of the annual report of the asset management company.

## **5.11 Submission of bio data of key personnel**<sup>123</sup>

5.11.1 AMCs are required to submit the bio data of all key personnel to Trustees and the Board. For this purpose, 'key personnel' would be the Chief Executive Officer (CEO), fund manager(s), dealer(s) & heads of other departments of the AMC<sup>124</sup>.

## **5.12 Disclosure Of Executive Remuneration**<sup>125</sup>

With the underlying objective to promote transparency in remuneration policies so that executive remuneration is aligned with the interest of investors, MFs /AMCs shall make the following disclosures pertaining to a financial year on the MF/AMC website under a separate head – 'Remuneration':

5.12.1 Name, designation and remuneration of Chief Executive Officer (CEO), Chief Investment Officer (CIO) and Chief Operations Officer (COO) or their corresponding equivalent by whatever name called.

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<sup>122</sup> MFD/CIR/9/120/2000 dated November 24, 2000

<sup>123</sup> IIMARP/CIR /08/845/97 dated May 7,1997,IIMARP/MF/CIR/05/788/97 date April 28,1997

<sup>124</sup> For format of bio-data of key personnel, please refer the section on Formats

<sup>125</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016 and SEBI/HO/IMD/DF2/CIR/P/2017/35 dated April 28, 2017

- 5.12.2 Name, designation and remuneration received by top ten employees in terms of remuneration drawn for that financial year.
- 5.12.3 Name, designation and remuneration of every employee of MF/AMC whose:
  - 5.12.3.1 Annual remuneration was equal to or above one crore and two lakh rupees for that financial year;
  - 5.12.3.2 Monthly remuneration in the aggregate was not less than eight lakh and fifty thousand rupees per month, if the employee is employed for a part of that financial year.
- 5.12.4 The ratio of CEO's remuneration to median remuneration of MF/AMC employees.
- 5.12.5 MF's total AAUM, debt AAUM and equity AAUM and rate of growth over last three years.

For this purpose, remuneration shall mean remuneration as defined in clause (78) of section 2 of the Companies Act, 2013. The AMCs/MFs shall disclose this information within one month from the end of the respective financial year (effective from FY 2016-17).

### **5.13 Disclosure of investor complaints with respect to Mutual Funds<sup>126</sup>**

- 5.13.1 Mutual Funds shall disclose<sup>127</sup> on their websites, on the AMFI website as well as in their Annual Reports, details of investor complaints received by them from all sources. The said details should

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<sup>126</sup> SEBI Circular No. Cir /IMD/DF/2/2010 dated May 13, 2010

<sup>127</sup> For disclosure format please refer to section on Formats.

be vetted and signed off by the Trustees of the concerned Mutual Fund.

5.13.2 The Mutual Funds are advised to:

5.13.2.1 Upload the report for the financial year within 2 months of the close of the financial year.

5.13.2.2 Include the report in their annual reports, as part of the Report of the Trustees.

#### **5.14 Brokerage and commission paid to associates<sup>128</sup>**

5.14.1 Regulations<sup>129</sup> govern payment of brokerage or commission if any, to the sponsor or any of its associates, employees or their relatives.

5.14.2 Disclosures on brokerage and commission paid to associates/related parties/group companies of sponsor/Asset Management Company in the unaudited half yearly financial results, the abridged scheme wise annual report and the SAI, shall be made in the format as prescribed<sup>130</sup>.

**5.15** Mutual Funds/ AMCs shall make continuous efforts to update email ID and mobile number of all unit holders. The said contact details shall be used for sending e-mails and SMS as envisaged in the circular. <sup>131</sup>

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<sup>128</sup> SEBI Circular No. SEBI/IMD/CIR No 18/198647/2010 dated March 15, 2010

<sup>129</sup> Regulation 25 (8) of SEBI (Mutual Funds) Regulations, 1996

<sup>130</sup> Please refer to the section on Formats

<sup>131</sup> SEBI/HO/IMD/DF2/CIR/P/2018/92 dated June 05, 2018

## **PART II – REPORTS**

### **5.16 Monthly Cumulative Report (MCR)<sup>132</sup>**

#### 5.16.1 Date and Mode of Submission:

5.16.1.1 MCR shall be submitted to the Board by 3<sup>rd</sup> working day of each month by way of an email. Hard copy should also be sent by hand delivery/courier.

5.16.1.2 In line with SEBI circulars dated October 6, 2017 and December 4, 2017 on “Categorization and Rationalization of Mutual Fund Schemes”, the format of MCR<sup>133</sup> has been revised.

5.16.1.3 As per the existing provision, a Mutual Fund scheme is permitted to invest certain percentage of its AUM in schemes of same Mutual Fund or other Mutual Funds. In order to avoid such investments being considered by both the investee and investing scheme, it is clarified that the investing scheme shall exclude the same while reporting the data on AUM in the MCR.

#### 5.16.2 Other Guidelines:

5.16.2.1 Details of the new schemes launched shall be reported in the MCR for the month in which the allotment is done. For example, if an NFO closes in the month of July and the allotment is done in the month of August, then, the details of the new scheme shall be

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<sup>132</sup> SEBI circular MFD/CIR/07/206/2001 dated July 19, 2001, SEBI circular No IMD/Cir No.15/87045/2007 dated February 22, 2007, SEBI circular SEBI/IMD/CIR No 3/124444/08 dated April 30, 2008, SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016, SEBI/HO/IMD/DF3/CIR/P/2019/020 dated January 22, 2019

<sup>133</sup> For format of MCR please refer to section on Formats - SEBI/HO/IMD/DF3/CIR/P/2019/020 dated January 22, 2019.

reported in the MCR for the month of August that will reach SEBI by 3<sup>rd</sup> of September.

5.16.2.2 Further, additional report on overseas investment<sup>134</sup> by Mutual Funds in ADRs/GDRs, foreign securities and overseas exchange traded funds (ETFs) shall also be provided as per the prescribed format. For format please refer to the section on formats.

5.16.2.3 Compliance officers of all the Mutual Funds are advised to take due care while forwarding the MCR data to SEBI. Compliance Officers shall confirm that the data forwarded is correct and does not require any revision.

### **5.17 New Scheme Report (NSR)<sup>135</sup>**

5.17.1 All Mutual Funds shall submit the NSR to SEBI complete in all respects within 10 working days from the date of allotment in the prescribed format<sup>136</sup>.

### **5.18 Bi-monthly Compliance Test Reports<sup>137</sup>**

5.18.1 AMCs' shall do exception reporting on a bi-monthly basis. The details sought in the annexures of the CTR shall be furnished to the Board in case of non-compliance only along with exception

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<sup>134</sup> SEBI Circular No. SEBI/IMD/CIR NO 15/87045/07 dated February 22,2007

<sup>135</sup> SEBI Circular No. SEBI/IMD/CIR NO 13/118899/08 dated February 29, 2008, SEBI Circular No MFD/CIR/12/16588/02 dated August 28, 2002 & SEBI Circular No IIMARP/MF/CIR/05/788/97 dated April 28, 1997, SEBI Circular No. IIMARP/10772/93 dated July 14,1993,

<sup>136</sup> For details on format of NSR please refer the section on Formats.

<sup>137</sup> SEBI Circular No. SEBI/IMD/CIR NO 6/98057/07 dated July 5, 2007, SEBI Circular No MFD/CIR/11/36222/2005 dated March 16,2005, SEBI Circular No IIMARP/MF/CIR/10/1076/97 dated June 05,1997 & SEBI Circular No.MFD/CIR/5/360/2000 dated July 4, 2000,

report. This exception report shall also be placed before the Trustee(s).

5.18.2 The CTRs<sup>138</sup> should be submitted by the AMC to the Board once in every two months so as to reach within 21 days of completion of the two months period. As a compliance of SEBI Regulations is a continuous process, AMCs are advised to incorporate the modifications/additions under the relevant sections of the format, based on amendments to the Regulations/guidelines issued in the future from time to time.

### **5.19 Annual Statistical Report (ASR)<sup>139</sup>**

5.19.1 AMC should submit the annual statistical report to SEBI in the prescribed format by 30th of April each year<sup>140</sup>.

### **5.20 Daily Transaction Report<sup>141</sup>**

5.20.1 All Mutual Funds shall submit details of transactions in secondary market on daily basis in the prescribed format<sup>142</sup>. Accordingly, Mutual Funds are advised to make necessary arrangements with their custodians for the submission of reports on a daily basis. The report is to be submitted to the Board in both hard as well as soft copy.

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<sup>138</sup>For CTR format, please refer the section on Formats.

<sup>139</sup> IIMARP/CIR /08/845/97 DATED May 7,1997, MFD/CIR/02/110/02 dated April 26,2002, SEBI Cir No- IMD/CIR No 6/72245/06 dated July 20,2006,

<sup>140</sup> For format of ASR refer the section on Formats

Quarterly Movement of Net Assets- SEBI CIR – IIMARP/MF/CIR/05/788/97 dated April 28, 1997 required mutual funds to submit the statement for quarterly movement of net assets. However, SEBI circular MFD/CIR/12/16588/02 dated August 28,2002 stated that such Statement of movement of net assets /portfolios are no more to be submitted

<sup>141</sup>SEBI Circular No.MFD/CIR/07/384/99 dated December 17, 1999 and MFD/CIR/08/23026/99 dated December 23, 1999

<sup>142</sup> For format of daily transaction report, please refer the section on formats

5.20.2 It must be ensured by the compliance officers of the custodians as well as that of Mutual Funds that the information submitted is correct and reaches the Board by 3.00 p.m. on the following working day (T+1).

### **5.21 Responsibilities of AMC(s) and Trustees<sup>143</sup>**

5.21.1 All information and documents relating to the compliance process shall be authenticated and/or adopted by the Board of the AMC(s) to strengthen the compliance mechanism.

5.21.2 The Trustee(s) shall also review all information and documents received from the AMC(s) as required under the compliance process.

5.21.3 AMC(s) shall develop a suitable Management Information System for reporting to the Trustees. The report shall contain specific comments on all issues related to the operation of the Mutual Fund as undertaken by the AMC including those provided in the format for reporting by AMC to Trustees<sup>144</sup>.

5.21.4 The half-yearly report on the activities of the mutual fund to be submitted by the trustees to the Board under the Mutual Funds Regulations<sup>145</sup> shall cover all issues mentioned in the prescribed format as well as any other issue relevant to the operation of the Mutual Fund<sup>146</sup>. The Trustees may mention in their report, if they so desire, that they have relied on the reports obtained from the independent auditor or internal/ statutory auditors or the Compliance Officer as the case may be. The report shall mention that

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<sup>143</sup>SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000, SEBI Circular No. SEBI/MFD/CIR/10/039/2001 dated February 9, 2001.

<sup>144</sup> Please refer the formats section for format for reporting by AMC to Trustees

<sup>145</sup> Regulation 18(23)(a) of SEBI (MF) Regulations, 1996

<sup>146</sup> For format of Trustee Report, please refer to the formats section.



the Trustees have satisfied themselves about the adequacy of compliance systems in the Mutual Fund.

5.21.5 AMC(s) and the Trustees shall update the reporting formats including relevant provisions of amendments made to the Mutual Funds Regulations and/or guidelines and/or circulars issued by the Board and shall specifically comment on their compliance.

## **5.22 Filing of Annual Information Return by Mutual Funds<sup>147</sup>**

5.22.1 Mutual Funds are required to submit the Annual Information Return under section 285 BA in the Income-tax Act. As per this requirement, Trustees of Mutual Funds or such other person managing the affairs of the Mutual Funds (as may be duly authorized by the trustees in this behalf) have to report specified financial transactions in electronic media to Income Tax Department giving PAN of the transacting parties in an Annual Information Return (AIR).

5.22.2 Some common errors in these returns have been pointed out by the Directorate of Income Tax (Systems) as:

5.22.2.1 Not mentioning PAN or mentioning invalid PAN.

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<sup>147</sup> SEBI cir no IMD/CIR No.8/73580/06 dated August 4,2006

It may be noted that Annual Information Returns (AIRs) constitute an important source of information to Income Tax Department and, as such, it is imperative that the data furnished to them is complete and accurate in all respects. It is therefore advised that to re-check the accuracy of the data furnished by your office for the Financial Year 2004-05 and ensure that all the columns are correctly filled-in and submit a 'Supplementary Information Report', if need be, to the Income Tax Department.

The AIRs for the financial year 2005-2006 are required to be filed before August 31, 2006.

5.22.2.2 Entering incomprehensible/ incomplete names of transacting parties, e.g. names of 2 or 3 letters.

5.22.2.3 Entering incomprehensible/ incomplete addresses of transacting parties, e.g. 'Nil', 'N/A', '\_', in all address fields, incomplete postal addresses, names of buildings split into separate fields, names of two cities in address fields, wrong PIN codes, etc.

5.22.2.4 Incorrect district and state codes.

5.22.2.5 Incorrect transaction codes.

5.22.2.6 Wrongly showing transaction as of 'Govt.' party.

5.22.3 In this regard, AIRs are required to be filed only by the Mutual Fund and no separate AIR has to be furnished for each scheme of the Mutual Fund.

## **CHAPTER 6**

### **GOVERNANCE NORMS**

#### **PART I - FUND GOVERNANCE**

##### **6.1 *Formation of Audit and Valuation Committees by the Trustees and/or AMC*<sup>148</sup>**

###### **6.1.1 *Audit Committee***

6.1.1.1 Trustees shall constitute an audit committee, comprising of the Trustees and chaired by an Independent Trustee to review the internal audit systems and recommendations of the internal and statutory audit reports and ensure that the rectifications as suggested by internal and external auditors are acted upon.

###### **6.1.2 *Valuation Committee***

6.1.2.1 The AMC shall constitute an in-house valuation committee consisting of senior executives including personnel from accounts, fund management and compliance departments. This committee shall, on a regular basis review the systems and practices of valuation of securities.

##### **6.2 *Review and Reporting of Transactions*<sup>149</sup>**

###### **6.2.1 *Reporting of transactions***

6.2.1.1 Transaction(s) by directors of the AMC

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<sup>148</sup> SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000.

<sup>149</sup> SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000, SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000, SEBI Circular No. SEBI/MFD/CIR/10/039/2001 dated February 9, 2001.

- a. Directors of the AMC shall file with the trustees on a quarterly basis details of transactions in securities exceeding Rs.1 lac<sup>150</sup>.

#### 6.2.1.2 Trustee(s) Directors

- a. Trustees are required to report to Mutual Funds only those transactions in securities that exceed Rs.1 lac in value<sup>151</sup>.

### 6.2.2 **Review of transactions**

- 6.2.2.1 Trustees shall review all transactions of the Mutual Fund with the associates as defined below on a regular basis and ensure that Regulations are complied with<sup>152</sup>.

## 6.3 ***Role of Independent Director on the Board of the AMC and Independent Trustees***<sup>153</sup>

- 6.3.1 An Independent Trustee shall not be associated in any manner with the Sponsor(s)<sup>154</sup>. The independent directors on the Board of the AMC shall not be associate of, or associated in any manner with, the sponsor or any of its subsidiaries or the trustees<sup>155</sup>.

- 6.3.2 An 'associate' shall be defined as:

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<sup>150</sup> SEBI Circular No. SEBI/MFD/CIR/10/039/2001 dated February 9, 2001.

<sup>151</sup> Regulation 18(11) of SEBI (MF) Regulations, 1996 and SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000.

<sup>152</sup> Regulations 18(6) and 18(7) of SEBI (Mutual Funds), Regulations, 1996 and SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000.

<sup>153</sup> SEBI Circular No. MFD/CIR/11/354/2001 dated December 20, 2001, SEBI Circular No. MFD/CIR/13/16799/2002 dated August 29, 2002, SEBI Circular No. MFD/CIR/17/21105/2002 dated October 28, 2002.

<sup>154</sup> Regulation 16(5) of the SEBI (Mutual Funds) Regulations, 1996.

<sup>155</sup> Regulation 21(d) of the SEBI (Mutual Funds) Regulations, 1996

6.3.2.1 Relatives<sup>156</sup> of Sponsor(s) or directors of the Sponsor Company or relatives of Associate Directors of the AMC(s) and Trustee.

6.3.2.2 Persons providing any type of professional service to the Mutual Funds, the AMC and the Trustees and the Sponsor(s). Also, persons having a material pecuniary relationship with the above mentioned entities that may, in the judgment of the Trustees, affect their independence.

6.3.2.3 Nominees of the companies who are stakeholders in the Sponsor company or AMC(s) (even if they are not deemed sponsors by virtue of holding less than 40% of net worth of AMC(s)).

6.3.3 Cooling off Period

6.3.4 An “Associate”<sup>157</sup> as defined above cannot be appointed as Independent Director even after he ceases to be an “Associate” unless a cooling off period of three years has elapsed from the date of his disassociation.

6.3.5 Mutual Funds are required to have a minimum of 50 per cent and two-third independent directors on the Board of the AMC(s) and Trustees respectively<sup>158</sup>. In case the composition of the directors does not meet these requirements, Mutual Funds are required to inform the Board along with the steps proposed to ensure compliance.

6.3.6 AMC(s) or Trustees shall appoint Independent Directors in place of the resigning director(s) within a period of 3 months from the date of resignation. Where Mutual Funds are unable to meet this time

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<sup>156</sup> As defined under Section 6 of the Companies Act 1956

<sup>157</sup> Regulation 2(c) of the SEBI (Mutual Funds) Regulations, 1996

<sup>158</sup> Regulation 21(d) and Regulation 16(5) of the SEBI (Mutual Funds) Regulations, 1996

limit, they shall report to the Board explaining the reasons for non-compliance. Mutual Funds may maintain a panel of eligible persons who can be appointed as Independent Directors<sup>159</sup> as and when required. They may also consider appointing more than the required minimum number of Independent Directors to enhance the standards of corporate governance and also to meet the regulatory requirements in case of resignation of an independent director.

6.3.7 On appointment of new directors of the AMC or Trustee, their bio-data<sup>160</sup> shall be filed with the Board for information or approval respectively.

#### 6.4 ***Tenure of independent trustees and independent directors***<sup>161</sup>

6.4.1 Regulation 16 (5) and Regulation 21 (1) (d) of SEBI (Mutual Funds) Regulations, 1996 mandate appointment of independent trustees of MFs (“independent trustees”) and independent directors of AMCs (“independent directors”) respectively. With respect to tenure of independent trustees and independent directors, it has been decided that:

6.4.1.1 An independent trustee and independent director shall hold office for a maximum of 2 terms with each term not exceeding a period of 5 consecutive years.

6.4.1.2 No independent trustee or independent director shall hold office for more than two consecutive terms, however such individuals shall be eligible for re-appointment after a cooling-off period of 3 years. During the cooling-off period, such individuals should not be associated with the concerned MF,

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<sup>159</sup> For bio data of directors (AMC and Trustee), please refer to section on Formats

<sup>160</sup> For bio data of directors (AMC and Trustee), please refer to section on Formats

<sup>161</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/125 dated November 30, 2017.

AMC & its subsidiaries and / or sponsor of AMC in any manner whatsoever.

- 6.4.1.3 Existing independent trustees and independent directors shall hold office for a maximum of 10 years (including all preceding years for which such individual has held office). In this respect, the following may be noted:
- a. Individuals who have held office for less than 9 years (as on November 30, 2017) may continue for the residual period of service.
  - b. Individuals who have held office for 9 years or more (as on November 30, 2017) may comply the aforesaid provision in a phase manner, within a period of 2 years.<sup>162</sup>
  - c. Such individuals shall subsequently be eligible for re-appointment after a cooling-off period of 3 years, in terms of Para 6.4.1.1 and Para 6.4.1.2 above.

## 6.5 ***Auditors of Mutual Funds***<sup>163</sup>:

- 6.5.1 The auditor of a MF, appointed in terms of Regulation 55 (1) of SEBI (MFs) Regulations shall be a firm, including a limited liability firm, constituted under the LLP Act, 2008.
- 6.5.2 Period of appointment: With respect to appointment of auditors in terms of Regulation 55 (1) of SEBI (MFs) Regulation, 1996, it has been decided that:
- 6.5.2.1 No MF shall appoint an auditor for more than 2 terms of maximum five consecutive years. Such auditor may be re-appointed after cooling off period of 5 years.
- 6.5.2.2 Further, during the cooling-off period of five years, the incoming auditor may not include:
- a. Any firm that has common partner(s) with the outgoing audit firm

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<sup>162</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/19 dated February 07, 2018.

<sup>163</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/125 dated November 30, 2017.

b. Any associate / affiliate firm(s) of the outgoing audit firm which are under the same network of audit firms wherein the term “same network” includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

6.5.2.3 Existing auditors may be appointed for a maximum of 10 years(including all preceding years for which an auditor has been appointed in terms of Regulation 55 (1) of SEBI (Mutual Funds) Regulation, 1996). In this respect, the following may be noted:

- a. Auditors who have conducted audit of the Mutual Fund for less than 9 years (as on November 30, 2017) may continue for the residual period of service.
- b. Auditors who have conducted audit of the Mutual Fund for 9 years or more may continue till the end of F.Y. 2018-19<sup>164</sup>.
- c. Such auditors shall subsequently be eligible for re-appointment after a cooling-off period of 5 years, in terms of Para 6.5.2.1 and Para 6.5.2.2.

## 6.6 ***Investment and/or for / Trading in Securities by the employees of the AMC(s) and Trustee(s)***<sup>165</sup>

The guidelines enumerated below specify the minimum requirements that have to be followed. The AMC(s) and Trustees are free to set more stringent norms for investment and/or trading in securities by their employees. The Board of the AMC and Trustees shall ensure compliance with these Guidelines on a continuous basis and shall

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<sup>164</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/19 dated February 07, 2018.

<sup>165</sup> SEBI Circular No. MFD/CIR No.4/216/2001 dated May 8, 2001, SEBI Circular No. SEBI/IMD/CIR No.7/13391/03 dated July 11, 2003.



report any violations and remedial action taken by them in the periodical reports submitted to the Board<sup>166</sup>.

6.6.1 Guidelines for Investment and/or Trading in Securities by Employees of AMC(s) and Trustees:

6.6.1.1 Applicability

- a. These Guidelines shall be applicable to all employees of AMC(s) and Trustees and shall form a part of the Code of Conduct for employees adopted by the AMC(s) and/or Trustees. New employees shall be bound by these Guidelines from the date of joining the AMC(s) and/or Trustees.
- b. These Guidelines shall cover transactions for sale or purchase of securities made<sup>167</sup>:
  - i. In the name of employees, either individually or jointly,
  - ii. In the name of the employees' spouse,
  - iii. As a member of HUF,
  - iv. In the name of employees' parent, sibling and child of such employee or of the spouse, any of whom is either dependent financially on such employee, or consults such employee in taking decisions relating to trading in securities.

6.6.1.2 The objectives and principles of these Guidelines are:

- a. To ensure that all securities transactions made by employees in their personal capacity are conducted in consonance with these Guidelines and in such manner as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility.

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<sup>166</sup> Regulation 25(9) & 23(b) of SEBI (MF) Regulations, 1996

<sup>167</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/124 dated November 17, 2016.

- b. The employees of AMC(s) and Trustees especially Access Persons shall not take undue advantage of any price sensitive information that they may have about any company. Access Person for the purpose of these Guidelines shall mean the Head of the AMC (designated as CEO/Managing Director/President or by any other name), the Fund Managers, Dealers, Research Analysts, all employees in the Fund Operations Department, Compliance Officer and Heads of all divisions and/or departments or any other employee as decided by the AMC(s) and/or Trustees.
- c. To guide employees of AMC(s) and Trustees in maintaining a high standard of probity that one would expect from an employee in a position of responsibility.

## 6.6.2 General

### 6.6.2.1 Investments Covered:

- a. <sup>168</sup> These Guidelines cover transactions for purchase or sale of any securities such as shares, debentures, bonds, warrants, derivatives and units of schemes floated by Mutual Funds / AMCs where the concerned persons (in terms of the applicability stated at 6.6.1.1 (a) above) are employed.
- b. These Guidelines do not apply to the following investments by the employees:
  - 1. Investments in fixed deposits with banks/financial institutions/companies, life insurance policies, provident funds (including public provident fund)

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<sup>168</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/124 dated November 17, 2016.

or Investment in savings schemes such as National Savings Certificates, National Savings Schemes, Kisan Vikas Patra, or any other similar investment.

2. Investments of a non-financial nature such as gold etc., where there is no likely conflict between the Mutual Fund's interest and the employees' interest.
3. Investments in government securities, money market instruments, money market mutual fund schemes, liquid schemes and schemes floated by other Mutual Funds/ AMC's..

6.6.2.2 No employee shall pass on information to anybody inducing him to buy/sell securities which are being bought and/or sold by the Mutual Fund of which the AMC is the investment manager.

6.6.2.3 Prior approval of personal investment transactions:

- a. All access persons except Compliance Officer shall apply in the form prescribed by the AMC(s) and/or Trustees to the Compliance Officer for prior approval of transactions for sale or purchase of securities other than those expressly stated to be exempt under these guidelines. The Compliance Officer shall apply to the Head of the AMC(s). The decision of the Compliance Officer shall be final and binding on the employee.
- b. In these Guidelines, in the case of the Compliance Officer's own transactions for purchase or sale of securities or disclosure or any other related matter, the term "Compliance Officer" wherever it appears, shall be read as "Head of the AMC."

- c. The Compliance Officer may coordinate with the Fund Management Department of the Mutual Fund, wherever necessary, to clear requests of investment and/or trading in securities by the employees.
- d. The approval of Compliance Officer for carrying out a transaction of sale or purchase of a security by the access person shall not be valid for more than 7 trading days from the date of approval. If a transaction approved by the Compliance Officer has not been effected within 7 trading days from the date of its approval, the access person shall be required to obtain approval once again from Compliance Officer prior to effecting the transaction<sup>169</sup>.
- e. If a transaction approved by Compliance Officer has not been effected within seven<sup>170</sup> calendar days from the date of its approval, the access person shall be required to obtain approval once again from Compliance Officer prior to effecting the transaction.
- f. All employees shall refrain from profiting from the purchase and sale or sale and purchase of any security within a period of 30 calendar days from the date of their personal transaction<sup>171</sup>. However, in cases where it is done, the employee shall provide a suitable explanation to the Compliance Officer, which shall be reported to the Board of the AMC and the Trustees at the time of review.

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<sup>169</sup> SEBI/HO/IMD/DF2/CIR/P/2016/124 dated November 17, 2016

<sup>170</sup> SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

<sup>171</sup> SEBI Circular No. SEBI/IMD/CIR No.7/13391/03 dated July 11, 2003.

### 6.6.3 Investments in Shares and/or Debentures and/or Bonds and/or Warrants and/or Derivatives

Investments in securities shall broadly be classified into investments through (a) primary markets and (b) secondary markets.

#### 6.6.3.1 Investments through the primary markets:

- a. An employee including access person is permitted to apply to a public issue of shares and/or debentures and/or bonds and/or warrants of any company, as long as the application is made in the normal course of the public issue. Such an application may be made without seeking the clearance from the Compliance Officer. Employees of AMC(s) and Trustees are prohibited from applying in any reserved quota such as promoters' quota, employees' quota etc. Employees shall not participate in any private placement of equity by any company.
- b. Notwithstanding anything stated in (a) above, an employee of an AMC(s) and/or Trustees may apply for shares and/or debentures and/or bonds and/or warrants in a preferential offer, in cases where such a preferential offer is being made by a company that belongs to the same industrial group as the company in which the employee already has an investment, provided that such a preferential offer is made to all shareholders and/or debenture holders of such companies. Details of such applications made shall be intimated to the Compliance Officer.
- c. The employees of the AMC(s) and/or Trustees including access person may apply for any rights offer of any company in which they are already shareholders. Applications for additional rights (over and above the normal rights entitlement) shares may be

made by the employees including access person without getting the clearance from the Compliance Officer. An employee including access person may also sell and/or renounce his rights entitlement without getting the clearance from the Compliance Officer. However, if an access person wishes to purchase the “Rights renunciations” he shall get the clearance of the Compliance Officer for the same. Such purchases shall be done only at market prices. Details of any applications made in any rights issue, whether in the normal course, or through purchase of rights renunciations, shall be intimated to the Compliance Officer.

#### 6.6.3.2 Investments through the secondary markets:

- a. An access person who wishes to make a secondary market transaction shall submit a written application to that effect to the Compliance Officer. Such an application shall specify the name of the company whose securities the employee wishes to buy and/or sell, type of security, and the number of shares and/or debentures and/or bonds and/or warrants and/or derivatives that the access person wishes to buy/sell.
- b. The Compliance Officer shall clear these requests if the following conditions are met:
  1. If the shares and/or debentures and/or bonds and/or warrants of the company or derivatives specified by the access person are not held by any scheme of the Mutual Fund of which the AMC is the investment manager;

2. <sup>172</sup>If the shares and/or debentures and/or bonds and/or warrants of the company or derivatives specified by the employee are held by any Scheme of the Mutual Fund of which the AMC is the investment manager, there should be a "cooling off" period of 15 calendar days. The Compliance Officer shall ensure that the last transaction in that particular security was done by the Mutual Fund at least 15 calendar days prior to the date of the written application by the access person. In other words, an application for a purchase /sale transaction on a personal basis would be cleared only if the Mutual Fund has not transacted in that particular security for at least 15 calendar days. However, trades executed pursuant to a trading plan submitted by the employees in terms of SEBI (PIT) Regulations, 2015, shall be exempt from the requirement of a "cooling off" period, provided that such trading plan:
- i. Is in compliance with the norms prescribed in SEBI (PIT) Regulations, 2015.
  - ii. Is publicly disclosed on the website of the concerned Mutual Fund

The Compliance Officer shall also properly monitor trades of the MF scheme and that of the access person, as per the trading plan, in order to ensure that such trading plan does not entail trading in securities for market abuse.

- c. The Compliance Officer shall keep a track of the transactions of the employees and transactions of the Mutual Fund to ensure that there is no conflict of interest between them i.e. the Compliance Officer

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<sup>172</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/124 dated November 17, 2016.

should track whether the Mutual Fund has transacted in the same securities either before or after the employee's transaction(s).

- d. The Compliance Officer shall maintain a record of all requests for pre clearance regarding the purchase or sale of a security, including the date of the request, the name of the access person, the details of the proposed transaction and whether the request was approved or denied and waivers given, if any, and its reasons.
- e. No employee shall purchase any security (including derivatives) on a "Carry Forward" basis or indulge in "Short Sale" of any security (including derivatives) i.e. employees who effect any purchase transaction(s) shall ensure that they take delivery of the securities purchased, before selling them.
- f. Any transaction of Front Running by any employee directly or indirectly is strictly prohibited. For this purpose, "Front Running" means any transaction of purchase and/or sale of a security carried by any employee whether for self or for any other person, knowing fully well that the AMC also intends to purchase and/or sell the same security for its Mutual Fund operations. To ascertain that the employee had no prior knowledge of the Mutual Fund's intended transactions, the Compliance Officer may take a declaration in this regard from the employee. Such declaration may be included in the application form itself.
- g. Any transaction of self-dealing by any employee either directly or indirectly, whether alone or in concert with another person is prohibited. For this purpose, "Self Dealing" means trading in the securities based on price sensitive information to which the employee has access by virtue of his office. Declaration to this effect may be taken from the employee while clearing the proposals for investment.



- h. The employees shall not insist or suggest to the concerned brokers to charge reduced brokerage, or accept any contract with a clause on reduced brokerage charge.

#### 6.6.4 Investments in units of Mutual Fund Schemes

6.6.4.1 Access persons as well as other employees do not require prior permission of the Compliance Officer for purchase or sale of units of Mutual Fund schemes. However, details of each such transaction, excluding transactions in Money Market Mutual Fund schemes and liquid schemes<sup>173</sup> shall be reported by them to the Compliance Officer within 7 calendar days from the date of transaction.

6.6.4.2 In case of investments in SIP of any Mutual Fund scheme, the employees may report only at the time of making the first installment of the SIP.

6.6.4.3 Notwithstanding anything mentioned earlier, in the following cases employees of AMC & Trustees shall not purchase or sell /or repurchase or redeem units of any scheme, including Money Market Mutual Fund scheme and liquid scheme<sup>174</sup> of their Mutual Fund:

- a. There is a likelihood of a change in the investment objectives of the concerned Mutual Fund Scheme(s) and this has not been communicated to the investors;
- b. There is a likelihood of a rights and/or bonus issue in the concerned Mutual Fund Scheme(s) and this has not been communicated to the investors;

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<sup>173</sup> SEBI/IMD/DF/10/2014 dated May 22, 2014

<sup>174</sup> SEBI/IMD/DF/10/2014 dated May 22, 2014

- c. The concerned Mutual Fund Scheme is contemplating to issue dividend to the unit holders and this has not been communicated to the investors;
- d. There is a likelihood of a change in the accounting policy, or a significant change in the valuation of any asset, or class of assets and the same has not been communicated to the investors;
- e. There is a likelihood of conversion of a close ended scheme to an open ended scheme and vice versa and this has not been communicated to the investors.

#### 6.6.5 Periodic Disclosures

6.6.5.1 All access persons shall submit, in the form prescribed by the Mutual Fund of which the AMC is the investment manager, details of their personal transactions of purchase or sale of securities to the Compliance Officer. The details to be submitted are as follows:

- a. Details of transactions effected for purchase and/or sale of securities including transactions in rights entitlements through the secondary market within 7 calendar days from the date of transaction;
- b. Details of allotment received against application for public and rights issues within 7 calendar days from the date of receipt of the allotment advice;
- c. A statement of holding in securities as on March 31 within 30 calendar days from the end of every financial year ending March 31.

6.6.5.2 All employees other than access persons shall submit, in the form prescribed by the Mutual Fund, to the Compliance Officer:

- a. Details of each of their transactions for purchase or sale of securities including allotment in public and rights issues within 7 calendar days.
- b. A statement of holding in securities as on March 31 within 30 calendar days from the end of every financial year ending March 31.
- c. A declaration shall also be included in the reporting form on the lines of clause 6.6.3.2. (f) and 6.6.3.2 (g) regarding Front Running and Self Dealing.

6.6.6 Review by the Board of Directors of AMC and the Trustee(s)

6.6.6.1 The Board of the AMC and the Trustees shall review the compliance of these Guidelines in their periodic meetings. They shall review the existing procedures and recommend changes in procedures based on the AMC's experience, industry practices and/or developments in applicable laws and regulations. They shall report compliance and any violations and remedial action taken by them in their reports submitted to the Board.

6.6.7 For ease of reference these provisions are consolidated and provided at Annexure 7.

## 6.7 ***Applicability of Insider Trading Regulations***<sup>175</sup>

- 6.7.1 Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 shall be followed strictly by the Trustees, Asset Management Companies and their employees and directors.

## 6.8 ***Responsibilities of AMC & Trustees***<sup>176</sup>

- 6.8.1 For effective discharge of their responsibilities under the Mutual Funds Regulations, the AMC(s) shall provide infrastructure and administrative support to the Trustees. The Mutual Fund may decide to appoint independent auditors and/or may have separate full-fledged administrative set up for the Trustees. However, the expenditure incurred in this regard shall be within the limits as specified in Regulation 52(6) of the Mutual Funds Regulations. AMC(s) shall place correspondence and reports submitted to SEBI before the Trustees.

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<sup>175</sup> SEBI Cir MFD/CIR/05/432/2002 June 20, 2002 and SEBI Cir SEBI/HO/IMD/DF2/CIR/P/2016/124 dated November 17, 2016

<sup>176</sup> MFD/CIR/09/014/2000 dated January 5, 2000

## **PART II -SCHEME GOVERNANCE**

### **6.9 *Minimum Number of investors***<sup>177</sup>

#### **6.9.1 Applicability for an open-ended scheme**

6.9.1.1 The Scheme/Plan shall have:

- a. a minimum of 20 investors and
- b. no single investor shall account for more than 25% of the corpus of the Scheme/Plan(s).

6.9.1.2 If either/both of such limit(s) is breached during the NFO of the Scheme, it shall be ensured that within a period of three months or the end of the succeeding calendar quarter from the close of the NFO of the Scheme, whichever is earlier, the Scheme complies with these two conditions.

6.9.1.3 In case the Scheme / Plan(s) does not have a minimum of 20 investors in the stipulated period, the provisions of Regulation<sup>178</sup> would become applicable automatically without any reference from SEBI and accordingly the Scheme / Plan(s) shall be wound up and the units would be redeemed at applicable NAV.

6.9.1.4 If there is a breach of the 25% limit by any investor over the quarter, a rebalancing period of one month would be allowed and thereafter the investor who is in breach of the rule shall be given 15 days' notice to redeem his exposure over the 25 % limit. Failure on the part of the said investor to redeem his exposure over the 25 % limit within the aforesaid 15 days would lead to

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<sup>177</sup> SEBI Circular No. SEBI/IMD/CIR No.10/22701/03 dated December 12, 2003, SEBI Circular No. SEBI/IMD/CIR No.1/42529/05 dated June 14, 2005.

<sup>178</sup> Regulation 39(2)(c) of the SEBI (MF) Regulations, 1996

automatic redemption by the Mutual Fund on the applicable Net Asset Value on the 15th day of the notice period.

6.9.1.5 The two conditions mentioned above shall also be complied within each subsequent calendar quarter thereafter, on an average basis, as specified by SEBI.

6.9.1.6 The Fund shall adhere to the requirements prescribed by SEBI from time to time in this regard.

## 6.9.2 Applicability for a Close ended scheme/Interval scheme

6.9.2.1 The Scheme(s) and individual Plan(s) under the Scheme(s) shall have:

- a. A minimum of 20 investors and
- b. No single investor shall account for more than 25% of the corpus of the Scheme(s)/Plan(s).

6.9.2.2 These conditions will be complied with immediately after the close of the NFO itself i.e. at the time of allotment.

6.9.2.3 In case of non-fulfillment with the condition of minimum 20 investors, the Scheme(s)/Plan(s) shall be wound up in accordance with Regulation<sup>179</sup> automatically without any reference from SEBI.

6.9.2.4 In case of non-fulfillment with the condition of 25% holding by a single investor on the date of allotment, the application to the extent of exposure in excess of the stipulated 25% limit would be liable to be rejected and the allotment would be effective only to the extent of 25% of the corpus collected. Consequently, such

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<sup>179</sup> Reg. 39 (2) (c) of SEBI (MF) Regulations, 1996

exposure over 25% limits will lead to refund within 6 weeks of the date of closure of the New Fund Offer.

6.9.2.5 For interval scheme the aforesaid provision will be applicable at the end of NFO and specified transaction period.

6.9.2.6 Requisite disclosure in this regard shall be made in the SID.

### 6.9.3 Determination of breach:

6.9.3.1 The average shall be calculated, at the end of each quarter, on the basis of number of investors at the end of the business hours of the scheme on a daily basis.

6.9.3.2 To determine breach of 25% holding limit by an investor, net assets under the scheme shall be calculated daily and the daily holding limit shall be determined accordingly. At the end of the quarter, average daily holding by each investor shall be calculated and any breach of the 25% holding limit will be accordingly determined.

### 6.9.4 Applicability

6.9.4.1 These Guidelines are applicable at the Portfolio level.

6.9.4.2 These Guidelines are not applicable to Exchange Traded Funds (ETFs).

### 6.9.5 Redemptions

6.9.5.1 Redemptions effected pursuant to these Guidelines shall be completed within 10 days from the day of winding up of the scheme(s) and/or plan(s).

## 6.9.6 Reporting to the Board

6.9.6.1 Compliance with these Guidelines shall be reported in Compliance Test Reports (CTRs) and Half Yearly Trustee Reports.

## 6.10 ***Minimum Assets under Management (AUM) of Debt Oriented Schemes***<sup>180</sup>

6.10.1 It has been observed that many debt oriented schemes are operating with a very low AUM. In the interest of investors, it is important that debt oriented schemes have an adequate corpus to ensure adherence to the investment objectives as stated in Scheme Information Document and compliance with investment restrictions specified under SEBI (Mutual Funds) Regulations, 1996.

6.10.2 In this regard, it has been decided that:

- a) The minimum subscription amount of debt oriented and balanced schemes at the time of new fund offer shall be at least 20 crore and that of other schemes shall be at least 10 crore.
- b) An average AUM of 20 crore on half yearly rolling basis shall be maintained for open ended debt oriented schemes.
- c) The existing open ended debt oriented schemes shall comply with point (b) stated above within one year from the date of issue of this circular.
- d) In case of breach of points (b) and (c) above, the AMC shall scale up the AUM of such scheme within a period of six months so as to comply with point (b) stated above, failing which the provisions of Regulation 39 (2) (c) of SEBI (Mutual Funds) Regulations, 1996 would become applicable.

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<sup>180</sup> SEBI Circular No. Cir/IMD/DF/15/2014 dated June 20, 2014



e) The confirmation on compliance of the above shall be reported to SEBI in the Half Yearly Trustee Reports.

## 6.11 ***Scheme Performance Review***

6.11.1 AMCs and Trustees shall review the performance of their schemes on periodic basis<sup>181</sup>. Such review can take place by comparing the performance of the schemes with benchmark indices as well as in light of the performance of the entire Mutual Funds industry by relying on data published from time to time by independent research agencies and financial newspapers and journals. Corrective action if required may be taken in case of unsatisfactory performance. Its compliance should be reported in the bimonthly CTRs of AMCs and half-yearly reports of the Trustees to SEBI (while reporting compliance of Regulation 25(2) on exercise of due diligence in investment decisions).

## 6.12 ***Benchmarking of Scheme's performance to Total Return Index***<sup>182</sup>

6.12.1 Total Return variant of an Index (TRI) takes into account all dividends/ interest payments that are generated from the basket of constituents that make up the index in addition to the capital gains. Hence, TRI is more appropriate as a benchmark to compare the performance of mutual fund schemes.

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<sup>181</sup> SEBI Circular No. dated July 27, 2000 & SEBI Cir 16/400/02 dated March 26, 2002.

<sup>182</sup> SEBI Circular SEBI/HO/IMD/DF3/CIR/P/2018/04 dated January 04, 2018.

6.12.2 With an objective to enable the investors to compare the performance of a scheme vis-a-vis an appropriate benchmark, it has been decided that -

6.12.2.1 Selection of a benchmark for the scheme of a mutual fund shall be in alignment with the investment objective, asset allocation pattern and investment strategy of the scheme.

6.12.2.2 The performance of the schemes of a mutual fund shall be benchmarked to the Total Return variant of the Index chosen as a benchmark as stated in para 6.12.2.1 above

6.12.2.3 (i) Mutual funds shall use a composite CAGR figure of the performance of the PRI benchmark (till the date from which TRI is available) and the TRI (subsequently) to compare the performance of their scheme in case TRI is not available for that particular period(s).

(ii) The calculation of composite CAGR is elaborated with an example in the following paragraph.

For instance, ABC scheme had been launched on August 2, 1995. The benchmark PRI values are available from the date of inception of the fund. The benchmark TRI values are available from June 30, 1999. The calculation of a composite benchmark performance return in CAGR terms would be as given below:

$$\left[ \begin{array}{l} \text{Benchmark PRI value as on date of} \\ \text{introduction of TRI value} \end{array} \right] \times \left[ \begin{array}{l} \text{Benchmark TRI value as on last day of the} \\ \text{month preceding the date of advertisement} \\ \text{Benchmark TRI value as on date of} \\ \text{introduction of TRI value} \end{array} \right] \left[ \begin{array}{c} 1 \\ \hline \text{(Time period from the} \\ \text{last day of the month} \\ \text{preceding the date of} \\ \text{advertisement - date of} \\ \text{inception of the} \\ \text{scheme)} \end{array} \right]^{-1}$$

The aforesaid is explained with an example:

| Example: Consolidated Benchmark CAGR (PRI and TRI) |                      |                      |
|--|----------------------|----------------------|
| Date   | Benchmark PRI values | Benchmark TRI values |
| 02/08/1995   | 1007.57              |                      |
| 30/06/1999   | 1187.70              | 1256.38              |
| 30/11/2017   | 10226.55             | 13966.58             |
| CAGR   | 12.20%               |                      |

Thus, in the above example (for advertisements in the month of December, 2017 the last of the preceding month would be November 30, 2017),

$$\text{CAGR} = [(1187.70/1007.57) * (13966.58/1256.38)^{(1/22.3452)}] - 1$$

[1 year= 365 days]

CAGR= 12.20%

(iii) Mutual funds shall use the composite CAGR as explained above, subject to making the following disclosure:

\*As TRI data is not available since inception of the scheme, benchmark performance is calculated using composite CAGR of XYZ (name of the benchmark index) PRI values from date.... to date... and TRI values since date...."

6.12.3 This circular is applicable to all schemes of Mutual Funds with effect from February 1, 2018.

### **PART III -SYSTEMS AUDIT FRAMEWORK FOR MUTUAL FUNDS / AMCs<sup>183</sup>**

- 6.13 Considering the importance of systems audit in technology driven asset management activity and to enhance and standardize the systems audit, guidelines in this regard are placed at **Annexure-10**. These guidelines are indicative and not exhaustive in nature.
- 6.14 The aforementioned audit should be encompassing audit of systems and processes, inter alia, related to examination of integration of front office system with the back office system, fund accounting system for calculation of net asset values, financial accounting and reporting system for the AMC, Unit-holder administration and servicing systems for customer service, funds flow process, system processes for meeting regulatory requirements, prudential investment limits and access rights to systems interface.
- 6.15 Mutual Funds / AMCs are advised to conduct systems audit on an annual basis by an independent CISA / CISM qualified or equivalent auditor to check compliance of the provisions of this circular.
- 6.16 Mutual Funds / AMCs are further advised to take necessary steps to put in place systems for implementation of this circular. The exception report as per the **format**<sup>184</sup> provided should be placed before the Technology Committee for review. The Technology Committee after review shall place the same before the AMC & Trustee Board. Thereafter, exception observation report along with trustee comments starting from the financial year April 2019 – March 2020 should be communicated to SEBI within six months of the respective financial year. Further, System Audit Reports shall be made available for inspection.

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<sup>183</sup> SEBI Circular No SEBI/HO/IMD/DF2/CIR/P/2019/57 dated April 11, 2019

<sup>184</sup> For format, please refer to the section on formats

## **PART IV – ROLE OF MUTUAL FUNDS IN CORPORATE GOVERNANCE OF PUBLIC LISTED COMPANIES<sup>185</sup>**

- 6.17 MFs should play an active role in ensuring better corporate governance of listed companies.
- 6.18 AMCs shall disclose their general policies and procedures for exercising the voting rights in respect of shares held by them on the website of the respective AMC as well as in the annual report distributed to the unit holders from the financial year 2010-11.
- 6.19 AMCs are required to disclose on the website of the respective AMC as well as in the annual report distributed to the unit holders from the financial year 2010-11, the actual exercise of their proxy votes in the AGMs/EGMs of the investee companies in respect of the following matters.
- 6.20 Corporate governance matters, including changes in the state of incorporation, merger and other corporate restructuring, and anti-takeover provisions
- 6.21 Changes to capital structure, including increases and decreases of capital and preferred stock issuances.
- 6.22 Stock option plans and other management compensation issues;
- 6.23 Social and corporate responsibility issues.
- 6.24 Appointment and Removal of Directors.
- 6.25 Any other issue that may affect the interest of the shareholders in general and interest of the unit-holders in particular.
- 6.26 AMCs shall be required to record and disclose specific rationale supporting their voting decision (for, against or abstain) with respect to each vote proposal<sup>186</sup>.

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<sup>185</sup> SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

<sup>186</sup> SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014

- 6.27 AMCs shall additionally be required to publish summary of the votes cast across all its investee company and its break-up in terms of total number of votes cast in favor, against or abstained from.
- 6.28 AMCs shall be required to make disclosure of votes cast on their website (in spreadsheet format) on a quarterly basis, within 10 working days from the end of the quarter. Further, AMCs shall continue disclosing voting details in their annual report. The votes cast by the Mutual Funds may be given in the revised format<sup>187</sup> for disclosure of vote cast in respect of resolutions passed in general meetings of the investee companies and in the format<sup>188</sup> for presenting summary of votes cast.
- 6.29 Further, on an annual basis, AMCs shall be required to obtain certification on the voting reports being disclosed by them. Such certification shall be obtained from a “scrutinizer” in terms of Rule 20 (3) (ix) of Companies (Management and Administration) Rules, 2014 and any future amendment/s to the said Rules thereof. The same shall be submitted to the trustees and also disclosed in the relevant portion of the Mutual Funds' annual report & website.<sup>189</sup>
- 6.30 Board of AMCs and Trustees of Mutual Funds shall be required to review and ensure that AMCs have voted on important decisions that may affect the interest of investors and the rationale recorded for vote decision is prudent and adequate. The confirmation to the same, along with any adverse comments made by auditors, shall have to be reported to SEBI in the half yearly trustee reports.

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<sup>187</sup> For formats, please refer to chapter on Formats

<sup>188</sup> For formats, please refer to chapter on Formats

<sup>189</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/68 dated August 10, 2016

6.31 The format<sup>190</sup> for disclosure of voting by mutual funds in general meetings of listed companies is provided.

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<sup>190</sup> For disclosure of voting by mutual funds in general meetings of listed companies, please refer to the section on formats

## **CHAPTER 7**

### **SECONDARY MARKET ISSUES**

#### **7.1 *Non Applicability of Listing Deposit***<sup>191</sup>

7.1.1 The requirement of collecting listing deposit as specified under Circular Letter No. SE/12936 dated April 6, 1992 shall not be applicable to Mutual Fund schemes seeking listing on the Stock Exchanges.

#### **7.2 *Payment of Margins***<sup>192</sup>

7.2.1 The applicable margins shall be paid as per the guidelines issued by SEBI and as directed by stock exchanges from time to time.

#### **7.3 *Unique Client Codes***<sup>193</sup>

7.3.1 Mutual Funds are not permitted to operate in the securities market without furnishing a valid Unique Client Code (UCC).<sup>194</sup> Mutual Funds are required to obtain UCC from the Bombay Stock Exchange Ltd. (BSE) or The National Stock Exchange Ltd. (NSE) whenever a new scheme(s) or plan(s) (wherever the portfolio of the plans is different) is

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<sup>191</sup> SEBI Circular No. SMD-II(N)/2113/94 dated April 12, 1994. Further, in this regard, circulars issued by SEBI from time to time may be considered.

<sup>192</sup> SEBI Circular No. MFD/CIR/9/230/2001 dated August 14, 2001

<sup>193</sup> SEBI Circular No. MFD/CIR No.8/290/01 dated July 30, 2001, SEBI Circular No. SEBI/SMD/SE/11/2003/31/03 dated March 31, 2003, SEBI Circular No. SEBI/IMD/CIR No.01/1756/04 dated January 27, 2004, SEBI Circular No. MRD/DoP/SE/Cir-35/2004 dated October 26, 2004, SEBI Circular No. SEBI/IMD/CIR No.2/46603/05 dated August 10, 2005. Further, in this regard, circulars issued by SEBI from time to time may be considered

<sup>194</sup> SEBI Circular No. SMDRP/Policy/Cir-39/2001 dated July 18, 2001.



launched<sup>195</sup>. Such UCC should be obtained before commencing the trading on behalf of the scheme(s)/plan(s). At the time of entering an order, the UCC pertaining to the parent Mutual Fund shall be provided and the allocation to individual schemes shall be done in the post closing session.<sup>196</sup> The UCC can be shared with the unit holders to facilitate tax benefits linked to payment of Securities Transaction Tax (STT).

#### **7.4 Trading in Exchange Traded Derivatives Contracts<sup>197</sup>**

7.4.1 For trading in Exchange Traded Derivatives Contracts, following should be observed:

7.4.1.1 Mutual Fund schemes can participate in derivatives market as per the guidelines issued by SEBI in this regard from time to time.<sup>198</sup>

7.4.1.2 The Mutual Funds shall be treated at par with a registered FII in respect of position limits in index futures, index options, stock options and stock futures contracts. The Mutual Funds will be considered as trading members like registered FIIs and the schemes of Mutual Funds will be treated as clients like sub-accounts of FIIs.

7.4.1.3 Appropriate disclosures shall be made in the offer document regarding the extent and manner of participation of the schemes of

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<sup>195</sup> SEBI Circular No. SEBI/IMD/CIR No.01/1756/04 dated January 27, 2004.

<sup>196</sup> SEBI Circular No. MRD/DoP/SE/Cir-35/2004 dated October 26, 2004.

<sup>197</sup> SEBI Circular No. DNPDP/Cir-29/2005 dated September 14, 2005; SEBI Circular No. DNPDP/Cir-30/2006 dated January 20, 2006, SEBI Circular No. SEBI/DNPDP/Cir-31/2006 dated September 22, 2006.

<sup>198</sup> SEBI Circular No. DNPDP/Cir-29/2005 dated September 14, 2005.

the Mutual Funds in derivatives and the risk factors, which should be explained by suitable numerical examples.

7.4.1.4 The combined futures and options position limit of Mutual Funds for stock derivatives contracts shall be 20% of the applicable Market Wide Position Limit (MWPL).<sup>199</sup>

7.4.1.5 Existing schemes of Mutual Funds, whose SIDs do not envisage investments in derivatives, may participate in derivatives market subject to the following conditions<sup>200</sup>:

- a. The extent and the manner of the proposed participation in derivatives shall be disclosed to the unit holders.
- b. The risks associated with such participation shall be disclosed and explained by suitable numerical examples.
- c. Prior to commencing participation in derivatives, the scheme shall comply with the provisions of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996 and all unit holders shall be given at least 30 days to exercise option to exit at prevailing NAV without charging of exit load.

7.4.1.6 Positions limits as specified by SEBI for Mutual Funds and its schemes from time to time shall be applicable<sup>201</sup>.

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<sup>199</sup> SEBI Circular No. SEBI/HO/MRD/DP/CIR/P/2016/143 dated December 27, 2016.

<sup>200</sup> Please refer SEBI Circular No SEBI/HO/IMD/DF2/CIR/P/2017/13 dated February 20, 2017 'Participation in derivatives market by Mutual Funds.'

<sup>201</sup> Please refer SEBI Circular No DNPD/Cir – 29/2005 Dated September 14, 2005 for position limits and subsequent circulars issued in this regard from time to time.

## **7.5 Trading in Interest Rate Derivatives<sup>202</sup>**

7.5.1 Mutual Fund schemes are permitted to undertake transactions in Forward Rate Agreements and Interest Rate Swaps with banks, PDs & FIs as per applicable RBI Guidelines<sup>203</sup>, mutual funds can also trade in interest rate derivatives through the Stock Exchanges subject to requisite disclosures in the SID<sup>204</sup>.

7.5.2 The following position limits<sup>205</sup> in IRF shall be applicable for Mutual Fund level and scheme level:

- a. Mutual Funds shall have position limits as applicable to trading members presently.
- b. Schemes of Mutual Funds shall have position limits as applicable to clients presently.

## **7.6 Transactions of mutual funds in Government Securities in dematerialised form<sup>206</sup>**

7.6.1 According to Regulation<sup>207</sup>, the Mutual Funds having an aggregate of securities worth Rs.10 crore or more are required to settle their transactions only through dematerialised securities. All Mutual Funds should enter into transactions relating to government securities only in dematerialised form.

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<sup>202</sup> SEBI Circular No. SEBI/MFD/CIR No.03/158/03 dated June 10, 2003.

<sup>203</sup> RBI Circular dated November 1, 1999.

<sup>204</sup> SEBI Circular No. SEBI/MFD/CIR No.03/158/03 dated June 10, 2003.

<sup>205</sup> SEBI Circular No. CIR/MRD/DRMNP/26/2014 dated September 15, 2014

<sup>206</sup> SEBI Circular No. MFD/CIR/05/432/2002 dated June 20, 2002

<sup>207</sup> Regulation 44(1A) of SEBI (Mutual Funds) Regulations, 1996

## **CHAPTER 8**

### **NET ASSET VALUE**<sup>208</sup>

#### **8.1 Disclosure of Net Asset Value**<sup>209</sup>

- 8.1.1 Mutual Funds/ AMCs shall prominently disclose the NAVs of all schemes under a separate head on their respective website and on the website of Association of Mutual Funds in India (AMFI). Further, Mutual Funds/ AMCs shall extend facility of sending latest available NAVs to unit holders through SMS, upon receiving a specific request in this regard.
- 8.1.2 NAV of all Mutual Fund schemes except for Fund of Fund Schemes shall be updated on AMFI's website and the Mutual Funds' websites by 11:00 p.m. of the same day<sup>210</sup>.
- 8.1.3 Fund of Fund Schemes shall have an extended time up to 10 a.m. the following business day in this regard<sup>211</sup>.
- 8.1.4 Delay beyond 10 a.m. of the following business day in case of Fund of Fund schemes and 11:00 p.m. on the same day for all other schemes shall be explained in writing to AMFI and the Board and shall also be reported in the CTR(s)<sup>212</sup> in terms of number of days of non adherence

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<sup>208</sup> Regulation 48(1) of SEBI (Mutual Funds) Regulations, 1996

<sup>209</sup> SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997, SEBI Circular No. MFD/CIR No.11/171/01 dated February 9, 2001, SEBI Circular No. MFD/CIR/13/087/2001 dated March 28, 2001; SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006, SEBI Circular No. SEBI/IMD/CIR No.5/96576/2007 dated June 25, 2007, SEBI Cir No. SEBI/IMD/Cir No.12/147132/08 dated December 11,2008; SEBI/HO/IMD/DF2/CIR/P/2018/92 dated June 05, 2018 and SEBI Circular No.SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

<sup>210</sup> SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006.

<sup>211</sup> SEBI Circular No. SEBI/IMD/CIR No.5/96576/2007 dated June 25, 2007.

<sup>212</sup> For format of CTR, please refer to section on formats

of time limit for uploading NAV on AMFI's website and the reasons for the same. Corrective steps taken by AMC to reduce the number of occurrences shall also be disclosed<sup>213</sup>.

8.1.5 <sup>214</sup> Mutual Funds/ AMCs shall explain the methodology of calculating the sale and repurchase price of unit with the help of a simple numerical example at all relevant places such as on their respective website, AMFI website and Scheme Information Documents, etc.

8.1.6 In case the NAVs are not available before the commencement of business hours on the following day due to any reason, Mutual Funds shall issue a press release giving reasons for the delay and explain when they would be able to publish the NAVs<sup>215</sup>.

## **8.2 Rounding off NAVs<sup>216</sup>**

8.2.1 To ensure uniformity, Mutual Funds shall round off NAV up to four decimal places for index funds and all types of debt & liquid/money market schemes.

8.2.2 For all equity oriented and balanced fund schemes, Mutual Funds shall round off NAVs up to two decimal places. However, Mutual Funds can round off the NAVs up to more than two decimal places in case of equity oriented and balanced fund schemes also, if they so desire<sup>217</sup>. Relevant disclosure in this regard shall be made in the SID/SAI<sup>218</sup>.

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<sup>213</sup> SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006.

<sup>214</sup> SEBI/HO/IMD/DF2/CIR/P/2018/92 dated June 05, 2018

<sup>215</sup> SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006.

<sup>216</sup> SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002, SEBI Circular No. MFD/CIR/11/16159/2002 dated August 22, 2002.

<sup>217</sup> SEBI Circular No. MFD/CIR/11/16159/2002 dated August 22, 2002.

<sup>218</sup> SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002.

### **8.3 Uniform Cut off Timings for applicability of Net Asset Value of Mutual Fund scheme(s) and/ or plan(s)<sup>219</sup>**

8.3.1 Mutual Funds should follow the Guidelines enumerated below with respect to uniform Cut -off Timings:

#### 8.3.2 Definitions:

8.3.2.1 In these Guidelines, unless the context otherwise requires:

- a. 'Cut-off Timing', in relation to an investor making an application to a Mutual Fund for purchase or sale of units, shall mean, the outer limit of timing within a particular day which is relevant for determination of the NAV applicable for his transaction;
- b. 'International scheme' means a Mutual Fund scheme having substantial investments in foreign securities valued as per time zones other than Indian Standard Time zone;
- c. 'Liquid fund schemes and plans' shall mean the schemes and plans of a Mutual Fund as specified in the guidelines<sup>220</sup> issued by SEBI in this regard<sup>221</sup>.

#### 8.3.3 Applicability

8.3.3.1 The Guidelines on Cut off Timings for applicability of Net Asset Value of Mutual Fund scheme(s) and/ or plan(s) shall be applicable to all schemes and plans of Mutual Funds except:

- a. International schemes and

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<sup>219</sup> SEBI Circular No. SEBI/IMD/CIR No. 11/78450/06 dated October 11, 2006.

<sup>220</sup> Please refer to the Section on liquid schemes

<sup>221</sup> SEBI Circular No. SEBI/IMD/CIR No.13/150975/09 dated January 19, 2009

- b. Transactions in Mutual Fund units undertaken on a recognized Stock Exchange.

#### 8.3.4 Fixation of uniform Cut-off Timings

8.3.4.1 Mutual Funds shall reckon the Cut-off Timings for their schemes and plans in compliance with these Guidelines and the same shall be uniformly implemented for all investors.

8.3.4.2 Mutual Funds shall ensure that each payment instrument for subscription or purchase of units is deposited in a bank expeditiously by utilization of the appropriate banking facility, so as to comply with the requirement in Clause 8.3.4.1 above.

8.3.4.3 AMCs shall compensate any loss occasioned to any investor or to the scheme and/or plan on account of non compliance with Clause 8.3.4.2 above.

#### 8.3.5 Cut-off Timings for liquid fund schemes and plans

For determining the applicable NAV<sup>222</sup>:

8.3.5.1 The following cut-off timings shall be observed by a mutual fund in respect of purchase of units in liquid fund schemes and their plans, and the following NAVs shall be applied for such purchase:

- a. where the application is received up to 1.30 p.m. on a day and funds are available for utilization before the cut-off time without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the day of receipt of application;

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<sup>222</sup> SEBI Circular No SEBI/IMD/DF/15/2010 dated November 26, 2010, SEBI Circular No SEBI/HO/IMD/DF2/CIR/P/2019/101 dated September 20, 2019

- b. where the application is received after 1.30 p.m. on a day and funds are available for utilization on the same day without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the next business day ; and
- c. irrespective of the time of receipt of application, where the funds are not available for utilization before the cut-off time without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the day on which the funds are available for utilization.

8.3.5.2 For allotment of units in respect of purchase in liquid schemes, it shall be ensured that:

- a. Application is received before the applicable cut-off time.
- b. Funds for the entire amount of subscription/purchase as per the application are credited to the bank account of the respective liquid schemes before the cut-off time.
- c. The funds are available for utilization before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective liquid schemes.

8.3.5.3 For allotment of units in respect of switch-in to liquid schemes from other schemes, it shall be ensured that:

- a. Application for switch-in is received before the applicable cut-off time.
- b. Funds for the entire amount of subscription/purchase as per the switch-in request are credited to the bank account of the respective switch-in liquid schemes before the cut-off time.



- c. The funds are available for utilization before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective switch-in schemes.

8.3.5.4 The following Cut-off Timings shall be observed by Mutual Funds with respect to repurchase of units in liquid fund schemes and plans and the following NAVs shall be applied for such repurchase:

- a. Where the application is received up to 3.00 pm – the closing NAV of day immediately preceding the next business day; and
- b. Where the application is received after 3.00 pm – the closing NAV of the next business day.

8.3.5.5 Mutual Funds shall calculate NAV for each calendar day for their liquid fund schemes and plans.

- a. *Explanation:* “Business Day” does not include a day on which the Money Markets are closed or otherwise not accessible.

8.3.6 Cut-off Timings for schemes and plans other than liquid fund schemes and plans

8.3.6.1 A Mutual Fund shall reckon only prospective NAV, in accordance with this clause, in respect of all their schemes and plans i.e. for other than liquid fund schemes and plans

8.3.6.2 The following Cut-off Timings shall be observed by Mutual Funds in respect of purchase of units in other schemes and plans and following NAVs shall be applied for such purchase:

- 8.3.6.2.1 Where the application is received up to 3.00 pm with a local cheque or demand draft payable at par at the place where it is

received – closing NAV of the day on which the application is received;

8.3.6.2.2 Where the application is received after 3.00 pm with a local cheque or demand draft payable at par at the place where it is received – closing NAV of the next business day; and

8.3.6.2.3 Where the application is received with an outstation cheque or demand draft which is not payable on par at the place where it is received – closing NAV of day on which the cheque or demand draft is credited.

In respect of purchase of units of mutual fund schemes (other than liquid schemes), the closing NAV of the day on which the funds are available for utilization shall be applicable for application amount equal to or more than Rs. 2 lakh, irrespective of the time of receipt of such application<sup>223</sup>.

8.3.6.3 For allotment of units in respect of purchase in income/debt oriented mutual fund schemes/plans other than liquid schemes, it shall be ensured that<sup>224</sup>:

8.3.6.3.1 Application is received before the applicable cut-off time (3 pm).

8.3.6.3.2 Funds for the entire amount of subscription/purchase as per the application are credited to the bank account of the respective schemes before the cut-off time (3 pm).

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<sup>223</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

<sup>224</sup> SEBI Circular No SEBI/IMD/DF/15/2010 dated November 26, 2010

8.3.6.3.3 The funds are available for utilization before the cut-off time (3 pm) without availing any credit facility whether intra-day or otherwise, by the respective scheme.

8.3.6.4 For allotment of units in respect of switch-in to income/debt oriented mutual fund schemes/plans other than liquid schemes from other schemes, it shall be ensured that:

8.3.6.4.1 Application for switch-in is received before the applicable cut-off time.

8.3.6.4.2 Funds for the entire amount of subscription/purchase as per the switch-in request are credited to the bank account of the respective switch-in income/debt oriented mutual fund schemes/plans before the cut-off time.

8.3.6.4.3 The funds are available for utilization before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective switch-in income/debt oriented mutual fund schemes/plans.

8.3.6.5 The following Cut-off Timings shall be observed by Mutual Funds in respect of repurchase of units in its other schemes and their plans, and the following NAVs shall be applied for such repurchase:

8.3.6.5.1 Where the application is received up to 3.00 pm – closing NAV of the day on which the application is received; and

8.3.6.5.2 An application received after 3.00 pm – closing NAV of the next business day.

### 8.3.7 Switch and Sweep Transactions

8.3.7.1 Paragraphs 8.3.5 and 8.3.6 shall apply to ‘switch in’ transactions as if they were purchase transactions and to ‘switch out’ transactions as if they were repurchase transactions.

8.3.7.2 Paragraphs 8.3.5 and 8.3.6 shall apply to ‘sweep’ transactions as if they were purchase transactions and to ‘reverse sweep’ transactions as if they were repurchase transactions.

8.3.7.3 In case of ‘switch’ transactions from one scheme to another, the allocation shall be in line with redemption payouts.

### 8.3.8 Time Stamping

8.3.8.1 Application from investors shall be received by Mutual Funds only at official points of acceptance, addresses of which shall be disclosed in the SID and on Mutual Funds’ websites.

8.3.8.2 Cut off timings as prescribed under Paragraphs 8.3.5 and 8.3.6 shall apply with reference to the point of time at which the applications are received at such official points of acceptance.

8.3.8.3 Time stamping machines at all official points of acceptance shall be in compliance with the requirements mentioned in Section 8.4.

### 8.3.9 Compliance Reporting

8.3.9.1 Status of compliance with these Guidelines shall be reported to the Board in the CTR(s)<sup>225</sup> of the AMC(s) and the Half Yearly Trustee Reports<sup>226</sup>.

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<sup>225</sup> for CTR format, please refer to the section on formats

<sup>226</sup> For Trustee report, please refer to the section on formats

8.3.9.2 The Half Yearly Trustee Reports shall contain a declaration on whether the Trustees are satisfied with the systems and procedures of the Mutual Fund designed for the purpose of compliance with these Guidelines.

8.3.9.3 Further, the substance of these Guidelines shall be disclosed to investors in the SID or in any addendum thereto.

8.3.9.4 **Encumbrance of the scheme property**<sup>227</sup>

Regulations<sup>228</sup> provides that the AMC shall not acquire any of the assets out of the scheme property which involves the assumption of any liability which is unlimited or which may result in encumbrance of the scheme property in any way. AMC's are advised to strictly adhere to the said provision.

**8.4 Requirements with respect to time stamping machines  
[pursuant to Clause 8(3)]**

8.4.1 For every machine, running serial number shall be stamped from the first number to the last number as per its capacity before repetition of the cycle.

8.4.2 Every application for purchase shall be stamped on the face and the corresponding payment instrument shall be stamped on the back indicating the date and time of receipt and running serial number. The application and the payment instrument shall contain the same serial number.

8.4.3 Every application for redemption shall be stamped on the face thereof and on the investor's acknowledgment copy (or twice on the

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<sup>227</sup> SEBI Circular No SEBI/IMD/DF/15/2010 dated November 26, 2010

<sup>228</sup> Fourth Schedule of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

application if no acknowledgment is issued) indicating the date and time of receipt and running serial number.

8.4.4 Different applications shall not be bunched together with the same serial number.

8.4.5 Blank papers shall not be time stamped. Genuine errors, if any, shall be recorded with reasons and the corresponding applications requests shall also be preserved.

8.4.6 The time stamping machine shall have a tamper proof seal and the ability to open the seal for maintenance or repairs must be limited to vendors or nominated persons of the mutual fund, to be entered in a proper record.

8.4.7 Breakage of seal and/or breakdown of the time stamping process shall be duly recorded and reported to the Trustees.

8.4.8 Every effort should be made to ensure uninterrupted functioning of the time stamping machine. In case of breakdown, the Mutual Funds shall take prompt action to rectify the situation. During the breakdown period, Mutual Funds shall adopt an alternative time stamping method that has already been approved by the Board of the AMC and the Trustee(s). An audit trail shall be available to check and ensure the accuracy of the time stamping process during the said period.

8.4.9 Any alternate mode of application that does not have any physical or electronic trail shall be converted into a physical piece of information and time stamped in accordance with these Guidelines.

8.4.10 Mutual Funds shall maintain and preserve all applications/ requests, duly time stamped as aforesaid, at least for a period of eight years<sup>229</sup>

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<sup>229</sup> Regulation 50(2) of SEBI (Mutual Funds) Regulations, 1996

to be able to produce them as and when required by the Board or auditors appointed by the Board.

## **8.5 Uniformity in calculation of sale and repurchase price<sup>230</sup>**

8.5.1 The following method is being prescribed

8.5.1.1 To streamline the calculation of sale and repurchase price of mutual fund units<sup>231</sup>,

8.5.1.2 To avoid variation in the amounts payable to investors and/or number of units allotted to them, and

8.5.1.3 To make the calculations more comprehensible to the investors.

8.5.2 Exit loads shall be charged as a percentage of the NAV i.e. applicable load as a percentage of NAV will be subtracted from the NAV to calculate the repurchase price.

8.5.3 The formula for the same is as follows:

8.5.3.1 Sale Price = Applicable NAV

8.5.3.2 Repurchase Price = Applicable NAV \*(1 – Exit Load, if any)

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<sup>230</sup> SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002 & SEBI Circular No. SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009

<sup>231</sup> Regulation 49(3) of the SEBI (Mutual Funds) Regulations, 1996.

## **CHAPTER 9**

### **VALUATION**

#### **9.1 Definitions<sup>232</sup>**

##### **9.1.1 Non Traded Securities<sup>233</sup>**

9.1.1.1 When a security (other than Government Securities, money market and debt securities) is not traded on any Stock Exchange for a period of thirty days prior to the valuation date, the scrip shall be treated as a non traded security.

9.1.1.2 A money market or debt security shall be considered as non-traded when, on the date of valuation, there are no trades (in marketable lots) in such security on any recognized Stock Exchange or no trades (in marketable lots) have been reported on trade reporting platform of recognized stock exchanges or the Clearing Corporation of India Ltd. (CCIL).

##### **9.1.2 Thinly Traded Securities**

###### **9.1.2.1 Thinly traded equity/ equity related securities:<sup>234</sup>**

- a. When trading in an equity and/or equity related security (such as convertible debentures, equity warrants etc.) in a month is both less than Rs.5 lacs and the total volume is less than 50,000 shares, the security shall be considered as thinly traded security and valued accordingly.

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<sup>232</sup> SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000, SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001, SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019.

<sup>233</sup> SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000 & SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019.

<sup>234</sup> SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001.



- b. In order to determine whether a security is thinly traded or not, the volumes traded in all recognized Stock Exchanges in India may be taken into account.
- c. For example, if the volume of trade is 1,00,000 and value is Rs.4,00,000, the shares do not qualify as thinly traded. Also if the volume traded is 40,000, but the value of trades is Rs.6,00,000, the shares do not qualify as thinly traded.
- d. Where a Stock Exchange identifies the thinly traded securities by applying the above parameters for the preceding calendar month and publishes or provides the required information along with the daily quotations, the same can be used by the Mutual Funds.
- e. If the shares are not listed on the Stock Exchanges which provide such information, then Mutual Funds shall make their own analysis in line with the above criteria to check whether such securities are thinly traded or not and then value them accordingly.

### 9.1.3 Traded money market / debt security<sup>235</sup>:

- 9.1.3.1 A money market or debt security shall be considered as traded when, on the date of valuation, there are trades (in marketable lots) in that security on any recognized Stock Exchange or there are trades reported (in marketable lots) on the trade reporting platform of recognized stock exchanges or The Clearing Corporation of India

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<sup>235</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

Ltd. (CCIL). In this regard, the marketable lots shall be defined by AMFI, in consultation with SEBI.

9.1.4 Below investment grade and default<sup>235</sup>:

9.1.4.1 A money market or debt security shall be classified as “below investment grade” if the long term rating of the security issued by a SEBI registered Credit Rating Agency (CRA) is below BBB- or if the short term rating of the security is below A3.

9.1.4.2 A money market or debt security shall be classified as “Default” if the interest and / or principal amount has not been received, on the day such amount was due or when such security has been downgraded to “Default” grade by a CRA. In this respect, Mutual Funds shall promptly inform to the valuation agencies and the CRAs, any instance of non-receipt of payment of interest and / or principal amount (part or full) in any security.

## **9.2 Valuation of Securities**

9.2.1 Traded Securities (other than debt securities):<sup>236</sup>

9.2.1.1 When a security (other than debt securities) is not traded on any Stock Exchange on a particular valuation day, the value at which it was traded on the selected Stock Exchange, as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to valuation date.

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<sup>236</sup> SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

## 9.2.2 Non-Traded /and/or Thinly Traded Equity Securities:<sup>237</sup>

9.2.2.1 AMCs shall value non traded and/or thinly traded securities “in good faith” based on the Valuation norms prescribed below:

9.2.2.2 Based on the latest available Balance Sheet, Net Worth shall be calculated as follows:

- a. Net Worth per share = [Share Capital+ Reserves (excluding Revaluation Reserves) – Miscellaneous expenditure and Debit Balance in Profit and Loss Account] / Number of Paid up Shares.
- b. Average Capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent i.e. only 25 per cent. Of the industry average P/E shall be taken as Capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts shall be considered for this purpose.
- c. The value as per the Net Worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 10 per cent. for illiquidity so as to arrive at the fair value per share.
- d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.
- e. In case where the latest Balance Sheet of the company is not available within nine months from the close of the year, unless

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<sup>237</sup> SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

the accounting year is changed, the shares of such companies shall be valued at zero.

- f. In case an individual security accounts for more than 5 per cent. of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent. of the total assets of the scheme, it shall be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs will be compared on the date of valuation<sup>238</sup>.
- g. In case trading in an equity security is suspended up to thirty days, then the last traded price shall be considered for valuation of that security. If an equity security is suspended for more than thirty days, then the AMC(s) or Trustees shall decide the valuation norms to be followed and such norms shall be documented and recorded.

### 9.2.3 Debt and Money Market Securities

- a. Valuation of money market and debt securities with residual maturity of upto 30<sup>239</sup> days:

- 1. Amortization based valuation is permitted for money market and debt securities including floating rate securities, with residual maturity of upto 30 days. Further, the amortized price shall be compared with the reference price which shall be the average of the security level price of such security as provided

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<sup>238</sup> SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001

<sup>239</sup> SEBI Circular No. SEBI/IMD/CIR No.16/ 193388/2010 dated February 02, 2010 and SEBI Circular No. Cir/IMD/DF/6/2012 dated February 28, 2012, SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

by the agency(ies) appointed by AMFI for said purpose (hereinafter referred to as “valuation agencies”). The amortized price shall be used for valuation only if it is within a threshold of  $\pm 0.025\%$  of the reference price. In case of deviation beyond this threshold, the price shall be adjusted to bring it within the threshold of  $\pm 0.025\%$  of the reference price.

2. It is further clarified that in case of floating rate securities with floor and caps on coupon rate and residual maturity of upto 30 days then those shall be valued on amortization basis taking the coupon rate as floor.
  3. In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued on amortization basis on the date of allotment / purchase.
  4. Further, with effect from April 01, 2020 onwards, amortization based valuation shall be dispensed with and irrespective of residual maturity, all money market and debt securities shall be valued in terms of paragraph b below.
- b. Valuation of money market and debt securities with residual maturity of over 30<sup>240</sup> days:
1. All money market and debt securities including floating rate securities, with residual maturity of over 30 days shall be

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<sup>240</sup> SEBI Circular No. SEBI/IMD/CIR No.16/ 193388/2010 dated February 02, 2010, SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012, SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

valued at average of security level prices obtained from valuation agencies.

2. In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued at purchase yield on the date of allotment / purchase.

c. Methodology:<sup>241</sup>

For arriving at security level pricing, a waterfall approach shall be followed for the valuation of money market and debt securities.

1. AMFI shall ensure that valuation agencies have a documented waterfall approach for valuation of money market and debt securities. The said waterfall approach shall be documented in consultation with SEBI.
2. The following broad principles should be adopted as part of the aforesaid waterfall approach, for arriving at the security level prices:
  - i. All traded securities shall be valued on the basis of traded yields, subject to identification of outlier trades by the valuation agencies.
  - ii. Volume Weighted Average Yield (VWAY) for trades in the last one hour of trading shall be used as the basis for valuation of Government Securities (including T-bills). Valuation of all

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<sup>241</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

other money market and debt securities (including Government securities not traded in last one hour) shall be done on the basis of VWAY of all trades during the day.

- iii. An indicative list of exceptional events shall form part of the documented waterfall approach mentioned above. In case of any exceptional events on a day, only VWAY of trades post such event may be considered for valuation. Further, all exceptional events along-with valuation carried out on such dates shall be documented with adequate justification.
- iv. All trades on stock exchanges and trades reported on trade reporting platforms till end of the trade reporting time (excluding Inter-scheme transfers), should be considered for valuation on that day. Towards this end, the timing for disclosure of Net Asset Value (NAV) on website of respective AMCs and AMFI, stands extended as per paragraph 8.1.2.
- v. Considering the importance of polling in the valuation process, guidelines shall be issued by AMFI on polling by valuation agencies and on the responsibilities of Mutual Funds in the polling process, as part of the aforesaid waterfall approach. These guidelines shall inter-alia include the following:
  - (a) Valuation agencies shall identify the Mutual Funds who shall participate in the polling process on a particular day, taking into account factors such as diversification of poll submitters and portfolio holding of the Mutual Funds. Mutual Funds who are identified by the

valuation agencies shall necessarily participate in the polling process. However, in case any Mutual Fund does not participate in the polling process, detailed reason for the same shall be recorded and made available during SEBI inspections.

- (b) The minimum number of polls to be considered for valuation along-with the operational modalities of polling, shall be specified.
- (c) AMCs shall have a written policy, approved by the Board of AMC and Trustees, on governance of the polling process. The aforesaid policy shall include measures for mitigation of potential conflicts of interest in the polling process and shall identify senior officials responsible for polling.
- (d) AMCs shall ensure that participation in the polling process is not mis-used to inappropriately influence the valuation of securities. The officials of the AMC who are responsible for polling in terms of paragraph (c) above, shall also be personally liable for any mis-use of the polling process.
- (e) AMCs shall maintain an audit trail for all polls submitted to valuation agencies.

3. The aforesaid waterfall approach shall form part of the valuation policy of individual AMCs which is uploaded on their respective websites. AMFI shall ensure that the said waterfall



approach is also available on the website of the valuation agencies

*d. Deviation from valuation guidelines:*<sup>242</sup>

1. As per the Principles of Fair Valuation specified in Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, AMC's are responsible for true and fairness of valuation and correct NAV. Considering the same, in case an AMC decides to deviate from the valuation price given by the valuation agencies, the detailed rationale for each instance of deviation shall be recorded by the AMC.
2. The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price as per the valuation agencies and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.
3. The rationale for deviation along-with details as mentioned under paragraph 9.2.3(d)(2) above shall be disclosed immediately and prominently, under a separate head on the website of AMC.
4. Further, while disclosing the total number of instances of deviation in the monthly and half-yearly portfolio statements, AMC's shall also provide the exact link to their website for accessing the information mentioned at paragraph 9.2.3(d)(3).

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<sup>242</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

e. Valuation of money market and debt securities which are rated below investment grade<sup>243</sup>:

1. In order to have uniformity and consistency across the Mutual Fund industry on valuation of money market and debt securities rated below investment grade, the following has been decided:

- i. All money market and debt securities which are rated below investment grade shall be valued at the price provided by valuation agencies.
- ii. Till such time the valuation agencies compute the valuation of money market and debt securities classified as below investment grade, such securities shall be valued on the basis of indicative haircuts provided by these agencies. These indicative haircuts shall be applied on the date of credit event i.e. migration of the security to sub-investment grade and shall continue till the valuation agencies compute the valuation price of such securities. Further, these haircuts shall be updated and refined, as and when there is availability of material information which impacts the haircuts.
- iii. Consideration of traded price for valuation:
  - (a) In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, AMCs shall consider such traded price for valuation if it is lower

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<sup>243</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

than the price post standard haircut. The said traded price shall be considered for valuation till the valuation price is determined by the valuation agencies.

(b) In case of trades after the valuation price is computed by the valuation agencies as referred above and where the traded price is lower than such computed price, such traded price shall be considered for the purpose of valuation and the valuation price may be revised accordingly.

(c) The trades referred above shall be of a minimum size as determined by valuation agencies.

iv. AMCs may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies subject to the following:

(a) The detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded by the AMC.

(b) The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price post haircuts or the average of the price provided by the valuation agencies (as applicable) and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.

(c) The rationale for deviation along-with details as mentioned at para (b) above shall also be disclosed to investors. In this regard, all AMCs shall immediately disclose instances of deviations under a separate head on their website. Further, the

total number of such instances shall also be disclosed in the monthly and half-yearly portfolio statements for the relevant period along-with an exact link to the website wherein the details of all such instances of deviation are available.

- v. Treatment of accrued interest, future interest accrual and future recovery:
  - (a) The treatment of accrued interest and future accrual of interest, in case of money market and debt securities classified as below investment grade or default, is detailed below:
    - 1. The indicative haircut that has been applied to the principal should be applied to any accrued interest.
    - 2. In case of securities classified as below investment grade but not default, interest accrual may continue with the same haircut applied to the principal. In case of securities classified as default, no further interest accrual shall be made.
  - (b) The following shall be the treatment of how any future recovery should be accounted for in terms of principal or interest:
    - 1. Any recovery shall first be adjusted against the outstanding interest recognized in the NAV and any balance shall be adjusted against the value of principal recognized in the NAV.
    - 2. Any recovery in excess of the carried value (i.e. the value recognized in NAV) should then be applied first towards amount of interest written off and then towards amount of principal written off.

### **9.3 Valuation of securities with Put/Call Options:<sup>244</sup>**

9.3.1 The option embedded securities would be valued as follows:

#### 9.3.1.1 Securities with call option

- a. The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option. In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

#### 9.3.1.2 Securities with Put option

- a. The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option. In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instruments.

#### 9.3.1.3 Securities with both Put and Call option on the same day

- a. Only securities with put / call options on the same day and having the same put and call option price, shall be deemed to mature on such put / call date and shall be valued accordingly. In all other cases, the cash flow of each put / call option shall be evaluated and the security shall be valued on the following basis:

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<sup>244</sup> SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

1. Identify a 'Put Trigger Date', a date on which 'price to put option' is the highest when compared with price to other put options and maturity price.
2. Identify a 'Call Trigger Date', a date on which 'price to call option' is the lowest when compared with price to other call options and maturity price.
3. In case no Put Trigger Date or Call Trigger Date ("Trigger Date") is available, then valuation would be done to maturity price. In case one Trigger Date is available, then valuation would be done as to the said Trigger Date. In case both Trigger Dates are available, then valuation would be done to the earliest date.

9.3.2 If a put option is not exercised by a Mutual Fund when exercising such put option would have been in favour of the scheme, in such cases the justification for not exercising the put option shall be provided to the Board of AMC and Trustees.

#### **9.4 Valuation of Government Securities<sup>245</sup>**

Irrespective of the residual maturity, Government Securities (including T-bills) shall be valued on the basis of security level prices obtained from valuation agencies.

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<sup>245</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

## **9.5 Valuation of other money market / debt securities, short-term deposits with banks (pending deployment) and OTC derivatives:<sup>246</sup>**

9.5.1 The valuation of bills purchased under rediscounting scheme shall be as per the guidelines mentioned for valuation of money market instruments, at paragraphs 9.2.3 (a) and 9.2.3 (b), as the case may be.

9.5.2 Investments in short-term deposits with banks (pending deployment) and repurchase (repo) transactions (including tri-party repo i.e. TREPS) with tenor of upto 30 days, shall be valued on cost plus accrual basis.

9.5.3 In order to have uniformity in valuation methodology, prices for all OTC derivatives and market linked debentures shall be obtained from valuation agencies.

## **9.6 Illiquid Securities<sup>247</sup>**

9.6.1 Aggregate value of “illiquid securities” under a scheme, which are defined as non-traded, thinly traded and unlisted equity shares, shall not exceed 15 per cent of the total assets of the scheme and any illiquid

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<sup>246</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

<sup>247</sup> SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

1. Provided that in case any scheme has illiquid securities in excess of 15% of total assets as on September 30, 2000 then such a scheme shall within a period of two years bring down the ratio of illiquid securities within the prescribed limit of 15 per cent. in the following time frame:
  - a. All the illiquid securities above 20 per cent. of total assets of the scheme shall be assigned zero value on September 30, 2001.
  - b. All the illiquid securities above 15 per cent. of total assets of the scheme shall be assigned zero value on September 30, 2002.
2. In respect of closed ended funds, for the purposes of valuation of illiquid securities, the limits of 15 per cent. and 20 per cent. applicable to open ended funds should be increased to 20 per cent. and 25 per cent respectively.
3. Where a scheme has illiquid securities as at September 30, 2001 not exceeding 15% in the case of an open-ended fund and 20% in the case of closed fund, the concessions of giving time period for reducing the illiquid security to the prescribed limits would not be applicable and at all time the excess over 15% or 20% shall be assigned nil value

securities held above 15 per cent of the total assets shall be assigned zero value.

9.6.2 All Mutual Funds shall disclose as on March 31 and September 30 the scheme wise total illiquid securities in value and percentage of the net assets while disclosing Half Yearly Portfolios to the unit holders. In the list of investments, an asterisk mark shall be given against all such investments which are recognised as illiquid securities.

9.6.3 Mutual Funds shall not be allowed to transfer illiquid securities among their schemes.

## **9.7 Investment in Unlisted Equity Shares<sup>248</sup>**

9.7.1 To ensure uniformity in calculation of NAV the following guidelines are issued:

9.7.1.1 Methodology for Valuation - unlisted equity shares of a company shall be valued "in good faith" as below:

- a. Based on the latest available audited balance sheet, Net Worth shall be calculated as the lower of item (1) and (2) below:
  1. Net Worth per share = [Share Capital + Free Reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares.
  2. After taking into account the outstanding warrants and options, Net Worth per share shall again be calculated and shall be = [Share Capital + consideration on exercise of Option and/or Warrants received/receivable by the Company + Free Reserves

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<sup>248</sup> SEBI Circular No. MFD/CIR/03/526/2002 dated May 9, 2002.



(excluding Revaluation Reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares plus Number of Shares that would be obtained on conversion and/or exercise of Outstanding Warrants and Options.

3. The lower of (1) and (2) above shall be used for calculation of Net Worth per share and for further calculation in (c) below.

- b. Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent. i.e. only 25 per cent of the industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose.
- c. The value as per the Net Worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 15 per cent for illiquidity so as to arrive at the fair value per share.

9.7.1.2 The above valuation methodology shall be subject to the following conditions:

- a. All calculations shall be based on audited accounts.
- b. If the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.
- c. If the Net Worth of the company is negative, the share would be marked down to zero.

- d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.
- e. In case an individual security accounts for more than 5 per cent of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent of the total assets of the scheme, it shall be valued in accordance with the procedure as mentioned above on the date of valuation.

9.7.2 At the discretion of the AMCs and with the approval of the Trustees, unlisted equity shares may be valued at a price lower than the value derived using the aforesaid methodology.

### 9.7.3 Due Diligence

9.7.3.1 Mutual Funds shall not make Investment in unlisted equity shares at a price higher than the price obtained by using the aforesaid methodology. However, this restriction is not applicable for investment made in the Initial Public Offers (IPOs) of the companies or firm allotment in public issues where all the regulatory requirements and formalities pertaining to public issues have been complied with by the companies and where the Mutual Funds are required to pay just before the date of public issue.

9.7.3.2 The Board of the AMC and Board of Trustees shall lay down the parameters for investing in unlisted equity shares. They shall pay specific attention as to whether due diligence was exercised while making such investments and shall review the performance of such investments in their periodical meetings<sup>249</sup>.

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<sup>249</sup> SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

#### 9.7.4 Reporting of Compliance

9.7.4.1 Comments on compliance of these Guidelines shall be indicated by the AMCs and Trustees in their CTRs<sup>250</sup> and Half Yearly Reports<sup>251</sup> filed with the Board.

### **9.8 Valuation of securities not covered under the current valuation policy<sup>252</sup>:**

9.8.1 In case of securities purchased by mutual funds do not fall within the current framework of the valuation of securities then such mutual fund shall report immediately to AMFI regarding the same. Further, at the time of investment AMCs shall ensure that the total exposure in such securities does not exceed 5% of the total AUM of the scheme.

9.8.2 AMFI has been advised that the valuation agencies should ensure that the valuation of such securities gets covered in the valuation framework within six weeks from the date of receipt of such intimation from mutual fund.

9.8.3 In the interim period, till AMFI makes provisions to cover such securities in the valuation of securities framework, the mutual funds shall value such securities using their proprietary model which has been approved by their independent trustees and the statutory auditors.

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<sup>250</sup> For CTR format please refer to the section on formats

<sup>251</sup> For Half Yearly Reports, please refer to the section on formats

<sup>252</sup> SEBI/IMD/CIR No.16/193388/2010 dated February 02, 2010 and Cir/IMD/DF/4/2010 dated June 21, 2010

## **9.9 Use of own trade for valuation<sup>253</sup>**

9.9.1 Various instances have come to notice wherein Mutual Funds have used their own trades of relatively small quantity in order to value the entire holding of such security. In order to address possible mis-use as mentioned above, Mutual Funds shall not use their own trades for valuation of debt and money market securities and for Inter-scheme transfers.

## **9.10 Inter-scheme transfers (IST) <sup>254</sup>:**

With respect to Inter-scheme transfers, it has been decided that:

- 9.10.1 AMCs shall seek prices for IST of any money market or debt security (irrespective of maturity), from the valuation agencies.
- 9.10.2 AMFI, in consultation with valuation agencies shall decide a turn-around-time (TAT), within which IST prices shall be provided by the agencies.
- 9.10.3 If prices from the valuation agencies are received within the pre-agreed TAT, an average of the prices so received shall be used for IST pricing.
- 9.10.4 If price from only one valuation agency is received within the agreed TAT, that price may be used for IST pricing.
- 9.10.5 If prices are not received from any of the valuation agencies within the agreed TAT, AMCs may determine the price for the IST, in accordance with Clause 3 (a) of Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996.

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<sup>253</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

<sup>254</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

## **9.11 Changes in Terms of Investment <sup>255</sup>**

While making any change to terms of an investment, Mutual Funds shall adhere to the following conditions:

- 9.11.1 Any changes to the terms of investment, which may have an impact on valuation, shall be reported to the valuation agencies immediately.
- 9.11.2 Any extension in the maturity of a money market or debt security shall result in the security being treated as “Default”, for the purpose of valuation.
- 9.11.3 If the maturity date of a money market or debt security is shortened and then subsequently extended, the security shall be treated as “Default” for the purpose of valuation.
- 9.11.4 Any put option inserted subsequent to the issuance of the security shall not be considered for the purpose of valuation and original terms of the issue will be considered for valuation.

## **9.12 Dissemination of information:**

- 9.12.1 All mutual funds shall provide transaction details, including inter scheme transfers, of money market and debt securities on daily basis to the agency entrusted for providing the benchmark yield/ matrix of spread over risk free benchmark yield. Submission of data<sup>256</sup> would help in daily matrix generation and would improve uniformity and accuracy of valuation in the mutual funds industry.
- 9.12.2 The AMCs shall also disclose all details of debt and money market securities transacted (including inter scheme transfers) in its schemes portfolio on its website and the same shall be forwarded to AMFI for

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<sup>255</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

<sup>256</sup> SEBI Circular No.MFD/CIR/23 /066 / 2003 dated March 7, 2003. For disclosure of transaction details, please refer to the section on Formats

consolidation and dissemination as per format<sup>257</sup>. These disclosures shall be made settlement date wise on daily basis with a time lag of 30 days<sup>258</sup>.

9.12.3 All Mutual Funds shall provide transaction details of various types of debt securities like NCDs, Mibor linked floaters and CPs on daily basis in the prescribed format enclosed at Annexure 3 to the agency recommended by AMFI.<sup>259</sup>.

### **9.13 Valuation and disclosure of upfront fees<sup>260</sup>:**

9.13.1 Guidelines for valuation of any upfront fee (or any other consideration, by whatever name called) received in a Mutual Fund scheme, shall be issued by AMFI, in consultation with SEBI.

### **9.14 Guidelines for investments in partly paid debentures<sup>261</sup>**

9.14.1 Guidelines for investment by Mutual Funds in partly paid debentures shall be issued by AMFI, in consultation with SEBI.

### **9.15 Guidelines to be issued by AMFI<sup>262</sup>:**

9.15.1 The guidelines to be issued by AMFI, in consultation with SEBI under paragraphs 9.1.4.1, 9.2.3 (C) (1), 9.13 and 9.14 above shall necessarily be followed by all Mutual Funds / AMCs. Any future changes to these guidelines shall be made by AMFI in consultation with SEBI, prior to implementation.

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<sup>257</sup> For format please refer to the section on formats

<sup>258</sup> SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012

<sup>259</sup> SEBI Circular No. MFD/CIR.No 23 / 066 /2003 dated March 7,2003

<sup>260</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

<sup>261</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

<sup>262</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

9.15.2 Further, AMFI shall submit the aforementioned guidelines to SEBI, within 15 days from date of issuance of this circular.

## **9.16 Consistency**

9.16.1 All AMC's shall ensure that similar securities held under its various schemes shall be valued consistently.

## **CHAPTER 10**

### **LOADS, FEES, CHARGES AND EXPENSES**

#### ***10.1 Limits on fees and expenses charged to schemes<sup>263</sup>***

10.1.1 Mutual Funds may charge certain expenses to a scheme, as specified under Regulations.<sup>264</sup> Apart from the these expenses, any other expense as may be approved by SEBI under clause (xiii) of Sub Regulation 52(4) can also be charged to the Mutual Fund schemes. Other expenses directly attributable to a scheme may be charged with the approval of trustees within the overall limits as provided in the Regulation 52(6).<sup>265</sup>

10.1.2 Additional TER<sup>266</sup> can be charged up to 30 basis points on daily net assets of the scheme as per Regulation 52<sup>267</sup>, if the new inflows from retail investors<sup>268</sup> from beyond top 30 cities<sup>269</sup> are at least (a) 30% of gross new inflows in the scheme or (b) 15% of the average assets under management (year to date) of the scheme, whichever is higher.

Inflows of amount upto Rs.2,00,000/-<sup>270</sup> per transaction, by individual investors shall be considered as inflows from “retail investor”.

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<sup>263</sup> SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997, SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998, SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

<sup>264</sup> Regulation 52(4) of the Mutual Funds Regulations, 1996

<sup>265</sup> SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

<sup>266</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

<sup>267</sup> Regulation 52 of the Mutual Funds Regulations, 1996

<sup>268</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

<sup>269</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/16 dated February 02, 2018.

<sup>270</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019



In case inflows from beyond top 30 cities from retail investors is less than the higher of (a) or (b) above, additional TER on daily net assets of the scheme shall be charged as follows:

Daily net assets X 30 basis points X New inflows from retails investors from beyond top 30 cities

365\* X Higher of (a) or (b) above

\* 366, wherever applicable.

The top 30 cities shall mean top 30 cities based on Association of Mutual Funds in India (AMFI) data on 'AUM by Geography – Consolidated Data for Mutual Fund Industry' as at the end of the previous financial year.

10.1.3 The additional TER on account of inflows from beyond top 30 cities so charged shall be clawed back in case the same is redeemed within a period of 1 year from the date of investment.

Accordingly, Annexure A1 mentioned at para A(2) of SEBI Circular CIR/IMD/DF/05/2014 dated March 24, 2014, are modified, whereby at all relevant places, the terms "15 cities", "T15" and "B15" would be substituted with "30 cities", "T30" and "B30" respectively, while keeping the other provisions of the circular unchanged.

10.1.4 The additional commission for B 30 cities shall be paid as trail only.

10.1.5 Trustees and AMCs shall ensure compliance of the provisions mentioned above at paras 10.1.2 and 10.1.4 and trustees shall confirm the same to SEBI in the half yearly trustee report.

10.1.6 <sup>271</sup>Regulation 52 (6A) (c) of SEBI (Mutual Funds) Regulations, 1996, allows an AMC to charge additional expenses, incurred towards

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<sup>271</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/15 dated February 02, 2018  
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different heads mentioned under Regulation 52 (2) and Regulation 52 (4), not exceeding 0.05<sup>272</sup> per cent of daily net assets of the scheme.

In this respect, Mutual Fund schemes including close ended schemes, wherein exit load is not levied / not applicable, the AMCs shall not be eligible to charge the above mentioned additional expenses for such schemes.

Further, existing Mutual Fund schemes including close ended schemes, wherein exit load is not levied / not applicable, shall discontinue, with immediate effect, the levy of above mentioned additional expenses, if any.

#### 10.1.7 **Total Expense Ratio – Change and Disclosure** <sup>273</sup>

- (a) AMCs shall prominently disclose on a daily basis, the TER (scheme-wise, date-wise) of all schemes except infrastructure debt fund (IDF) schemes under a separate head –“Total Expense Ratio of Mutual Fund Schemes” on their website and on the website of AMFI in a downloadable spreadsheet format.<sup>274</sup>.
  
- (b) Any change in the base TER (i.e. TER excluding additional expenses provided in Regulation 52(6A)(b), 52(6A)(c) of SEBI (Mutual Funds) Regulations, 1996 and Goods and Services Tax on investment and advisory fees) in comparison to previous base TER charged to any scheme/plan shall be communicated to investors of the scheme/plan through notice via email or SMS at least three working days prior to effecting such change. (For example, if changed TER is to be effective from January 8, 2018,

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<sup>272</sup> Regulation 52(6A)(c) of the SEBI (Mutual Funds) Regulations, 1996.

<sup>273</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/18 dated February 5, 2018, SEBI/HO/IMD/DF2/CIR/P/2018/91 dated June 05, 2018 and SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019.

<sup>274</sup> Please refer to section on Formats for requisite formats.

then notice shall be given latest by January 2, 2018, considering at least three working days prior to effective date). Further, the notice of change in base TER shall be updated in the aforesaid section of website at least three working days prior to effecting such change.

<sup>275</sup> Provided that any increase or decrease in TER in a mutual fund scheme due to change in AUM and any decrease in TER in a mutual fund scheme due to various other regulatory requirements would not require issuance of any prior notice to the investors.

10.1.8 <sup>276</sup> The above change in the base TER in comparison to previous base TER charged to the scheme shall be intimated to the Board of Directors of AMC along with the rationale recorded in writing.

10.1.9 The changes in TER shall also be placed before the Trustees on quarterly basis along with rationale for such changes.

10.1.10 Mutual funds/AMCs shall make complete disclosures in the half yearly report of Trustees to SEBI regarding the efforts undertaken by them to increase geographical penetration of mutual funds and the details of opening of new branches, especially at locations beyond top 30 cities.

#### 10.1.11 **Transparency in TER**<sup>277</sup>

In order to bring transparency in expenses, reduce portfolio churning and mis-selling in mutual fund (MF) schemes, the following shall be adhered to:

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<sup>275</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

<sup>276</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/18 dated February 05, 2018

<sup>277</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018

- (a) In terms of Regulation 52(1) of SEBI (Mutual Funds) Regulations, 1996, all scheme related expenses including commission paid to distributors, by whatever name it may be called and in whatever manner it may be paid, shall necessarily be paid from the scheme only within the regulatory limits and not from the books of the Asset Management Companies (AMC), its associate, sponsor, trustee or any other entity through any route.

Provided<sup>278</sup> that the expenses that are very small in value but high in volume may be paid out of AMC's books. Such expenses can be paid out of AMC's books at actuals or not exceeding 2 bps of respective scheme AUM, whichever is lower. A list of such miscellaneous expenses may be provided by AMFI in consultation with SEBI. Such expenses incurred by AMC should be properly recorded and audited in the books of account of AMC at year end.

- (b) MFs/ AMCs shall adopt full trail model of commission in all schemes, without payment of any upfront commission or upfronting of any trail commission, directly or indirectly, in cash or kind, through sponsorships, or any other route. However, upfronting of trail commission will be allowed only in case of inflows through Systematic Investment Plans (SIPs).
- (c) In respect of inflows through SIPs into MF schemes, a carve out has been considered only for new investors to the MF industry (to be identified based on PAN). The upfronting of trail commissions, based on SIP inflows, shall be up to 1% payable yearly in advance, for a maximum period of three years.

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<sup>278</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

- (d) The payment of upfront trail commission would be subject to the following <sup>279</sup>:
- i. The upfronting of trail commission may be for SIP of upto Rs. 3,000 per month, per scheme, for an investor who is investing for the first time in Mutual Fund schemes.
  - ii. For a new investor, as identified above, only the first SIP(s) purchased by the investor shall be eligible for up-fronting. In this regard, if multiple SIP(s) are purchased on different dates, the SIP(s) in respect of which the instalment starts on the earliest date shall be considered for upfronting.
  - iii. The upfront trail commission shall be paid from AMC's books.
  - iv. The said commission shall be amortized on daily basis to the scheme over the period for which the payment has been made. A complete audit trail of upfronting of trail commissions from the AMC's books and amortization of the same to scheme(s) thereafter shall be made available for inspection.
  - v. The said commission should be charged to the scheme as 'commissions' and should also account for computing the TER differential between regular and direct plans in each scheme.
  - vi. The commission paid shall be recovered on pro-rata basis from the distributors, if the SIP is not continued for the period for which the commission is paid.'
- (e) In case of misuse of the carve out for SIPs, the same would be discontinued and appropriate action would be taken against the

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<sup>279</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019  
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errant participants. Further, the need of this carve out would be reviewed by SEBI as and when required.

- (f) All fees and expenses charged in a direct plan (in percentage terms) under various heads including the investment and advisory fee shall not exceed the fees and expenses charged under such heads in a regular plan.
- (g) No pass back, either directly or indirectly, shall be given by MFs/AMCs/Distributors to the investors.
- (h) Training sessions and programmes conducted for distributors should continue and should not be misused for providing any reward or non-cash incentive to the distributors.

10.1.12 Trustees and AMCs shall ensure compliance of the provisions mentioned at para 10.1.11 above and trustees shall confirm the same to SEBI in the half yearly trustee report.

10.1.13 Brokerage and transaction cost<sup>280</sup> incurred for the purpose of execution of trade may be capitalized to the extent of 12bps and 5bps for cash market transactions and derivatives transactions respectively. Any payment towards brokerage and transaction cost, over and above the said 12 bps and 5bps for cash market transactions and derivatives transactions respectively may be charged to the scheme within the maximum limit of Total Expense Ratio (TER) as prescribed under regulation 52<sup>281</sup>. Any expenditure in excess of the said prescribed limit (including

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<sup>280</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012 & SEBI Circular No. CIR/IMD/DF/24/2012 dated November 19, 2012.

<sup>281</sup> Regulation 52 of the SEBI (Mutual Funds) Regulations, 1996

brokerage and transaction cost, if any) shall be borne by the AMC or by the trustee or sponsors.

10.1.14 Soft-dollar arrangement refers to an arrangement between AMCs and brokers in which the AMC executes trades through a particular broker and in turn the broker may provide benefits such as free research, hardware, software or even non-research-related services, etc., to the AMC. It may be noted that such arrangements between AMCs and brokers should be limited to only benefits (like free research report, etc.) that are in the interest of investors and the same should be suitably disclosed<sup>282</sup>.

10.1.15 Investor Education and Awareness<sup>283</sup>:

- (a) Mutual Funds/AMCs shall annually set apart at least 2 basis points on daily net assets within the maximum limit of TER as per regulation 52 of the Regulations for investor education and awareness initiatives. Mutual Funds shall make complete disclosures in the half yearly trustee report to SEBI regarding the investor education and awareness initiatives undertaken.
- (b) <sup>284</sup>Certain portion of the 2 basis points of daily net assets is being set aside by Mutual Funds/AMCs for investor education and awareness initiatives at industry level.
- (c) In this respect, for the purpose of increasing awareness of Mutual Funds as a financial product category it has been decided to permit celebrity endorsements at industry level, subject to the following conditions:

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<sup>282</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016

<sup>283</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

<sup>284</sup> SEBI Circular No. CIR/IMD/DF/23/2017 dated March 15, 2017

- i. Celebrity endorsement shall be allowed only at industry level, for the purpose of increasing awareness of Mutual Funds as a financial product category. Such celebrity endorsements should not promote a scheme of a particular Mutual Fund or be used as a branding exercise of a Mutual Fund house/ AMC.
- ii. Expenses towards such celebrity endorsements for increasing awareness of Mutual Funds shall be limited to the amounts that are aggregated by Mutual Funds at industry level for the purpose of conducting investor education and awareness initiatives, in terms of clause F of SEBI circular dated September 13, 2012.
- iii. Prior approval of SEBI shall be required for issuance of any endorsement of Mutual Funds as a financial product, which features a celebrity for the purpose of increasing awareness of Mutual Funds.

10.1.16 <sup>285</sup>The following expenses cannot be charged to the schemes of Mutual Funds:

- a. Penalties and fines for infraction of laws.
- b. Interest on delayed payment to the unit holders.
- c. Legal, marketing, publication and other general expenses not attributable to any scheme(s).
- d. Fund Accounting Fees.
- e. Expenses on investment management/general management.
- f. Expenses on general administration, corporate advertising and infrastructure costs.
- g. Depreciation on fixed assets and software development expenses.
- h. Such other costs as may be prohibited by the Board.

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<sup>285</sup> SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000



- 10.1.17 The expenditure and/or fee payable by Mutual Funds to the Depositories may either be capitalized or included as part of recurring expenditure within the limits prescribed under Regulation 52(6) of the Mutual Funds Regulations<sup>286</sup>.
- 10.1.18 Further, each item of expenditure accounting for more than 10% of total expenditure shall be disclosed in the accounts or the notes thereto of the schemes<sup>287</sup>.
- 10.1.19 Provision of charging of additional management fees by the Asset Management Companies in case of schemes launched on no load basis<sup>288</sup>.
- a. AMC shall not collect any additional management fees referred to in Regulation<sup>289</sup>.
- Mutual Fund Schemes to be launched including those for which observation letter have been issued under Regulation<sup>290</sup> would be required to carry out the changes in SID and file the same with SEBI before the launch.

## **10.2 Restriction on paying brokerage or commission<sup>291</sup>**

- 10.2.1 In case of investments made by the Sponsor(s), no brokerage or commission shall be paid.

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<sup>286</sup> SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998.

<sup>287</sup> SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

<sup>288</sup> SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

<sup>289</sup> Regulation 52(3) of SEBI Mutual Funds Regulation, 1996 and SEBI Circular No. SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009

<sup>290</sup> Regulation 29 of SEBI (Mutual Funds) Regulations, 1996

<sup>291</sup> SEBI Circular No. MFD/CIR No.3/211/2001 dated April 30, 2001, SEBI Circular No. MFD/CIR No.5/153/2001 dated May 24, 2001.

### **10.3 Restriction on charging Service Tax<sup>292</sup>**

- 10.3.1 AMC(s) can charge Service Tax, as per applicable Taxation Laws, to the scheme(s) within the limits prescribed under Regulations<sup>293</sup>
- 10.3.2 Mutual funds /AMCs may charge service tax on investment and advisory fees to the scheme in addition to the maximum limit of TER as prescribed in Regulation 52<sup>294</sup>.
- 10.3.3 Service tax on other than investment and advisory fees, if any, shall be borne by the scheme within the maximum limit of TER as per Regulation 52<sup>295</sup>.
- 10.3.4 Service tax on exit load, if any, shall be paid out of the exit load proceeds and exit load net of service tax, if any, shall be credited to the scheme.
- 10.3.5 Service tax on brokerage and transaction cost<sup>296</sup> paid for execution of trade, if any, shall be within the limit prescribed under regulation 52 of the Regulations.

### **10.4 Empowering investors through transparency in payment of commission and load structure<sup>297</sup>**

- 10.4.1 In order to empower investors in deciding the commission paid to distributors in accordance with the level of service received, it has been mandated that:

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<sup>292</sup> SEBI Circular No. MFD/CIR/04/430/2002 dated June 19, 2002, SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

<sup>293</sup> Reg.52(6) of the SEBI (Mutual Funds) Regulations, 1996.

<sup>294</sup> Regulation 52 of SEBI (Mutual Funds) Regulations, 1996

<sup>295</sup> Regulation 52 of SEBI (Mutual Funds) Regulations, 1996

<sup>296</sup> SEBI Circular No. CIR/ IMD/ DF/ 24/2012 dated November 19, 2012

<sup>297, 219</sup> SEBI Circular No SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009

- a. There shall be no entry load<sup>298</sup> for all Mutual Fund schemes.
- b. The scheme application forms shall carry a suitable disclosure to the effect that the upfront commission to distributors will be paid by the investor directly to the distributor, based on his assessment of various factors including the service rendered by the distributor.
- c. The load balances are maintained as 'liabilities' in the books of the scheme and are not included in the net asset value (NAV). The usage<sup>299</sup> of the load account shall be subject to the following:
  - a. The load balance shall be segregated into two accounts in the books of accounts of the scheme - one to reflect the balance as on July 31, 2009 and the other to reflect accretions since August 01, 2009.
  - b. However, not more than one-third of load balance as on July 31, 2009 shall be used in any financial year. It is clarified though the unutilized balances can be carried forward, yet in no financial year the total spending can be more than one third of the load balances on July 31, 2009.

The accretions after July 31, 2009 can be used by mutual funds for marketing and selling expenses including distributor's/agent's commissions without any restrictions mentioned in Para (b) above.

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<sup>298</sup> Waiver of load for direct applications - Vide SEBI Circular No. SEBI/IMD/CIR No.10/112153/07 dated December 31, 2007, SEBI mandated w.e.f January 4, 2009 no entry load shall be charged for applications received directly by the AMC(s) through internet or submitted directly to the AMC(s) or Collection Center/Investor Service Centre and not routed through any distributor or agent or broker. This waiver was applicable to both additional purchases under the same folio and 'switch in' to a scheme from other schemes also done directly by the investor. AMCs shall follow the provisions pertaining to informing the unitholders upon a change in load structure as per clause 3(d) of standard observations.

<sup>299</sup> SEBI Circular No.CIR/IMD/DF/4/2011 dated March 9, 2011

- d. The exit load charged<sup>300</sup>, if any, after the commencement of SEBI (Mutual Funds) (Second Amendment) Regulations, 2012, shall be credited to the scheme.
- e. The distributors should disclose all the commissions (in the form of trail commission or any other mode) payable to them for the different competing schemes of various Mutual Funds from amongst which the scheme is being recommended to the investor.

10.4.2 The above guidelines became applicable for:

- a. Investments in mutual fund schemes (including additional purchases and switch-in to a scheme from other schemes) w.e.f August 1, 2009
- b. Redemptions from mutual fund schemes (including switch-out from other schemes) w.e.f August 1, 2009
- c. New mutual fund schemes launched on or after August 1, 2009
- d. All Systematic Investment Plans (SIP) including SIPs registered prior to August 1, 2009<sup>301</sup>.

10.4.3 The AMCs are required to bring the contents of these guidelines to the notice of their distributors and monitor compliance.

## **10.5 Transaction Charges<sup>302</sup>**

10.5.1 A transaction charge per subscription of Rs.10,000/- and above be allowed to be paid to the distributors of the Mutual Fund products.

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<sup>300</sup> Regulation 51A of SEBI (Mutual Funds) Regulations, 1996.

<sup>301</sup> SEBI Circular No.MFD/CIR/04/430/2002 dated June 19, 2002, SEBI Circular No. CIR/IMD/df/21/2012 dated September 13, 2012, SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

<sup>302</sup> SEBI Circular no. CIR/IMD/DF/13/2011 dated August 22, 2011

However, there shall be no transaction charges on direct investments. The transaction charge shall be subject to the following:

- a. For existing investors in a Mutual Fund, the distributor may be paid Rs.100/- as transaction charge per subscription of Rs.10,000/- and above.
- b. As an incentive to attract new investors, the distributor may be paid Rs.150/- as transaction charge for a first time investor in Mutual Funds.
- c. The terms and conditions relating to transaction charge shall be part of the application form in bold print.
- d. The transaction charge, if any, shall be deducted by the AMC from the subscription amount and paid to the distributor; and the balance shall be invested.
- e. The statement of account shall clearly state that the net investment as gross subscription less transaction charge and give the number of units allotted against the net investment.
- f. Distributors shall be able to choose to opt out of charging the transaction charge. However, the 'opt-out' shall be at distributor level and not investor level i.e. a distributor shall not charge one investor and choose not to charge another investor. Further, Distributors shall have also the option to either opt in or

opt out of levying transaction charge based on type of the product<sup>303</sup>.

- g. The AMCs shall be responsible for any malpractice/mis-selling by the distributor while charging transaction costs.
- h. There shall be no transaction charge on subscription below Rs.10,000/-
- i. In case of SIPs, the transaction charge shall be applicable only if the total commitment through SIPs amounts to Rs.10,000/- and above. In such cases the transaction charge shall be recovered in 3-4 installments.
- j. There shall be no transaction charge on transactions other than purchases/ subscriptions relating to new inflows.

10.5.2 Mutual Funds shall institute systems to detect if a distributor is splitting investments in order to enhance the amount of transaction charges and take stringent action including recommendations to AMFI to take appropriate action.

10.5.3 Mutual Funds/AMCs shall carry out an exercise of de-duplication of folios across all Mutual Funds within a period of 6 months from August 22, 2011.

## **10.6 No Load on Bonus Units and Units allotted on Reinvestment of Dividend<sup>304</sup>**

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<sup>303</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

<sup>304</sup> SEBI Circular No. SEBI/IMD/CIR No. 14/120784/08 dated March 18, 2008

10.6.1 AMC(s) shall not charge entry and/or exit load on bonus units and units allotted on reinvestment of dividend. Necessary disclosures in this regard shall be made in the SID filed with the Board<sup>305</sup>

### **10.7 Filing fees**<sup>306</sup>

10.7.1 Revised filing fee<sup>307</sup> as per the SEBI (Payment of Fees) Amendment Regulations 2014 would be applicable to those scheme(s) whose SID has been filed with SEBI on or after May 23, 2014.

### **10.8 Exit load parity**

10.8.1 While charging exit loads, no distinction among unit holders should be made based on the amount of subscription<sup>308</sup>. While complying with the same, Mutual Funds should ensure that “any imposition or enhancement in the load shall be applicable on prospective investments only.”<sup>309</sup>

10.8.2 Further, the parity among all classes of unit holders in terms of charging exit load shall be made applicable at the portfolio level.<sup>310</sup>

### **10.9 Borrowing Costs**<sup>311</sup>

10.9.1 With regard to the cost of borrowings in terms of Regulation 44(2) of SEBI (Mutual Funds) Regulations, 1996, it has been decided that for a given scheme, the same shall be adjusted against the portfolio yield of the scheme and borrowing costs in excess of portfolio yield, if any, shall be borne by the AMC.

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<sup>259</sup> SEBI Circular No. CIR/ IMD/DF/24/2012 dated November 19, 2012

<sup>306</sup> SEBI Cir No. SEBI / IMD / CIR No. 5 / 169030 / 2009 dated July 8, 2009

<sup>307</sup> Gazettee Notification No. LAD-NRO/GN/20014-15/03/1089 on SEBI (Payment of Fees) (Amendment) Regulations, 2014 dated 23 May, 2014

<sup>308</sup> SEBI Circular No. SEBI / IMD / CIR No. 6 / 172445/ 2009 dated August 7,2009 All Mutual Funds shall ensure compliance with this circular on or before August 24, 2009

<sup>309</sup> SEBI Circular No - SEBI / IMD / CIR No. 7 / 173650 / 2009 dated August 17,2009 and SEBI circular No. SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008 (clause 16 of the standard observations)

<sup>310</sup> SEBI Circular No - SEBI / IMD / CIR No. 7 / 173650 / 2009 dated August 17,2009

<sup>311</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

## **CHAPTER 11**

### **DIVIDEND DISTRIBUTION PROCEDURE**<sup>312, 313</sup>

11.1 Regulations<sup>314</sup> permit Mutual Funds to distribute returns including dividend. To introduce uniform practices in dividend distribution, the following guidelines should be followed:

11.2 These guidelines are applicable to all Mutual Fund schemes/plans which intend to declare the dividend irrespective of their dates of launch.<sup>315</sup>

#### 11.2.1 Unlisted Scheme(s)/ Plan(s)

11.2.1.1 The Trustees shall decide the quantum of dividend and the record date in their meeting<sup>316</sup>. Dividend so decided, shall be paid, subject to availability of distributable surplus.

11.2.1.2 Record date shall be the date which will be considered for the purpose of determining the eligibility of investors whose names appear on the register of unit holders for receiving dividends. The NAV shall be adjusted to the extent of dividend distribution and statutory levy, if applicable, at the close of business hours on record date.

11.2.1.3 Within one calendar day of the decision of the Trustees with respect to the dividend to be distributed, the AMC(s) shall issue a notice to the public communicating the decision including the

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<sup>312</sup> SEBI Circular No. SEBI/IMD/CIR No.1/64057/06 dated April 4, 2006.

<sup>313</sup> For details on advertisement on dividend please refer to Chapter on 'Advertisements'

<sup>314</sup> Regulation 53(a) of the SEBI (Mutual Funds) Regulations, 1996

<sup>315</sup> SEBI Circular No SEBI/IMD/CIR No. 3/65370/06 dated April 21,2006

<sup>316</sup> Clause 20 of Third Schedule of SEBI (Mutual Funds) Regulations, 1996



record date. The record date shall be five calendar days from the issue of public notice.

11.2.1.4 Before the issue of such notice, no communication whatsoever indicating the probable date of dividend declaration shall be issued by any Mutual Fund or its distributors of its products.

11.2.1.5 Such notice shall be given in at least one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the head office of the Mutual Fund is situated.

11.2.1.6 The notice shall, in font size 10, bold, categorically state that pursuant to dividend distribution, NAV of the scheme would fall to the extent of payout and statutory levy (if applicable).

#### 11.2.2 Liquid / Debt Schemes with frequent dividend distribution

11.2.2.1 The requirement of giving notice is not mandatory for scheme(s)/ plan(s)/ option(s) with dividend distribution frequency ranging from daily up to monthly distribution if requisite disclosures in this regard are made in the SID.

#### 11.2.3 Listed Schemes/Plans

11.2.3.1 Listed scheme(s)/ plan(s) shall follow the requirements stipulated in the Listing Agreement for dividend declaration and distribution.

### **11.3 Non availability of Unit Premium Reserve for dividend distribution<sup>317</sup>**

11.3.1 Regulations<sup>318</sup> provide the accounting policies to be followed for determining distributable surplus and accounting the sale and repurchase of units in the books of the Mutual Fund. The format for Scheme Balance Sheet (including Abridged) provides for disclosure of Unit Premium Reserve.

11.3.2 Unit Premium Reserve, which is part of the sales price of units that is not attributable to realized gains, cannot be used to pay dividend. Therefore:

11.3.2.1 When units of an open-ended scheme are sold, and sale price is higher than face value of the unit, part of sale proceeds that represents unrealized gains shall be credited to a separate account (Unit Premium Reserve) and shall be treated at par with unit capital and the same shall not be utilized for the determination of distributable surplus.

11.3.2.2 When units of an open-ended scheme are sold, and sale price is less than face value of the unit, the difference between the sale price and face value shall be debited to distributable reserves and the dividend can be declared only when distributable reserves become positive after adjusting the amount debited to reserves as per Regulations<sup>319</sup>.

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<sup>317</sup> SEBI circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

<sup>318</sup> Ninth and Eleventh Schedule of SEBI (Mutual Funds) Regulations, 1996

<sup>319</sup> Paragraph 2(a) (ix) of Eleventh Schedule of SEBI (Mutual Funds) Regulations, 1996

## **CHAPTER 12**

### **INVESTMENT BY SCHEMES<sup>320</sup>**

#### ***12.1 Investment in Listed and Unrated Debt Instruments<sup>321</sup>***

12.1.1 Mutual fund scheme shall not invest in unlisted debt instruments including commercial papers (CPs), other than (a) government securities, (b) other money market instruments and (c) derivative products such as Interest Rate Swaps (IRS), Interest Rate Futures (IRF), etc. which are used by mutual funds for hedging.

However, mutual fund schemes may invest in unlisted Non-Convertible Debentures (NCDs) not exceeding 10% of the debt portfolio of the scheme subject to the condition that such unlisted NCDs have a simple structure (i.e. with fixed and uniform coupon, fixed maturity period, without any options, fully paid up upfront, without any credit enhancements or structured obligations) and are rated and secured with coupon payment frequency on monthly basis.

12.1.2 For the purpose of the provisions of paragraph 12.1, listed debt instruments shall include listed and to be listed debt instruments.

12.1.3 All fresh investments by mutual fund schemes in CPs would be made only in CPs which are listed or to be listed.

12.1.4 Further, investment in unrated debt and money market instruments, other than government securities, treasury bills, derivative products

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<sup>320</sup> Investments in Money Market instruments (MMIs)

In case of the existing schemes ( i.e. existing on date of issue of SEBI Circular No - SEBI / IMD / CIR No.3 / 166386 / 2009 dated June 15, 2009) where the investments in money market instruments of an issuer are not in compliance with the Gazette Notification No. LAD – NRO/GN/2009-10/07/165404 dated June 5, 2009, AMC shall ensure compliance within a period of 3 months from the date of notification.

<sup>321</sup> SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/104 dated October 1, 2019

such as Interest Rate Swaps (IRS), Interest Rate Futures (IRF), etc. by mutual fund schemes shall be subject to the following:

- a. Investments should only be made in such instruments, including bills re-discounting, usance bills, etc., that are generally not rated and for which separate investment norms or limits are not provided in SEBI (Mutual Fund) Regulations, 1996 and various circulars issued thereunder.
- b. Exposure of mutual fund schemes in such instruments, shall not exceed 5% of the net assets of the schemes.
- c. All such investments shall be made with the prior approval of the Board of AMC and the Board of trustees.

## ***12.2 Restrictions on Investment in debt instruments having Structured Obligations / Credit Enhancements:<sup>322</sup>***

12.2.1 The investment of mutual fund schemes in the following instruments shall not exceed 10% of the debt portfolio of the schemes and the group exposure in such instruments shall not exceed 5% of the debt portfolio of the schemes:

- a. Unsupported rating of debt instruments (i.e. without factoring-in credit enhancements) is below investment grade and
- b. Supported rating of debt instruments (i.e. after factoring-in credit enhancement) is above investment grade.

For the purpose of this provision, 'Group' shall have the same meaning as defined in paragraph B(3)(b) of SEBI Circular

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<sup>322</sup> SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/104 dated October 1, 2019

No.SEBI/HO/IMD/DF2/CIR/P/2016/35 dated February 15, 2016.

12.2.2 Investment limits as mentioned in paragraph 12.2.1 above shall not be applicable on investments in securitized debt instruments, as defined in SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations 2008.

12.2.3 Investment in debt instruments, having credit enhancements backed by equity shares directly or indirectly, shall have a minimum cover of 4 times considering the market value of such shares.

AMCs may ensure that the investment in debt instruments having credit enhancements are sufficiently covered to address the market volatility and reduce the inefficiencies of invoking of the pledge or cover, whenever required, without impacting the interest of the investors. In case of fall in the value of the cover below the specified limit, AMCs should initiate necessary steps to ensure protection of the interest of the investors.

12.2.4 The existing investments by mutual fund schemes in debt instruments that are not in terms of the provisions of paragraph C may be grandfathered till maturity date (as stands as on the date of this circular) of such debt instruments.

12.2.5 Details of investments in debt instruments having structured obligations or credit enhancement features should be disclosed distinctively in the monthly portfolio statement of mutual fund schemes.

## **12.3 Investments by Index Funds:<sup>323</sup>**

12.3.1 Investments by index funds shall be in accordance with the weightage of the scrips in the specific index as disclosed in the SID<sup>324</sup> In case of sector or industry specific scheme, the upper ceiling on investments may be in accordance with the weightage of the scrips in the representative sectoral index or sub index as disclosed in the SID or 10% of the NAV of the scheme, whichever is higher.

## **12.4 Investments by Liquid Schemes and plans<sup>325</sup>**

12.4.1 The 'liquid fund schemes and plans' shall make investment in /purchase debt and money market securities with maturity of upto 91 days only <sup>326</sup>. This shall also be applicable in case of inter scheme transfer of securities <sup>327</sup>

12.4.1.1 Explanation:

- a. In case of securities where the principal is to be repaid in a single payout the maturity of the securities shall mean residual maturity. In case the principal is to be repaid in more than one payout then the maturity of the securities shall be calculated on the basis of weighted average maturity of security.
- b. In case of securities with put and call options (daily or otherwise) the residual maturity of the securities shall not be greater than 91 days<sup>328</sup>

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<sup>323</sup> SEBI Circular No - MFD/CIR/09/014/2000 dated January 5, 2000

<sup>324</sup> See Clause 10, Seventh Schedule of Mutual Funds Regulations.

<sup>325</sup> SEBI Circular No - SEBI/IMD/CIR No.13/150975 / 09 dated January 19, 2009

<sup>326</sup> With effect from February 01, 2009 make investment in /purchase debt and money market securities with maturity of upto 182 days only.

<sup>327</sup> Transition provision:

Inter-scheme transfers of securities having maturity upto 365 days and held in other schemes as on February 01, 2009 shall be permitted till October 31, 2009. With effect from November 1, 2009 the requirements stated at paragraph 12.2.1 above shall apply to such inter-se scheme transfers also.

<sup>328</sup> w.e.f May 01, 2009.

c. In case the maturity of the security falls on a non-business day then settlement of securities will take place on the next business day.

12.4.2 The above requirements shall be disclosed in the SID and shall form part of the investment allocation pattern. Any deviation from these requirements shall be viewed as violation of investment restrictions.

### **12.5 Investments by close ended debt schemes:**

12.5.1 Close ended debt schemes shall invest only in such securities which mature on or before the date of the maturity of the scheme<sup>329</sup>

### **12.6 Prudential limits and disclosures on portfolio concentration risk in debt oriented mutual fund schemes<sup>330,331</sup>**

12.6.1 <sup>332</sup>Mutual Funds/AMCs shall ensure that total exposure of debt schemes of mutual funds in a particular sector (excluding investments in Bank CDs, CBLO, G-Secs, TBills, short term deposits of Scheduled Commercial Banks and AAA rated securities issued by Public Financial Institutions and Public Sector Banks) shall not exceed 20% of the net assets of the scheme;

Provided that an additional exposure to financial services sector (over and above the limit of 20%) not exceeding 10% of the net assets of the scheme shall be allowed only by way of increase in exposure to Housing Finance Companies (HFCs); Further, an additional exposure

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<sup>329</sup> SEBI Circular No IMD/CIR No 12/147132/08 dated December 11, 2008.

<sup>330</sup> SEBI Circular No.CIR/IMD/ DF/ 21/ 2012 dated September 13, 2012 and SEBI Circular No. CIR/IMD/DF/24/2012 dated November 19, 2012 SEBI/ HO/ IMD/ DF2/CIR/P/2016/35 dated February 15, 2016 and SEBI Circular No. SEBI/ HO/ IMD/ DF2/CIR/P/2016/68 dated August 10, 2016

<sup>331</sup> SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/104 dated October 1, 2019

<sup>332</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/14 dated February 22, 2017

of 5% of the net assets of the scheme has been allowed for investments in securitized debt instruments based on retail housing loan portfolio and/or affordable housing loan portfolio.

However the overall exposure in HFCs shall not exceed the sector exposure limit of 20% of the net assets of the scheme.

Provided further that the additional exposure to such securities issued by HFCs are rated AA and above and these HFCs are registered with National Housing Bank (NHB) and the total investment/exposure in HFCs shall not exceed 20% of the net assets of the scheme.

12.6.2 Further, appropriate disclosures in this regard shall be made in Scheme Information Document (SID) and Key Information Memorandum (KIM) of debt schemes<sup>333</sup>.

12.6.3 Group Exposure –

a) Mutual Funds/ AMCs shall ensure that total exposure of debt schemes of mutual funds in a group (excluding investments in securities issued by Public Sector Units, Public Financial Institutions and Public Sector Banks) shall not exceed 20% of the net assets of the scheme. Such investment limit may be extended to 25% of the net assets of the scheme with the prior approval of the Board of Trustees.

b) The investments by debt mutual fund schemes in debt and money market instruments of group companies of both the sponsor and the asset management company shall not exceed 10% of the net

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<sup>333</sup> SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/104 dated October 1, 2019



assets of the scheme. Such investment limit may be extended to 15% of the net assets of the scheme with the prior approval of the Board of Trustees.<sup>334</sup>

c) For this purpose, a group means a group as defined under regulation 2 (mm) of SEBI (Mutual Funds) Regulations, 1996 (Regulations) and shall include an entity, its subsidiaries, fellow subsidiaries, its holding company and its associates.

d) All AMCs shall publish on their respective website a list of their group companies and those of their sponsor(s).<sup>335</sup>

e) AMFI shall publish on its website a list of all group companies along with names and identifier of the respective group that are considered for calculation of group exposure by mutual fund schemes and also the sector to which each company belongs.<sup>335</sup>

f) The disclosures at paragraphs 12.6.3(d) and 12.6.3(e) above shall be made on 1<sup>st</sup> working day of each calendar quarter starting from January 1, 2020.<sup>335</sup>

12.6.4 Trustee shall review exposure of a mutual fund, across all its schemes, towards individual issuers, group companies and sectors. Trustee should satisfy themselves on the levels of exposure and confirm the same to SEBI in the half-yearly trustee report starting from the half-year ending March 31, 2016.

12.6.5 The revised investment restrictions at issuer level, sector level and group level shall be applicable to all new schemes and fresh

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<sup>334</sup> SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/104 dated October 1, 2019

<sup>335</sup> SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/152 dated December 10, 2019

investments by existing schemes from the date of this circular (i.e. February 15, 2016).

12.6.6 Existing mutual fund schemes shall comply with the revised investment restrictions at issuer level, sector level and group level within a period of one year from the date of issue of this circular (i.e. February 15, 2016). Existing close ended schemes shall not be required to sell their investments to comply with the restrictions. However, if existing close ended schemes sell their investments then their fresh investments shall be subject to the restrictions.

## **12.7 Portfolio Concentration Norms for Equity Exchange Traded Funds (ETFs) and Index Funds<sup>336</sup>**

12.7.1 In order to address the risk related to portfolio concentration in ETFs and Index Funds, it has been decided to adopt the following norms:

- a) The index shall have a minimum of 10 stocks as its constituents.
- b) For a sectoral/ thematic Index, no single stock shall have more than 35% weight in the index. For other than sectoral/ thematic indices, no single stock shall have more than 25% weight in the index.
- c) The weightage of the top three constituents of the index, cumulatively shall not be more than 65% of the Index.
- d) The individual constituent of the index shall have a trading frequency greater than or equal to 80% and an average impact cost of 1% or less over previous six months.

Accordingly, any ETF/ Index Fund that seeks to replicate a particular Index shall ensure that such index complies with the aforesaid norms.

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<sup>336</sup> SEBI Circular No SEBI/HO/IMD/DF3/CIR/P/2019/011 dated January 10, 2019.

### 12.7.2 Compliance Procedure:

- a) The aforesaid norms shall be applicable to all ETFs/ Index Funds tracking equity indices.
- b) The ETF/ Index Fund issuer shall evaluate and ensure compliance to the aforesaid norms for all its ETFs/ Index Funds at the end of every calendar quarter.
- c) The ETF/Index Fund issuer shall ensure that the updated constituents of the Indices (for all its ETFs/ Index Funds) are available on the website of such ETF/Index Fund issuers at all points of time.

## **12.8 Norms for Debt Exchange Traded Funds (ETFs)/Index Funds<sup>337</sup>**

12.8.1 The following norms are prescribed for Debt ETFs/Index Funds to be adopted by all AMCs:

- a. The constituents of the index shall be aggregated at issuer level.
- b. The index shall have a minimum of 8 issuers.
- c. No single issuer shall have more than 15% weight in the index.
- d. The rating of the constituents of the index shall be investment grade.
- e. The constituents of the index shall have a defined credit rating and defined maturity as specified in the index methodology.

12.8.2 Replication of the Index by Debt ETFs/Index Funds shall be as follows:

- a) Debt ETFs/Index Funds shall replicate the index completely.

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<sup>337</sup> SEBI Circular No SEBI/HO/IMD/DF3/CIR/P/2019/147 dated November 29, 2019.

- b) In the event, if the condition laid down in para 12.8.2(a) above is not feasible due to non-availability of issuances of the issuer forming part of the index, the Debt ETFs/Index Funds shall be allowed to invest in other issuances issued by the same issuer having deviation of +/- 10% from the weighted average duration of issuances forming part of the index, subject to single issuer limit. Further, at aggregate portfolio level, the duration of Debt ETF/Index Fund shall not deviate +/- 5% from the duration of the index.
- c) In the event, if the conditions laid down in para 12.8.2(a) and para 12.8.2(b) above are not feasible, the Debt ETFs/Index Funds shall be allowed to invest in issuances of other issuer(s) within the index having duration, yield and credit rating in line with that of the non-available issuances of the issuer(s) forming part of the index, subject to single issuer limits. The duration of Debt ETF/Index Fund shall not deviate +/- 5% from the duration of the index.
- d) In the event, if the conditions laid down in para 12.8.2(a), para 12.8.2(b) and para 12.8.2(c) above are not feasible, the Debt ETFs/Index Funds shall be allowed to invest in issuances of issuer(s) not forming part of the index with duration yield and credit rating in line with that of the non-available issuances of issuer(s) forming part of the index. Such investment in issuances of issuer(s) not forming part of the index shall be maximum of 20% of the aggregate portfolio of the Debt ETF/Index Fund.
- e) The rationale for any deviation from para 12.8.2(a) above shall be recorded.

12.8.3 In an event where the credit rating of an issuance falls below the investment grade or rating mandated in the index methodology,

rebalancing by Debt ETFs/Index Funds shall be done within a period of 5 working days.

12.8.4 Accordingly, any Debt ETF/Index Fund that seeks to replicate a particular Index shall ensure that such index complies with the aforesaid norms.

12.8.5 Compliance Procedure:

- a) The aforesaid norms shall be applicable to all Debt ETFs/ Index Funds tracking debt indices.
- b) The Debt ETF/Index Fund issuer shall ensure compliance to the aforesaid norms for rebalancing at the end of every calendar quarter.
- c) The Debt ETF/Index Fund issuer shall ensure that the updated constituents of the Indices and methodology (for all its Debt ETFs/ Index Funds) are available on their respective websites at all points of time.

12.8.6 Applicability:

- a) The above norms shall not be applicable to Debt ETFs/Index Funds tracking debt indices having constituents as Government Securities (G-Secs), Treasury Bills and Tri-party Repo (TREPS) only.

## **12.9 Stock Lending Scheme<sup>338</sup>**

12.9.1 The following guidelines are issued to facilitate lending of securities by Mutual Funds through intermediaries approved by the Board in accordance with the Stock Lending & Borrowing Scheme.<sup>339</sup>

### **12.9.2 Disclosure Requirements**

12.9.2.1 The following information shall be disclosed in the SID to enable the investors and unit holders to take an informed decision:

- a. Intention to lend securities belonging to a particular Mutual Fund scheme in accordance with the guidelines on securities lending and borrowing scheme issued by SEBI from time to time.<sup>340</sup>
- b. Exposure limit with regard to securities lending, both for the scheme as well as for a single intermediary.
- c. Risks factors such as loss, bankruptcy etc. associated with such transactions.

### **12.9.3 Reporting Requirement**

12.9.3.1 The AMC(s) shall report to the Trustees on a quarterly basis about the level of lending, in terms of value, volume and intermediaries and also earnings and/or losses, value of collateral security etc.

12.9.3.2 The Trustees shall periodically review the securities lending contract and take reasonable steps to ensure that the same is not,

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<sup>338</sup> SEBI Circular No MFD/CIR/01/047/99 dated February 10, 1999.

<sup>339</sup> Regulation 44(4) of the SEBI (Mutual Funds) Regulations, 1996.

<sup>340</sup> SEBI Circular No - SEBI / IMD / CIR No 14 / 187175 / 2009 dated December 15, 2009

in any way, detrimental to the interests of the unit holders of the scheme.

12.9.3.3 The Trustees shall offer their comments on the above aspects in the Half Yearly Trustee Report filed with the Board.<sup>341</sup>

#### 12.9.4 Existing schemes

12.9.4.1 In case an existing SID does not provide for lending of securities, Mutual Funds may still lend securities belonging to the scheme, in accordance with the SEBI Guidelines, provided approval is obtained from the Trustees and the intention to lend securities is conveyed to the unit holders.

### **12.10 Approval for Investment in Unrated Debt Instruments<sup>342</sup>**

12.10.1 Mutual Funds may, for the purpose of operational flexibility, constitute committees to approve investment proposals in unrated instruments. However, detailed parameters for investment in unrated debt instruments have to be approved by the Board of the AMC and Trustees. Details of such investments shall be communicated by the AMCs to the Trustees in their periodical reports, along with clear indication as to how the parameters set for investments have been complied with. Prior approval of the Board of the AMC and Trustees shall be required in case investment is sought to be made in an unrated security falling outside the prescribed parameters.

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<sup>341</sup> Regulation 18(23)(a) of the Mutual Funds Regulations. Further, for format of Half Yearly Trustee Report please refer to section on Formats.

<sup>342</sup> SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

## **12.11 Investments in Units of Venture Capital Funds<sup>343</sup>**

12.11.1 Mutual Fund schemes can invest in listed or unlisted securities or units of Venture Capital Funds within the prescribed investment limits as applicable.<sup>344</sup>

## **12.12 Investment limits for Government guaranteed debt securities<sup>345</sup>**

12.12.1 Prudential investment norms as per Regulations stipulating limits for investments in debt securities<sup>346</sup> issued by a single issuer are applicable to all debt securities issued by public bodies or institutions such as electricity boards, municipal corporations, state transport corporations etc. guaranteed by either State / Central Government. Government securities issued by Central and/or State Government or on its behalf, by the RBI are however exempt from these limits.

## **12.13 Investment Restrictions for Securitised Debt<sup>347</sup>**

12.13.1 For investments made in Securitised Debt (mortgage backed securities and asset backed securities), restrictions as per Clause 1 of Seventh Schedule<sup>348</sup> shall not apply at the originator level.

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<sup>343</sup> SEBI Circular No. MFD/CIR/9/230/2001 dated August 14, 2001.

<sup>344</sup> Clauses 10 and 11, Seventh Schedule of SEBI (Mutual Funds), Regulations, 1996.

<sup>345</sup> SEBI Circular No. SEBI/IMD/CIR No.8/18944/03 dated October 6, 2003.

<sup>346</sup> Clauses 1 and 1A, Seventh Schedule of SEBI (Mutual Funds), Regulations, 1996.

<sup>347</sup> SEBI Circular No. SEBI/IMD/CIR No.6/63715/06 dated March 29, 2006.

<sup>348</sup> Clause I of Schedule VII of SEBI (Mutual Fund), Regulations, 1996



## **12.14 Investments in Short Term Deposits (STDs) of Scheduled Commercial Banks - pending deployment<sup>349</sup>**

12.14.1 The guidelines for deployment of funds in short term deposits of commercial banks for schemes are as under:

12.14.1.1 “Short Term” for parking of funds by Mutual Funds shall be treated as a period not exceeding 91 days.<sup>350</sup>

12.14.1.2 Such deposits shall be held in the name of the concerned scheme.

12.14.1.3 No mutual fund scheme shall park more than 15% of their net assets in short term deposits of all scheduled commercial banks put together. This limit however may be raised to 20% with prior approval of the Trustees. Also, parking of funds in short term deposits of associate and sponsor scheduled commercial banks together shall not exceed 20% of the total deployment by the Mutual Fund in short term deposits.

12.14.1.4 No mutual fund scheme shall park more than 10% of the net assets in short term deposits with any one scheduled commercial bank including its subsidiaries.

12.14.1.5 Trustees/AMCs shall ensure that no funds of a scheme is parked in Short Term Deposit of a bank which has invested in that scheme. Trustees/AMCs shall also ensure that the bank in which a scheme has STD do not invest in the said scheme until the scheme has STD with such bank.<sup>351</sup>

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<sup>349</sup> SEBI Circulars No. SEBI/IMD/CIR No.9/20306/03 dated November 12, 2003, SEBI Circular No. SEBI/IMD/Cir No.1/91171/07 dated April 16, 2007, SEBI and Clause 8 of Seventh Schedule of Mutual Funds Regulations, 1996.

<sup>350</sup> SEBI Circular No. SEBI/IMD/Cir No.1/91171/07 dated April 16, 2007.

<sup>351</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/093 dated August 16, 2019.

- 12.14.1.6 Asset Management Company (AMC) shall not be permitted to charge investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks.”<sup>352</sup>Half Yearly portfolio statements shall disclose all funds parked in short term deposit(s) under a separate heading. Details shall also include name of the bank, amount of funds parked, percentage of NAV.
- 12.14.1.7 Trustees shall, in the Half Yearly Trustee Reports certify that provisions of the Mutual Funds Regulations pertaining to parking of funds in short term deposits pending deployment are complied with at all points of time. The AMC(s) shall also certify the same in its CTR(s).
- 12.14.1.8 Investments made in short term deposits pending deployment of funds<sup>353</sup> shall be recorded<sup>354</sup> and reported to the Trustees including the reasons for the investment especially comparisons with interest rates offered by other scheduled commercial banks.<sup>355</sup>
- 12.14.1.9 Except for clause (12.14.1.7) the above guidelines shall not apply to term deposits placed as margins for trading in cash and derivatives market<sup>356</sup>. However, duration of such term deposits shall be disclosed in the Half Yearly Portfolio<sup>357</sup>.

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<sup>352</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/101 dated September 20, 2019.

<sup>353</sup> Clause 8, Schedule Seven, SEBI (Mutual Funds), Regulations, 1996.

<sup>354</sup> SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

<sup>355</sup> SEBI Circular No. SEBI/IMD/CIR No.9/20306/03 dated November 12, 2003.

<sup>356</sup> SEBI Circular No. SEBI/IMD/Cir No.7/129592/08 dated June 23, 2008.

<sup>357</sup> SEBI Circular No. SEBI/IMD/Cir No.7/129592/08 dated June 23, 2008

## **12.15 Reconciliation Procedure for Investment in Government Securities<sup>358</sup>**

- 12.15.1 According to the RBI guidelines<sup>359</sup> issued to all SGL account holders, to make transactions in government securities transparent, a monthly reconciliation system has been introduced between RBI and Mutual Funds maintaining SGL/CSGL accounts with respect to Government Securities on an ongoing basis.
- 12.15.2 Mutual Funds shall reconcile the balances reported in the monthly statements furnished by RBI with the transactions undertaken by them.
- 12.15.3 The reconciliation procedure shall be made part of internal audit and the auditors shall on a continuous basis, check the status of reconciliation and submit a report to the Audit Committee. These reports shall be placed in the meetings of the Board of the AMC and Trustees. Mutual Funds shall submit, on a quarterly basis to the RBI, a certificate confirming compliance with these requirements and any other guidelines issued by the RBI from time to time in this regard. Compliance shall also be reported to the Board in the CTRs of AMC(s) and Half Yearly Trustee Reports.

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<sup>358</sup> SEBI Circular No. MFD/CIR/19/22474/2002 dated November 20, 2002.

<sup>359</sup> RBI Circular No.P.D.O.SGL.CIRR/1945/2002-2003 dated November 1, 2002.

## **12.16 Participation of mutual funds in repo in corporate debt securities<sup>360</sup>**

12.16.1 Mutual funds can participate in repos in corporate debt securities as per the guidelines issued by RBI from time to time, subject to the following conditions:

12.16.1.1 The gross exposure of any mutual fund scheme to repo transactions in corporate debt securities shall not be more than 10 % of the net assets of the concerned scheme.

12.16.1.2 The cumulative gross exposure through repo transactions in corporate debt securities along with equity, debt and derivatives shall not exceed 100% of the net assets of the concerned scheme.

12.16.1.3 Mutual funds shall participate in repo transactions only in AA<sup>361</sup> and above rated corporate debt securities.

12.16.1.4 In terms of Regulation 44 (2) of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, mutual funds shall borrow through repo transactions only if the tenor of the transaction does not exceed a period of six months.

12.16.1.5 The Trustees and the Asset Management Companies shall frame guidelines about, *inter alia*, , the following in context of these transactions keeping in mind the interest of investors in their schemes:

a. Category of counterparty

b. Credit rating of counterparty

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<sup>360</sup> SEBI Circular No. CIR/IMD/DF/19/2011 dated November 11, 2011

<sup>361</sup> SEBI Circular No. CIR/IMD/DF/23/2012 dated November 15, 2012

c. Tenor of collateral

d. Applicable haircuts

12.16.1.6 Mutual funds shall ensure compliance with the Seventh Schedule of the Mutual Funds Regulations about restrictions on investments, wherever applicable, with respect to repo transactions in corporate debt securities.

12.16.1.7 The details of repo transactions of the schemes in corporate debt securities, including details of counterparties, amount involved and percentage of NAV shall be disclosed to investors in the half yearly portfolio statements and to SEBI in the half yearly trustee report.

12.16.1.8 To enable the investors in the mutual fund schemes to take an informed decision, the concerned Scheme Information Document shall disclose the following:

- a. The intention to participate in repo transactions in corporate debt securities in accordance with directions issued by RBI and SEBI from time to time;
- b. The exposure limit for the scheme; and
- c. The risk factors associated with repo transactions in corporate bonds

## **12.17 Overseas Investment<sup>362</sup>**

### 12.17.1 Applicable limits:

12.17.1.1 Aggregate ceiling for overseas investments is US \$ 7 billion<sup>363</sup> and within this overall limit, Mutual Funds can make overseas investments subject to a maximum of US \$ 300 million per Mutual Fund.

12.17.1.2 Aggregate ceiling for investment by Mutual Funds in overseas Exchange Traded Fund (ETF(s)) that invest in securities is US \$ 1 billion subject to a maximum of US \$ 50 million per Mutual Fund.

### 12.17.2 Permissible Investments:

12.17.2.1 ADR(s) and/or GDR(s) issued by Indian or foreign companies.

12.17.2.2 Equity of overseas companies listed on recognized Stock Exchanges overseas.

12.17.2.3 Initial and Follow on Public Offerings for listing at recognized Stock Exchanges overseas.

12.17.2.4 Foreign debt securities in the countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited/ registered credit rating agencies.

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<sup>362</sup> SEBI Circular No. SEBI/IMD/CIR No.7/104753/07 dated September 26, 2007 & SEBI Circular No. SEBI/IMD/CIR No.2/122577/08 dated April 8, 2008.

<sup>363</sup> SEBI Circular No. SEBI/IMD/CIR No.2/122577/08 dated April 8, 2008.

12.17.2.5 Money Market Instruments rated not below investment grade.

12.17.2.6 Repos in form of investment, where the counterparty is rated not below investment grade; repo shall not however involve any borrowing of funds by Mutual Funds.

12.17.2.7 Government securities where the countries are rated not below investment grade.

12.17.2.8 Derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities.

12.17.2.9 Short term deposits with banks overseas where the issuer is rated not below investment grade.

12.17.2.10 Units / securities issued by overseas Mutual Funds or unit trusts registered with overseas regulators and investing in

a. Aforesaid Securities

b. Real Estate Investment Trusts listed on recognized Stock Exchanges overseas or

c. Unlisted overseas securities, not exceeding 10% of their net assets

12.17.3 Other Conditions: Funds Regulations and guidelines issued from time to time, Mutual Funds shall adhere to the following specific guidelines while making overseas investments:

12.17.3.1 Appointment of a Dedicated Fund Manager:

a. A dedicated fund manager shall be appointed for making the above overseas investments stipulated under clause 12.17.2.1 to 12.17.2.10.

### 12.17.3.2 Due Diligence:

- a. The Board of the AMC and Trustees shall exercise due diligence in making investment decisions and record the same.<sup>364</sup> They shall make a detailed analysis of risks and returns of overseas investment and how these investments would be in the interest of investors. Investment shall be made in liquid actively traded securities /instruments.
- b. The Board of the AMC and Trustees may prescribe detailed parameters for making such investments which may include identification of countries, country rating, country limits etc. They shall satisfy themselves that the AMC has experienced key personnel, research facilities and infrastructure for making such investments. Other specialized agencies and service providers associated with such investments e.g. custodian, bank, advisors etc. shall also have adequate expertise and infrastructure facilities. Their past track record of performance and regulatory compliance record, if they are registered with foreign regulators, should also be considered. Necessary agreements may be entered into with them as required.

### 12.17.3.3 Mandatory Disclosure Requirements for Mutual Fund schemes proposing overseas investments:

- a. Intention to invest in foreign securities and/or ETF(s) shall be disclosed in the SID. The attendant risk factors and returns ensuing from such investments shall be explained clearly in the SID. Mutual Funds shall also disclose as to how such investments will help in the furtherance of the investment objectives of the

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<sup>364</sup> SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.



scheme(s). Such disclosures shall be in a language comprehensible to an average investor

- b. Mutual Funds shall disclose the name of the Dedicated Fund Manager for making overseas investments as stipulated under paragraph 12.17.3.1.a.
- c. Mutual Funds shall disclose exposure limits i.e. the percentage of assets of the scheme they would invest in foreign securities / ETF(s).
- d. Such investments shall be disclosed while disclosing Half Yearly portfolios in the prescribed format under a separate heading "Foreign Securities and/or overseas ETF(s)." Scheme wise percentage of investments made in such securities shall be disclosed while publishing Half Yearly Results in the prescribed format<sup>365</sup> as a footnote.

#### 12.17.3.4 Investment by Existing Schemes:

- a. Existing schemes of Mutual Funds where the SID provides for investment in foreign securities and attendant risk factors but which have not yet invested, may invest in foreign securities, consistent with the investment objectives of the schemes, provided a Dedicated Fund Manager has been appointed as stipulated in paragraph 12.17.3.1. Additional disclosures specified above shall be included by way of addendum and unit holders will be informed accordingly.
- b. In case the SID of an existing scheme does not provide for overseas investment, the scheme, if it so desires, may make such investments in accordance with these Guidelines, provided that

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<sup>365</sup> For Half Yearly Results, please refer to the section on Formats

prior to the overseas investments for the first time, the AMC shall ensure that a written communication about the proposed investment is sent to each unit holder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the Mutual Fund is situated. The communication to unit holders shall also disclose the risk factors associated with such investments.

12.17.3.5 Detailed periodic reporting to Trustees by AMC(s) shall include:

- a. Performance of overseas investments
- b. Amount invested in various schemes and any breach of the exposure limit laid down in the SID.

12.17.3.6 Review of Performance:

- a. The Board of the AMC and Trustees shall review the performance of schemes making overseas investments with appropriate benchmark(s) as disclosed in the SID.

12.17.3.7 Reporting to the Board:

- a. The Trustees shall offer their comments on the compliance of these guidelines in the Half Yearly Reports filed with the Board.

12.17.3.8 Prudential Investment Norms:

- a. Investment restrictions specified in Schedule Seven of the Mutual Funds Regulations are applicable to overseas investments stipulated under paragraph 12.17.2.1- 12.17.2.10.

- b. However, Clause 4 of the Seventh Schedule of the Mutual Funds Regulations that restricts investments in Mutual Fund units up to 5% of net assets and prohibits charging of fees, shall not be applicable to investments in Mutual Funds in foreign countries made in accordance with these Guidelines.
- c. Management fees and other expenses charged by the Mutual Funds in foreign countries along with the management fee and recurring expenses charged to the domestic Mutual Fund scheme shall not exceed the total limits on expenses as prescribed under Regulation 52(6) of the Mutual Funds Regulations. Where the scheme is investing only a part of the net assets in overseas Mutual Funds, the same principle shall be applicable for that part of investment. Details of calculation for charging such expenses shall be reported to the Board of the AMC and the Trustees and shall also be disclosed in the Annual Report of the scheme
- d. The application<sup>366</sup> for seeking approval for investing in foreign securities, ADR/GDR/overseas ETF(s) shall be made in advance of making investments. On receipt of approval from the Board, intimation may be sent by the AMC(s) to Overseas Investment Division, Foreign Exchange Department, RBI.

### **12.18 Investments in Indian Depository Receipts (IDRs)<sup>367</sup>**

- 12.14.1 Mutual funds can invest in Indian Depository Receipts<sup>368</sup> [Indian Depository Receipts as defined in Companies (Issue of Indian Depository Receipts) Rules, 2004] subject to compliance with SEBI (Mutual Funds) Regulations 1996 and guidelines issued there under,

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<sup>366</sup> Please refer the section on formats for format of proposal for investments in foreign securities and ETFs

<sup>367</sup> SEBI Circular No. IMD/CIR. No.1/165935/2009 dated June 09, 2009

<sup>368</sup> Regulation 43(1) of SEBI (Mutual Funds) Regulations, 1996

specifically investment restrictions as specified in the Seventh Schedule of the Regulations.'

### **12.19 Investments in units of REITs / InvITs<sup>369</sup>**

- a. The investment restrictions mentioned at Clause 13 in the Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996 shall be applicable to all fresh investments by all schemes, including an existing scheme.
- b. Any existing scheme intending to invest in units of REITs/InvITs shall abide by the provisions of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996.
- c. For investment in units of REITs / InvITs by an existing Mutual Fund scheme, unit holders of the scheme shall be given a time period of at least 15 days for the purpose of exercising the exit option.

### **12.20 Investment Restrictions<sup>370</sup>**

12.20.1 All investment restrictions as contained in the Regulations<sup>371</sup> shall be applicable at the time of making investment.

### **12.21 Recording of Investment Decisions<sup>372</sup>**

12.21.1 AMC(s) shall exercise due diligence and care in all investment decisions as would be exercised by other persons engaged in the same business.<sup>373</sup> Further AMC(s) shall maintain records in support of each investment decision which will indicate data, facts and opinion leading to that decision. While broad parameters for investments can be prescribed by the Board of Directors of the AMC,

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<sup>369</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/17 dated February 28, 2017.

<sup>370</sup> SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000.

<sup>371</sup> Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996.

<sup>372</sup> SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

<sup>373</sup> Regulation 25(2) of the SEBI (Mutual Funds) Regulations, 1996.

the basis for taking individual scrip wise investment decision in equity and debt securities shall be recorded. A detailed research report analyzing various factors for each investment decision taken for the first time shall be maintained and the reasons for subsequent purchase and sales in the same scrip shall also be recorded. The contents of the research reports may be decided by the AMC(s) and the Trustees.

12.21.2 The Board of the AMC shall develop a mechanism to verify that due diligence is being exercised while making investment decisions especially in cases of investment in unlisted and privately placed securities, unrated debt securities, securities classified as below investment grade or default<sup>374</sup>, transactions where associates are involved and instances where the performance of the scheme(s) is poor.

12.21.3 AMC(s) shall report compliance with these requirements in their periodical reports to the Trustees and the Trustees shall report the same to the Board in the Half Yearly Trustee Reports<sup>375</sup>. Trustees shall also check compliance with these Guidelines through independent auditors or internal and/or statutory auditors or other systems developed by them.

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<sup>374</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019.

<sup>375</sup> For Half Yearly Trustee Report please refer to the section on Formats

## **12.22 Norms for investment and disclosure by Mutual Funds in derivatives<sup>376</sup>**

### 12.22.1 Exposure Limits

12.22.1.1 The cumulative gross exposure through equity, debt and derivative positions (including commodity derivatives)<sup>377</sup> should not exceed 100% of the net assets of the scheme.

12.22.1.2 Mutual Funds shall not write options or purchase instruments with embedded written options except for the covered call strategy<sup>378</sup>.

12.22.1.3 The total exposure related to option premium paid must not exceed 20% of the net assets of the scheme.

12.22.1.4 Cash or cash equivalents with residual maturity of less than 91 days may be treated as not creating any exposure.

12.22.1.5 Exposure due to hedging positions may not be included in the above mentioned limits subject to the following:

- a. Hedging positions are the derivative positions that reduce possible losses on an existing position in securities and till the existing position remains.
- b. Hedging positions cannot be taken for existing derivative positions. Exposure due to such positions shall have to be added and treated under limits mentioned in Point 12.22.1.1.

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<sup>376</sup> SEBI Circular No. Cir/ IMD/ DF/ 11/ 2010 dated August 18, 2010

<sup>377</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/65 dated May 21, 2019

<sup>378</sup> Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/17 dated January 16, 2019

- c. Any derivative instrument used to hedge has the same underlying security as the existing position being hedged.
- d. The quantity of underlying associated with the derivative position taken for hedging purposes does not exceed the quantity of the existing position against which hedge has been taken.

12.22.1.6 Mutual Funds may enter into plain vanilla interest rate swaps for hedging purposes. The counter party in such transactions has to be an entity recognized as a market maker by RBI. Further, the value of the notional principal in such cases must not exceed the value of respective existing assets being hedged by the scheme. Exposure to a single counterparty in such transactions should not exceed 10% of the net assets of the scheme.

12.22.1.7 Exposure due to derivative positions taken for hedging purposes in excess of the underlying position against which the hedging position has been taken, shall be treated under the limits mentioned in point 12.22.1.1.

12.22.1.8 **Writing of Covered Call Options by Mutual Fund Schemes<sup>379</sup>:**

Mutual funds have been permitted to write call options under a covered call strategy as prescribed below:

- i. Mutual Fund schemes (except Index Funds and ETFs) may write call options only under a covered call strategy for constituent stocks of NIFTY 50 and BSE SENSEX subject to the following:
  - a. The total notional value (taking into account strike price as well as premium value) of call options written by a scheme

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<sup>379</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/17 dated January 16, 2019  
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shall not exceed 15% of the total market value of equity shares held in that scheme.

- b. The total number of shares underlying the call options written shall not exceed 30% of the unencumbered shares of a particular company held in the scheme. The unencumbered shares in a scheme shall mean shares that are not part of Securities Lending and Borrowing Mechanism (SLBM), margin or any other kind of encumbrances.
- c. At all points of time the Mutual Fund scheme shall comply with the provisions at paragraph 12.22.1.8(i)(a) and 12.22.1.8(i)(b) above. In case of any passive breach of the requirement at paragraph 12.22.1.8(i)(a), the respective scheme shall have 7 trading days to rebalance the portfolio. During the rebalancing period, no additional call options can be written in the said scheme.
- d. In case a Mutual Fund scheme needs to sell securities on which a call option is written under a covered call strategy, it must ensure compliance with paragraphs 12.22.1.8(i)(a) and 12.22.1.8(i)(b) above while selling the securities.
- e. In no case, a scheme shall write a call option without holding the underlying equity shares. A call option can be written only on shares which are not hedged using other derivative contracts.
- f. The premium received shall be within the requirements prescribed in terms of paragraph 12.22.1.3 i.e. the total gross exposure related to option premium paid and received must not exceed 20% of the net assets of the scheme.



- g. The exposure on account of the call option written under the covered call strategy shall not be considered as exposure under point 12.22.1.1.
  - h. The call option written shall be marked to market daily and the respective gains or losses factored into the daily NAV of the respective scheme(s) until the position is closed or expired.
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- ii. For schemes intending to use covered call strategy, the risks and benefit of the same, must be disclosed in the Scheme Information Document.
  - iii. In terms of paragraphs 11 and 13 of SEBI Circular no. Cir/IMD/DF/11/2010 dated August 18, 2010 call options written shall be disclosed in the format<sup>380</sup> prescribed.
  - iv. For existing schemes, writing of call options shall be permitted subject to appropriate disclosure and compliance with Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996.
  - v. All other provisions of the circular no. Cir/IMD/DF/11/2010 dated August 18, 2010 for investment and disclosure by Mutual Funds in derivatives shall remain the same.

#### **12.22.1.9 Hedging of Interest Rate Risk<sup>381</sup>**

- a. To reduce interest rate risk in a debt portfolio, mutual funds may hedge the portfolio or part of the portfolio (including one or more

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<sup>380</sup> Please refer to the format section (SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/17 dated January 16, 2019)

<sup>381</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/109 dated September 27, 2017

securities) on weighted average modified duration basis by using Interest Rate Futures (IRFs). The maximum extent of short position that may be taken in IRFs to hedge interest rate risk of the portfolio or part of the portfolio, is as per the formula given below:

$$\frac{(\text{Portfolio Modified Duration} * \text{Market Value of the Portfolio})}{(\text{Futures Modified Duration} * \text{Futures Price} / \text{PAR})}$$

- b. In case the IRF used for hedging the interest rate risk has different underlying security(s) than the existing position being hedged, it would result in imperfect hedging.
- c. Imperfect hedging using IRFs may be considered to be exempted from the gross exposure, upto maximum of 20% of the net assets of the scheme, subject to the following:
  - i. Exposure to IRFs is created only for hedging the interest rate risk based on the weighted average modified duration of the bond portfolio or part of the portfolio.
  - ii. Mutual Funds are permitted to resort to imperfect hedging, without it being considered under the gross exposure limits, if and only if, the correlation between the portfolio or part of the portfolio (excluding the hedged portions, if any) and the IRF is at least 0.9 at the time of initiation of hedge. In case of any subsequent deviation from the correlation criteria, the same may be rebalanced within 5 working days and if not rebalanced within the timeline, the derivative positions created for hedging shall be considered under the gross exposure computed in terms of Para 12.19.1.1. The correlation should be calculated for a period of last 90 days.

Explanation: If the fund manager intends to do imperfect hedging upto 15% of the portfolio using IRFs on weighted average modified duration basis, either of the following conditions need to be complied with:

- (a) The correlation for past 90 days between the portfolio and the IRF is at least 0.9 or
  - (b) The correlation for past 90 days between the part of the portfolio(excluding the hedged portions, if any)i.e. at least 15% of the net asset of the scheme(including one or more securities)and the IRF is at least 0.9.
- iii. At no point of time, the net modified duration of part of the portfolio being hedged should be negative.
  - iv. The portion of imperfect hedging in excess of 20% of the net assets of the scheme should be considered as creating exposure and shall be included in the computation of gross exposure in terms of paragraph12.22.1.1.
- d. The basic characteristics of the scheme should not be affected by hedging the portfolio or part of the portfolio (including one or more securities)based on the weighted average modified duration.

Explanation: In case of long term bond fund, after hedging the portfolio based on the modified duration of the portfolio, the net modified duration should not be less than the minimum modified duration of the portfolio as required to consider the fund as a long term bond fund.

- e. The interest rate hedging of the portfolio should be in the interest of the investors.

f. Mutual Fund schemes may imperfectly hedge their portfolio or part of their portfolio using IRFs, subject to the following conditions:

- i. Prior to commencement of imperfect hedging, existing schemes shall comply with the provisions of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996 and all unit holders shall be given a time-period of at least 30 days to exercise the option to exit at prevailing NAV without charging of exit load.

The risks associated with imperfect hedging shall be disclosed and explained by suitable numerical examples in the offer documents and also needs to be communicated to the investors through public notice or any other form of correspondence.

- ii. In case of new schemes, the risks associated with imperfect hedging shall be disclosed and explained by suitable numerical examples in the offer documents.

#### 12.22.2 **Definition of Exposure in case of Derivative Positions**

12.22.2.1 Each position taken in derivatives shall have an associated exposure as defined under. Exposure is the maximum possible loss that may occur on a position. However, certain derivative positions may theoretically have unlimited possible loss. Exposure in derivative positions shall be computed as follows:

| Position    | Exposure                                       |
|-------------|--|
| Long Future | Futures Price * Lot Size * Number of Contracts |

|               |   |
|---------------|---|
| Short Future  | Futures Price * Lot Size * Number of Contracts        |
| Option bought | Option Premium Paid * Lot Size * Number of Contracts. |

12.22.2.2 The provisions shall be applicable for all new schemes launched post the issue of the aforementioned guidelines. For all existing schemes, compliance with the guidelines shall be effective from October 01, 2010.

**12.23 Participation of mutual funds in Exchange Traded Commodity Derivatives (ETCDs)<sup>382</sup>:**

12.23.1 Mutual funds are permitted to participate in ETCDs in India, except in commodity derivatives on ‘Sensitive Commodities’<sup>383</sup>.

12.23.2 ETCDs having gold as the underlying, shall also be considered as ‘gold related instrument’ for Gold Exchange Traded Funds (Gold ETFs).

12.23.3 No Mutual fund schemes shall invest in physical goods except in ‘gold’ through Gold ETFs. Further, as mutual fund schemes participating in ETCDs may hold the underlying goods in case of physical settlement of contracts, in that case mutual funds shall dispose of such goods from the books of the scheme, at the earliest, not exceeding 30 days from the date of holding of the physical goods.

12.23.4 No mutual fund scheme shall have net short positions in ETCDs on any particular good, considering its positions in physical goods as well as ETCDs, at any point of time.

<sup>382</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/65 dated May 21, 2019

<sup>383</sup> SEBI circular no. SEBI/HO/CDMRD/DMP/CIR/P/2017/84 dated July 25, 2017

- 12.23.5 Mutual funds are permitted to participate in ETCDs through the following schemes:
- a. Hybrid schemes<sup>384</sup> including multi asset scheme and
  - b. Gold ETFs.
- 12.23.6 In case of existing schemes, as mentioned in paragraph 12.23.5 above, prior to commencement of participation in ETCDs, the scheme shall comply with the provisions of Regulation 18(15A) of SEBI (Mutual Funds) Regulations, 1996, as this will lead to change in fundamental attributes of the scheme and all unitholders shall be given a time-period of at least 30 days to exercise the option to exit at prevailing NAV without charging of exit load, if any.
- 12.23.7 Prior to participation in ETCDs, the AMCs shall adhere to the following:
- a. Appoint a dedicated fund manager with requisite skill and experience in commodities market (including commodity derivatives market).
  - b. Appoint a custodian registered with the Board for custody of the underlying goods, arising due to physical settlement of contracts.
  - c. Have written down investment policy for participation in ETCDs approved by the Board of the Asset Management Company and the Board of Trustees.
  - d. Have written down valuation policies approved by the Board of the AMC and the Board of Trustees for valuation of commodity derivatives and the underlying goods, arising due to physical settlement of contracts. The approved valuation policies should

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<sup>384</sup> SEBI Circular No.SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017

be subject to the principles of fair valuation of the assets of mutual funds schemes.

- 12.23.8 Mutual fund schemes may participate in the ETCDs as ‘clients’ and shall be subject to all the rules, regulations and instructions, position limit norms, etc. as may be applicable to clients, issued by SEBI and Exchanges from time to time. The position limits at mutual fund level be as applicable to ‘Trading Members’.
- 12.23.9 Schemes investing in ETCDs shall be benchmarked against an appropriate benchmark.
- 12.23.10 AMCs shall not on board Foreign Portfolio Investors (FPIs) in schemes investing in ETCDs until FPIs are permitted to participate in ETCDs.
- 12.23.11 Investment Limits in ETCDs: Participation of mutual funds in ETCDs shall be subject to the following investment limits:
- a. Mutual fund schemes shall participate in ETCDs of a particular goods (single), not exceeding 10% of net asset value of the scheme. However, the limit of 10% is not applicable for investments through Gold ETFs in ETCDs having gold as underlying.
  - b. In case of multi assets allocation schemes, the exposure to ETCDs shall not be more than 30% of the net asset value of the scheme.
  - c. In case of other hybrid schemes excluding multi assets allocation scheme, the participation in ETCDs shall not exceed 10% of net asset value of the scheme.
- 12.23.12 In case of mutual fund schemes investing in ETCDs, the AMC shall adhere to the following:

- a. The NAVs of those schemes shall be updated on daily basis by the AMCs on their website and on the website of AMFI by 09:00 a.m. of the following calendar day.
- b. The total exposure to ETCs shall be disclosed as a line item in the Monthly Cumulative Report (MCR) submitted by mutual funds.

### **12.24 Interval Schemes/Plans<sup>385</sup>**

12.24.1 Certain SIDs provide that the subscription to the scheme can be made during a specific period (known as specified transaction period) and the repurchase of units is permitted on all business days subject to applicable loads (except for redemption during specified transaction period when no load is charged). These schemes are generally referred to as 'interval schemes'.

12.24.2 For all interval schemes/plans<sup>386</sup>:

12.24.2.1 The units shall be mandatorily listed.

12.24.2.2 No redemption/repurchase of units shall be allowed except during the specified transaction period (the period during which both subscription and redemption may be made to and from the scheme). The specified transaction period shall be of minimum 2 working days.

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<sup>385</sup> SEBI Circular No. CIR/IMD/DF /19/2010 dated November 26, 2010

<sup>386</sup> Applicability:

The AMC shall ensure compliance with the requirements mentioned in Clause 12.16.2 from the date of next specified transaction period or April 1, 2011 whichever is later. Schemes for which observations (final) under Regulation 29 of SEBI (Mutual Funds) Regulations, 1996 have been issued but are yet to be launched would be required to carry out the changes in Scheme Information Document and file the same with SEBI before the launch.



12.24.2.3 Minimum duration of an interval period in an interval scheme/plan shall be 15 days.

12.24.2.4 Investments shall be permitted only in such securities which mature on or before the opening of the immediately following specified transaction period.

Explanation: In case of securities with put and call options the residual time for exercising the put option of the securities shall not be beyond the opening of the immediately following transaction period.

### **12.25 CDS – mutual funds as users (protection buyers)<sup>387</sup>**

12.25.1 Mutual funds have been permitted to participate in CDS market, as per the guidelines issued by RBI from time to time , subject to the following conditions:

- a. Mutual funds shall participate in CDS transactions only as users (protection buyer). Thus, mutual funds are permitted to buy credit protection only to hedge their credit risk on corporate bonds they hold. They shall not be allowed to sell protection and hence not permitted to enter into short positions in the CDS contracts. However, they shall be permitted to exit their bought CDS positions, subject to para (d) below.
- b. Mutual funds can participate as users in CDS for the eligible securities as reference obligations, constituting from within the portfolio of only Fixed Maturity Plans (FMP) schemes having tenor exceeding one year.

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<sup>387</sup> SEBI Circular No. CIR/IMD/DF/23/2012 dated November 15, 2012.

- c. Mutual funds shall buy CDS only from a market maker approved by the RBI and enter into Master Agreement with the counterparty as stipulated under RBI Guidelines. Exposure to a single counterparty in CDS transactions shall not exceed 10% of the net assets of the scheme.
- d. The cumulative gross exposure through credit default swap in corporate bonds along with equity, debt and derivative positions shall not exceed 100% of the net assets of the scheme.
- e. The total exposure related to premium paid for all derivative positions, including CDS, shall not exceed 20% of the net assets of the scheme.
- f. Before undertaking CDS transactions, mutual funds shall put in place a written policy on participation in CDS approved by the Board of the Asset Management Company and the Trustees as per the guidelines specified by RBI and Securities and Exchange Board of India (SEBI). The policy shall be reviewed by mutual funds, at least once a year.
- g. To enable the investors in the mutual funds schemes to take an informed decision, the concerned Scheme Information Document (SID) shall disclose the intention to participate in CDS transaction in corporate debt securities in accordance with directions issued by RBI and SEBI from time to time, and related information as appropriate in this regard.
- h. Mutual funds shall also disclose the details of CDS transactions of the scheme in corporate debt securities in the monthly portfolio statements as well as in the half yearly

trustee report, as per the format<sup>388</sup>. Further, mutual funds shall disclose the scheme wise details of CDS transactions in the notes to the accounts of annual report of the mutual fund as per the format<sup>389</sup>.

- 12.25.2 Mutual funds participating in CDS transactions, as users, shall be required to comply with the guidelines issued by RBI, vide notification no IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011 and subsequent guidelines issued by RBI and SEBI from time to time.

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<sup>388</sup> Please refer to section on Formats for requisite formats

<sup>389</sup> Please refer to section on Formats for requisite formats

## CHAPTER 13

### ***Investment by Foreign Investors in Mutual Fund Schemes<sup>390</sup>.***

***13.1 Foreign investors (termed as Qualified Foreign Investors/ QFIs) who meet KYC requirement may invest in equity and debt schemes of Mutual Funds (MF) through the following two routes:***

13.1.1 Direct route - Holding MF units in demat account through a SEBI registered depository participant (DP).

13.1.2 Indirect route- Holding MF units via Unit Confirmation Receipt (UCR).

***13.2 The investment through the above mentioned routes shall be subject to the following conditions:***

13.2.1 Qualified Foreign Investor (QFI) shall mean a person resident in a country that is compliant with Financial Action Task Force (FATF) standards and that is a signatory to International Organization of Securities Commission's (IOSCO's) Multilateral Memorandum of Understanding,

Provided that such person is not resident in India,

Provided further that such person is not registered with SEBI as Foreign Institutional Investor or Sub-account.

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<sup>390</sup> SEBI Circular No.CIR/IMD/DF/14/2011 dated August 9, 2011

Explanation- For the purposes of this clause:

(1) the term "Person" shall carry the same meaning under Section 2(31) of the Income Tax Act, 1961

(2) the phrase “resident in India” shall carry the same meaning as in the Income Tax Act, 1961

(3) “resident” in a country, other than India, shall mean resident as per the direct tax laws of that country.

13.2.2 MF shall ensure that only QFIs who comply with para 13.2.1 are allowed to invest under these routes.

13.2.3 MF shall ensure that QFIs meet the KYC requirements as per the FATF standards, Prevention of Money Laundering Act, 2002 (PMLA) rules and regulations made thereunder, and SEBI circulars issued in this regard before accepting subscriptions from QFIs.

13.2.4 The aggregate investments by QFIs under both the routes shall be subject to a total overall ceiling of US \$10 billion for equity schemes.

13.2.5 In addition to the above, the aggregate investments by QFIs under both the routes for debt schemes which invest in infrastructure (“Infrastructure” as defined under the extant ECB guidelines issued by RBI) debt of minimum residual maturity of 5 years, shall be subject to a total overall ceiling of US \$3 billion within the existing ceiling of US \$25 billion for FII investment in corporate bonds issued by infrastructure companies.

13.2.6 MF can accept subscriptions from QFIs till such time the investments by QFIs under both the routes reaches US \$8 billion in equity schemes and US \$2.5 billion in debt schemes and the

remaining limit of US \$2 billion in equity schemes and US \$0.5 billion in debt schemes shall be auctioned by SEBI through bidding process.

13.2.7 MF shall file with SEBI a report about the total subscription and redemption by QFIs on a daily basis as per the format. MF shall prepare such report on actual receipt and payment basis. SEBI will disseminate on an aggregate basis the total amount of investments by QFIs in equity and debt schemes of the MF on SEBI's website. When the total investment reaches US \$8 billion in equity schemes or US \$2.5 billion in debt schemes, MF shall stop accepting fresh investment from QFIs unless they get allotment of limits out of the remaining limit of US \$2 billion in equity schemes or US \$0.5 billion in debt schemes respectively in the auction process referred in para 13.2.6.

13.2.8 MF/ DP shall ensure that the units held by QFIs by way of UCR/demat holding are non transferable and non tradable.

13.2.9 MF/ DP shall capture the bank account details of the QFIs designated overseas bank account and shall ensure that all subscriptions are received from that overseas account and redemption proceeds are also transferred into the same overseas account. MF/ DP shall also ensure that the overseas bank account which QFIs has designated for the purpose is based in countries which are compliant with FATF standards and are signatory to MMOU of IOSCO.

13.2.10 In case of subscription, MF shall allot units based on the NAV of the day on which funds are realized in the MF's scheme bank account in India and in case of redemption, units shall be redeemed on the day on which transaction slip/instruction is

received and time stamped by MF, as per the applicable cut off time. The Scheme information documents of the MF shall clearly mention the applicable cut off time for QFIs and the other requirements / applicable guidelines for QFIs.

13.2.11 MF shall ensure that Systematic Investments/ transfer/ withdrawals and switches are not available to the QFIs. QFIs can only subscribe or redeem.

13.2.12 MF/ DP shall ensure that units/ UCRs held by QFIs are free from all encumbrances i.e. pledge or lien cannot be created for such units.

13.2.13 MF shall comply with all the requirements as per the PMLA, FATF standards and SEBI circulars issued in this regard on an ongoing basis.

13.2.14 MF shall ensure that all the investor related documents/ records of the QFIs are available with them.

13.2.15 MF shall ensure compliance with laws (rules and regulations) of the jurisdictions where the QFIs are based and also ensure that the interest of existing unit holders of the MF schemes are not adversely affected due to the issuance of UCRs/ demat units to the QFIs.

13.2.16 In case of any penalty, pending litigations or proceedings, findings of Inspections or investigations for which action may have been taken or is in the process of being taken by an overseas regulator against MF/ AMC, it shall bring such information to

the attention of SEBI and unitholders of the concerned scheme.

13.2.17 MF shall be responsible for the deduction of applicable tax at source out of the redemption proceeds before making redemption payments to QFIs.

13.2.18 MF/DP shall require QFIs to submit necessary information for the purpose of obtaining PAN. MF/DP may use the combined PAN cum KYC form to be notified by CBDT for QFIs. MF/ DP may take any additional information/ documents from the QFIs other than those mentioned in the common PAN cum KYC form to ensure compliance with Para 13.2.3 above.

### **13.3 Other conditions for direct route (demat account).**

13.3.1 There shall be 3 parties under this route - QFIs, qualified DP and MF.

13.3.2 A QFIs can open only one demat account with any one of the qualified DPs and shall subscribe and redeem through that DP only. MF along with the DP shall have adequate systems to ensure the compliance of the same.

13.3.3 To become a qualified DP, a SEBI registered DP shall fulfill the following:

- a. DP shall have paid up capital of Rs.50 Crore or more,
- b. DP shall be either a clearing bank or clearing member of any of the clearing corporations.



- c. DP shall have appropriate arrangements for receipt and remittance of money with a designated Authorised Dealer (AD) Category - I bank
- d. DP shall demonstrate that it has systems and procedures to comply with the FATF Standards, PMLA and SEBI circulars issued from time to time.
- e. DP shall obtain prior approval of SEBI before commencing the activities relating to accepting MF subscription from QFIs.

13.3.4 The qualified DP shall open a demat account for the QFIs after ensuring all the requirements as per the PMLA, FATF standards and SEBI circulars issued in this regard.

13.3.5 For the purpose of account opening, MF can rely on the KYC done by DPs. Further, MF shall obtain the relevant records of KYC/ other documents from the DP and ensure compliance with para 13.2.14. However, MF shall comply with PMLA, FATF standards and SEBI circulars issued in this regard from time to time on an ongoing basis.

13.3.6 The qualified DP shall open a separate single rupee pool bank account with a designated AD Category -I bank, exclusively for the purpose of investments by QFIs in India.

### 13.3.7 Process Flow

#### **Subscription**

- a. The QFIs shall place a purchase/ subscription order mentioning the name of the scheme/MF with its DP and remit foreign inward remittances through normal banking channel in any permitted currency (freely convertible) directly to the single rupee pool bank account of the DP maintained with a designated AD category - I bank.
- b. DP in turn shall forward the purchase order to the concerned MF and remits the money to the MF's scheme account on the same day as the receipt of funds from QFIs. In case of receipt of money after business hours, DP shall remit the funds to MF scheme account by next business day.
- c. If for any reasons, the DP is not able to remit the money to the MF scheme account within the stipulated timeframe as mentioned in para-b, the DP shall immediately return the money to the designated overseas bank account of the QFIs.
- d. MF shall process the order and credit units into the demat account of the QFIs.
- e. If for any reasons the units are not allotted, MF / DP shall ensure that the money is remitted back to the QFI's designated overseas bank account within 3 working days from the date of receipt of subscription of money in the single rupee pool bank account of the DP maintained with a designated AD category I bank.

## **Redemption**

- f. QFIs can redeem, either through Delivery Instruction (physical/ electronic) or any another mode prescribed by the Depositories. On receipt of instruction from QFIs, DP shall process the same and forward the redemption instructions to the MF. Upon receipt of instruction from DP, MF shall process the same and shall credit the single rupee pool bank account of the DP with the redemption proceeds.
- g. The DP can make fresh purchase of units of equity and debt schemes of MF (if so instructed by the QFIs) out of the redemption proceeds received provided that payment is made towards such purchase is made within two working days of receipt of money from MF in the pooled bank account. In case no purchase is made within said period, the money shall be remitted by the DPs to the designated bank overseas account of the QFIs within two working days from the date of receipt of money from the MF in the pooled bank account.

## **Dividend**

- h. In case of dividend payout, the MF shall credit the single rupee pool bank account of the DP with the dividend amount. The DP in turn shall remit the same to the designated bank overseas account of the QFIs within two working days from the date of receipt of money from the MF in the DP's rupee pooled bank account.

### 13.3.8 **Disclosure of Performance of Schemes post-merger**<sup>391</sup> :

13.3.8.1 Disclosure of performance of schemes post-merger as given below

- a. When two schemes, for example, Scheme A (Transferor Scheme) & Scheme B (Transferee Scheme), having similar features, get merged and the merged scheme i.e., surviving scheme also has the same features, the weighted average performance of both the schemes needs to be disclosed.
- b. When Scheme A (Transferor Scheme) gets merged into Scheme B (Transferee Scheme) and the features of Scheme B are retained, the performance of the scheme whose features are retained needs to be disclosed.
- c. When Scheme A (Transferor Scheme) gets merged into Scheme B (Transferee Scheme) and the features of Scheme A (Transferor scheme) are retained, the performance of the scheme whose features are retained needs to be disclosed.
- d. When Scheme A (Transferor Scheme) gets merged with Scheme B (Transferee Scheme) and a new scheme, Scheme C emerges after such consolidation or merger of schemes, the past performance need not be provided.

13.3.8.2 In addition to disclosing the performance of the scheme as mentioned above, past performance of such scheme(s) whose features are not retained post-merger may also be made available on request with adequate disclaimer.

13.3.8.3 This Circular shall be applicable with effect from May 01, 2018.

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<sup>391</sup> SEBI Circular No- SEBI/HO/IMD/DF3/CIR/P/2018/69 dated April 12, 2018  
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**13.4 Other conditions for Indirect route (Unit Confirmation Receipts)**

13.4.1 There shall be four parties involved - QFIs, UCR issuer (based overseas), SEBI registered Custodian (based in India) and MF.

13.4.2 QFIs can subscribe / redeem only through the UCR Issuer.

13.4.3 MF shall appoint one or more UCR issuing agent overseas and one SEBI registered custodian in India.

13.4.4 UCR issuer appointed by MF shall act as agent of the MF.

13.4.5 MF can appoint entities fulfilling the following conditions as UCR issuer:

- a. The entity is able to demonstrate that it has proven track record, expertise and technology in the business of issuance of global depository receipts/global custody agency
- b. The entity is registered with an overseas securities market/ banking regulator.

13.4.6 MF shall seek no objection from SEBI before appointing any UCR issuer and furnish the details and information sought by SEBI about the UCR issuer. SEBI reserves the right to seek additional information / clarification and direct action, including non appointment/ revocation of appointment of that UCR Issuing Agent.

- 13.4.7 MF shall comply with all the requirements as per the PMLA, FATF standards and SEBI circulars issued in this regard on an ongoing basis.
- 13.4.8 Custodians appointed by the MF shall comply with the SEBI (Custodian of Securities) Regulations, 1996, circulars and guidelines issued by SEBI.
- 13.4.9 The rupee denominated units of the MF would be held as underlying by the custodian in India in demat mode against which the UCR issuer would issue UCR to be held by QFIs.
- 13.4.10 MF shall ensure that for every UCR issued by UCR issuer, Custodian in India shall hold corresponding number of units against it i.e., there shall be one unit of MF scheme for every unit of UCR.
- 13.4.11 MF shall receive money from UCR issuer either in foreign country by opening bank account overseas (in accordance with the relevant extant FEMA regulations) or in Indian rupees in the respective MF scheme account held in India.
- 13.4.12 MF shall mandate the UCR issuer regarding the requirements for KYC, Customer due diligence process and documents and information to be collected from the QFIs in terms of the requirements mentioned in para 13.2.13 above.
- 13.4.13 MF shall obtain the relevant records of KYC/ other documents from the UCR issuer in order to comply with FATF standards, PMLA and SEBI circulars issued in this regard and ensure compliance with para 13.2.14.

13.4.14 Units purchased and redeemed through UCR issuer shall be settled on gross basis and under no circumstances shall be netted against other investors of UCR issuer

13.4.15 Process flow:

- a. The QFIs places a purchase/ subscription order through the UCR issuer.

**In case of MF opening bank account overseas (in accordance with the relevant extant FEMA regulations)**

- b. UCR issuer shall forward the order of QFIs to the MF/Custodian. Upon receipt and transfer of funds to India; the MF shall issue units to the custodian and custodian in turn confirm to the UCR Issuer to issue UCR to the QFIs.
- c. In case of redemption, UCR issuer shall confirm receipt of redemption request to the MF and Custodian. Upon receipt of instruction, MF shall process the same and shall transfer the redemption proceeds to the MF overseas bank account for making payment to the designated overseas bank account of the QFIs.
- d. In case of dividend payout, the MF shall transfer the dividend amounts to the MF overseas bank account for making payment to the designated overseas bank account of the QFIs.

**In case MF receives money in India from UCR issuer.**

- e. UCR issuer shall forward the purchase order to MF and Custodian, and remit the funds into MF scheme account (in rupee terms). Upon receipt of funds; the MF shall issue units to the custodian and

custodian shall in turn confirm to the UCR Issuer to issue UCR to the QFIs.

- f. In case of redemption, UCR issuer shall confirm receipt of redemption request to the MF & Custodian. Upon receipt of instruction, MF shall process and remit redemption proceeds to the UCR issuer which in turn shall remit redemption proceeds to the designated bank account of the QFIs.
- g. In case of dividend payout, the MF shall remit the dividend amount proceeds to the UCR issuer which in turn shall remit the dividend amount to the designated bank account of the QFIs.

**13.5** The investment by the QFIs in MF equity and debt schemes under this scheme shall also be subject to the relevant and extant FEMA regulations and guidelines issued by the Reserve Bank of India under FEMA, 1999 from time to time.



## **CHAPTER 14**

### **ADVERTISEMENTS**<sup>392</sup>

**14.1** Advertisement shall be in terms of Sixth Schedule<sup>393</sup>.

**14.2** In addition to the provisions of the Sixth Schedule, mutual funds shall comply with the following:<sup>394</sup>

14.2.1 While advertising pay out of dividends, all advertisements shall disclose the dividends declared or paid in rupees per unit along with the face value of each unit of that scheme and the prevailing NAV at the time of declaration of the dividend.

14.2.2 Impact of Distribution Taxes: While advertising returns by assuming reinvestment of dividends, if distribution taxes are excluded while calculating the returns, this fact shall also be disclosed.

14.2.3 Pay out of Dividend/ Bonus: While advertising pay outs, all advertisements shall disclose, immediately below the pay out figure (in percentage or in absolute terms) that the NAV of the scheme, pursuant to pay out would fall to the extent of payout and statutory levy (if applicable).

**14.3 Disclosing performance related information in Mutual Fund advertisements**<sup>395</sup>

14.3.1 In performance advertisements of Mutual Fund schemes:

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<sup>392</sup>SEBI Circular No.Cir/IMD/DF/13/2011 dated August 22, 2011 and SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012

<sup>393</sup> Sixth Schedule of SEBI (Mutual Funds) Regulations, 1996 as amended via gazette notification No. LAD-NRO/GN/2011-12/38/4290 dated February 21, 2012

<sup>394</sup> SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012

<sup>395</sup> SEBI Circular No.Cir/IMD/DF/23/2017 dated March 15, 2017

- 14.3.1.1 Performance of the Mutual Fund scheme shall be advertised in terms of CAGR for the past 1 year, 3 years, 5 years and since inception.
- 14.3.1.2 In order to provide ease of understanding to retail investors, point-to-point returns on a standard investment of Rs.10,000/- shall also be provided in addition to CAGR of the scheme.
- 14.3.1.3 Performance advertisements of Mutual Fund schemes should provide information based on period computed from the last day of month-end preceding the date of advertisement.
- 14.3.1.4 It should be specifically mentioned whether performance so disclosed, is of regular or direct plan of the Mutual Fund scheme along-with a footnote mentioning that different plans have a different expense structure.
- 14.3.1.5 If a Mutual Fund scheme has not been managed by the same fund manager for the full period of the information being published in the advertisement, the same should be disclosed in a footnote
- 14.3.2 When a scheme has been in existence for more than 1 year but less than 3 years or 5 years, the same shall be mentioned as a footnote in the performance advertisement of the Mutual Fund scheme
- 14.3.3 Where the scheme has been in existence for less than one year, past performance shall not be provided<sup>396</sup>.
- 14.3.4 In case of Money Market schemes or cash and liquid schemes<sup>397</sup>, wherein investors have very short investment horizon, the performance can be advertised by simple annualisation of yields if a

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<sup>396</sup> SEBI Circular No.Cir/IMD/DF/13/2011 dated August 22, 2011

<sup>397</sup> SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012

performance figure is available for at least 7 days, 15 days and 30 days provided it does not reflect an unrealistic or misleading picture of the performance or future performance of the scheme.

14.3.5 For the sake of standardization, a similar return in INR and by way of CAGR must be shown for the following apart from the scheme benchmarks:

| Scheme Type           | Benchmark                  |
|-----------------------|----------------------------|
| Equity Scheme         | Sensex or Nifty            |
| Long term debt scheme | 10 year dated GOI security |
| Short term debt fund  | 1 year T-bill              |

These disclosures shall form a part of the Statement of Additional Information and all advertisements of Mutual Funds.

14.3.6 Any disclosure regarding quarterly/ half yearly/ yearly performance shall pertain to respective calendar quarterly/ half yearly/ yearly only.

14.3.7 <sup>398</sup>When the performance of a particular Mutual Fund scheme is advertised, the advertisement shall also include the performance data of all the other schemes managed by the fund manager/s of that particular scheme. Such performance data of the other schemes managed by the fund manager shall be provided as follows:

- i. Performance of other schemes managed by the fund manager, along-with their respective scheme's benchmark, shall be provided in terms of CAGR for a period of 1 year, 3 years and 5 years. The period referred here shall be computed in the same manner as that of the scheme being advertised.

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<sup>398</sup> SEBI Circular No.Cir/IMD/DF/23/2017 dated March 15, 2017

- ii. In case the number of schemes managed by a fund manager is more than six, then the AMC may disclose the total number of schemes managed by that fund manager along with the performance data of top 3 and bottom 3 schemes (in addition to the performance data of the scheme for which the advertisement is being made) managed by that fund manager in all performance related advertisements. However, in such cases, AMCs shall ensure that true and fair view of the performance of the fund manager is communicated by providing additional disclosures, if required.
- iii. If a Mutual Fund scheme has not been managed by the same fund manager for the full period of information being published in the advertisement, the same should be disclosed in a footnote.
- iv. Further, for advertisement published in internet-enabled media, Mutual Funds shall be permitted to provide an exact website link to such summarized information of performance of other schemes managed by the concerned fund manager.
- v. An indicative format<sup>399</sup> of disclosure of performance of other schemes managed by the concerned fund manager is provided.

#### **14.4 Filing of Advertisements<sup>400</sup>**

14.4.1 Regulation 30 of SEBI (Mutual Funds) Regulations, 1996 (MF Regulations) on Advertisement material, requires Mutual Funds to submit to SEBI, the advertisements issued by them, within 7 days from the date of issue.

14.4.2 In continuation to the various Go Green initiatives in Mutual Funds, the Mutual Funds are advised to submit links to access the advertisements to be filed under the MF Regulations by sending the same through e-mail to SEBI at [mf\\_advertisement@sebi.gov.in](mailto:mf_advertisement@sebi.gov.in).

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<sup>399</sup> Please refer to section on Formats for requisite formats

<sup>400</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/34 dated March 08, 2019

However, advertisement materials like pamphlets may be submitted as attachment along with e-mail, if the size of the attachment does not exceed 250 KB.

14.4.3 Mutual Funds shall however, maintain copy of advertisements for future references.

14.4.4 While sending the e-mail, the compliance officer of respective Mutual Fund shall expressly confirm that the advertisement is in compliance with the Advertisement code specified in the sixth schedule of the MF Regulations.

#### **14.5 Indicative portfolios and yields in mutual funds schemes<sup>401</sup>**

14.5.1 Mutual Funds shall not offer any indicative portfolio and indicative yield. No communication regarding the same in any manner whatsoever shall be issued by any Mutual Fund or distributors of its products. The compliance of the same shall be monitored by the AMC and Trustees and reported in their respective reports to SEBI.

#### **14.5.2 Indicative portfolio or yield in close ended debt oriented mutual fund schemes<sup>402</sup>**

Mutual Funds (MFs)/AMCs may make following additional disclosures in the SID/SAI and KIM without indicating the portfolio or yield, directly or indirectly:

14.5.2.1 MFs/AMCs shall disclose their credit evaluation policy for the investments in debt securities.

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<sup>401</sup> SEBI Circular No. IMD/CIR No. 14/1510/2009 dated January 19, 2009

<sup>402</sup> SEBI Circular No. CIR/IMD/DF/12/2011 dated August 01, 2011

14.5.2.2 MFs/AMCs shall also disclose the list of sectors they would not be investing.

14.5.2.3 MFs shall disclose the type of instruments which the schemes propose to invest viz. CPs, CDs, Treasury bills etc.

14.5.2.4 MFs shall disclose the floors and ceilings within a range of 5% of the intended allocation (in %) against each sub asset class/credit rating. For example, it may be disclosed that x-y % would be in AAA rated bank CD as per the sample matrix below:

| <b>Credit Rating</b> | <b>AAA</b> | <b>AA</b> | <b>A</b> | <b>BBB</b> |
|----------------------|------------|-----------|----------|------------|
| <b>Instruments</b>   |            |           |          |            |
| CDs                  |            |           |          |            |
| CPs                  |            |           |          |            |
| NCDs                 |            |           |          |            |
| Securitized debt     |            |           |          |            |
| Any Other            |            |           |          |            |

14.5.2.5 After the closure of NFO, the AMCs will report in the next meeting of AMCs and Trustees the publicized percentage allocation and the final portfolio. Variations between indicative portfolio allocation and final portfolio will not be permissible.

## **CHAPTER 15**

### **INVESTOR RIGHTS & OBLIGATIONS**

#### **PART I – INVESTOR RIGHTS**

#### ***15.1 Payment of interest for delay in dispatch of redemption and/or repurchase proceeds and/or dividend<sup>403</sup>***

15.1.1 In the event of failure to dispatch:

- a. Redemption or repurchase proceeds within 10 working days from the date of receipt of such requests and/ or
- b. Dividend within the stipulated 30 day period<sup>404</sup>,

15.1.2 The AMC(s) shall be liable to pay interest @ 15 per cent per annum to the unit holders.<sup>405</sup> AMC(s) must ensure that the interest amount due for the period of delay in dispatch of repurchase or redemption and/or dividend is added to the proceeds when such payments are made to the investors. Such interest shall be borne by the AMC(s).

15.1.3 Details of such payments shall be sent to the Board along with the CTR(s).<sup>406</sup> Investors shall also be informed about the rate and amount of interest paid to them. Non-compliance with these directions may invite action under the Mutual Funds Regulations.

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<sup>403</sup> SEBI Circular No. SEBI/MFD/CIR/2/266/2000 dated May 19, 2000.

<sup>404</sup> SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

<sup>405</sup>Regulation 53(c) of the SEBI (Mutual Fund) Regulations, 1996.

<sup>406</sup> For CTR format please refer to section on Formats

## **15.2 Unclaimed Redemption and Dividend Amount<sup>407</sup>**

- 15.2.1 The unclaimed redemption and dividend amounts, that were earlier allowed to be deployed only in call money market or money market instruments, shall also be allowed to be invested in a separate plan of Liquid scheme / Money Market Mutual Fund scheme floated by Mutual Funds specifically for deployment of the unclaimed amounts.
- 15.2.2 AMC's shall not be permitted to charge any exit load in this plan and TER (Total Expense Ratio) of such plan shall be capped at 50 bps.
- 15.2.3 Further, for the Unclaimed redemption and dividend amounts deployed by Mutual Funds in Call Money Market or Money Market instruments, the investment management and advisory fee charged by the AMC for managing unclaimed amounts shall not exceed 50 basis points.
- 15.2.4 Investors who claim the unclaimed amounts during a period of three years from the due date shall be paid initial unclaimed amount along-with the income earned on its deployment. Investors, who claim these amounts after 3 years, shall be paid initial unclaimed amount along-with the income earned on its deployment till the end of the third year. After the third year, the income earned on such unclaimed amounts shall be used for the purpose of investor education.
- 15.2.5 The AMC shall make a continuous effort to remind the investors through letters to take their unclaimed amounts.

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<sup>407</sup>SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000 & SEBI/HO/IMD/DF2/CIR/P/2016/37 dated February 25, 2016



15.2.6 Further, to ensure Mutual Funds play a pro-active role in tracing the rightful owner of the unclaimed amounts:

- a. Mutual Funds shall be required to provide on their website, the list of names and addresses of investors in whose folios there are unclaimed amounts.
- b. AMFI shall also provide on its website, the consolidated list of investors across Mutual Fund industry, in whose folios there are unclaimed amounts. The information provided herein shall contain name of investor, address of investor and name of Mutual Fund/s with whom unclaimed amount lies.
- c. Information at point (a) & (b) above may be obtained by investor only upon providing his proper credentials (like PAN, date of birth, etc.) along-with adequate security control measures being put in place by Mutual Fund / AMFI.
- d. The website of Mutual Funds and AMFI shall also provide information on the process of claiming the unclaimed amount and the necessary forms / documents required for the same.
- e. Further, the information on unclaimed amount along-with its prevailing value (based on income earned on deployment of such unclaimed amount), shall be separately disclosed to investors through the periodic statement of accounts / Consolidated Account Statement sent to the investors.

15.2.7 Disclosures on above provisions shall be made in the SAI /SID. Disclosure on the unclaimed amounts and the number of such

investors for each scheme shall be made in the Annual Report also.<sup>408</sup>

### **15.3 Dispatch of Statement of Accounts<sup>409</sup>**

15.3.1 AMCs shall allot the units to the applicant whose application has been accepted and also send confirmation specifying the number of units allotted to the applicant by way of email and/or SMS's to the applicant's registered email address and/or mobile number as soon as possible but not later than five working days from the date of closure of the initial subscription list and/or from the date of receipt of the request from the unitholders.

#### 15.3.2 Consolidated Account Statement<sup>410</sup>

15.3.2.1 As per regulation<sup>411</sup>, AMCs shall issue consolidated account statement for each calendar month to the investors in whose folios transaction(s) has/have taken place during that month.

15.3.2.2 Pursuant to the Interim Budget announcement in 2014 to create one record for all financial assets of every individual, it has been further decided that AMCs/ RTAs shall share the requisite information with the Depositories on monthly basis to enable generation of CAS<sup>412</sup>.

15.3.2.3 The depositories and the Asset Management Companies (AMCs)/ MF-RTAs shall put in place systems to facilitate generation and dispatch of single Consolidated Account Statements (CAS) for

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<sup>408</sup> Please refer to Schedule XI of SEBI (Mutual Funds) Regulations, 1996

<sup>409</sup>SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000, SEBI Circular No. IMD/CIR/12/80083/2006 dated November 20, 2006 and SEBI Circular No.Cir/IMD/DF/16/2011 dated September 08, 2011

<sup>410</sup> SEBI Circular No.Cir/IMD/DF/16/2011 dated September 08, 2011

<sup>411</sup> Regulation 36(4) of SEBI (Mutual Funds) Regulations, 1996

<sup>412</sup> SEBI Circular No CIR/MRD/ DP/ 31/2014 dated November 12, 2014

investors having MF investments and holding demat accounts. AMCs/ RTAs shall share the requisite information with the Depositories on monthly basis to enable generation of CAS.

- 15.3.2.4 Consolidation of account statement shall be done on the basis of PAN. In case of multiple holding, it shall be PAN of the first holder and pattern of holding. Based on the PANs provided by the AMCs/MF-RTAs, the Depositories shall match their PAN database to determine the common PANs and allocate the PANs among themselves for the purpose of sending CAS. For PANs which are common between depositories and AMCs, the Depositories shall send the CAS. In other cases (i.e. PANs with no demat account and only MF units holding), the AMCs/ MF-RTAs shall continue to send the CAS to their unit holders as is being done presently in compliance with the Regulation 36(4) of the SEBI (Mutual Funds) Regulations.
- 15.3.2.5 In case investors have multiple accounts across the two depositories, the depository having the demat account which has been opened earlier shall be the default depository which will consolidate details across depositories and MF investments and dispatch the CAS to the investor. However, option shall be given to the demat account holder by the default depository to choose the depository through which the investor wishes to receive the CAS.
- 15.3.2.6 The CAS shall be generated on a monthly basis. The AMCs /MF-RTAs shall provide the data with respect to the common PANs to the depositories within three days from the month end. The

depositories shall then consolidate and dispatch the CAS within ten days from the month end.

- 15.3.2.7 Where statements are presently being dispatched by email either by the Mutual Funds or by the Depositories, CAS shall be sent through email. However, where an investor does not wish to receive CAS through email, option shall be given to the investor to receive the CAS in physical form at the address registered in the Depository system.
- 15.3.2.8 A proper grievance redressal mechanism shall be put in place by the depositories and the AMCs/MF-RTAs which shall also be communicated to the investors through CAS. AMCs/MF-RTAs would be accountable for the authenticity of the information provided through CAS in respect of MF investments and timely sharing of such information with Depositories. The Depositories would be responsible for the timely dispatch of CAS to the investors serviced by them and the demat account information.
- 15.3.2.9 The depositories and the AMCs/ MF-RTAs shall ensure data integrity and confidentiality in respect of the shared information. The depositories shall utilize the shared data only for the purpose of providing CAS and shall not share the same with their Depository participants. Where Depositories are required to share such information with unregulated entities like third party printers, the depositories shall enter into necessary data confidentiality agreements with them.
- 15.3.2.10 The CAS shall be implemented from the month of March 2015 with respect to the transactions carried out during the month of February 2015.

- 15.3.2.11 If an investor does not wish to receive CAS, an option shall be given to the investor to indicate negative consent. Depositories shall accordingly inform investors in their statements from the month of January 2015 about the facility of CAS and give them information on how to opt out of the facility if they do not wish to avail it.
- 15.3.2.12 Where such an option is exercised, the concerned depository shall inform the AMC/MF-RTA accordingly and the data with respect to the said investor shall not be shared by the AMC/MF-RTA with the depository.
- 15.3.2.13 If there is any transaction in any of the demat accounts of the investor or in any of his mutual fund folios, then CAS shall be sent to that investor on monthly basis. In case there is no transaction in any of the mutual fund folios and demat accounts then CAS with holding details shall be sent to the investor on half yearly basis. However, in case of demat accounts with nil balance and no transactions in securities and in mutual fund folios, the requirement to send physical statement shall be applicable as specified in SEBI circular no. CIR/MRD/DP/21/2014 issued on July 01, 2014.
- 15.3.2.14 Further, the holding statement dispatched by the DPs to their BOs with respect to the dormant demat accounts with balances shall also be dispatched half-yearly in partial modification of clauses 5(b) and 6(c) of the circular no. CIR/MRD/DP/22/2012 dated August 27, 2012.
- 15.3.2.15 The dispatch of CAS by the depositories to BOs would constitute compliance by the Depository Participants with requirement under Regulation 43 of SEBI (Depositories and Participants)

Regulations, to provide statements of account to the BOs as also compliance by the MFs with the requirement under Regulation 36(4) of SEBI (Mutual Funds) Regulations.

15.3.2.16 Further, in order to increase transparency of information to investors, it has been decided that<sup>413</sup>

- a. Each CAS issued to the investors shall also provide the total purchase value / cost of investment in each scheme.
- b. Further, CAS issued for the half-year (ended September/ March) shall also provide.
  - i. The amount of actual commission paid by AMCs/Mutual Funds (MFs) to distributors (in absolute terms) during the half-year period against the concerned investor's total investments in each MF scheme. The term 'commission' here refers to all direct monetary payments and other payments made in the form of gifts / rewards, trips, event sponsorships etc. by AMCs/MFs to distributors. Further, a mention may be made in such CAS indicating that the commission disclosed is gross commission and does not exclude costs incurred by distributors such as service tax (wherever applicable, as per existing rates), operating expenses, etc.
  - ii. The scheme's average Total Expense Ratio<sup>414</sup> (in percentage terms) along with the break up between Investment and Advisory fees, Commission paid to the distributor and Other expenses for the period for each

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<sup>413</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016 and SEBI/HO/IMD/DF2/CIR/P/2016/89 dated September 20, 2016

<sup>414</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018

scheme's applicable plan (regular or direct or both) where the concerned investor has actually invested in.”

iii. Trustees and AMCs shall ensure compliance of the provisions mentioned above at 15.3.2.16(b)(ii) and trustees shall confirm the same to SEBI in the half yearly trustee report.

c. Such half-yearly CAS shall be issued to all MF investors, excluding those investors who do not have any holdings in MF schemes and where no commission against their investment has been paid to distributors, during the concerned half-year period.

d. Further, an indicative format<sup>415</sup> providing guidance on the key components which shall be reflected in half-yearly CAS may be referred.

### 15.3.3 Systematic Investment Plan (SIP) or Systematic Transfer Plan (STP) or Systematic Withdrawal Plan (SWP)<sup>416</sup>

a. Mutual Funds may dispatch the Statement of Accounts to the unit holders under SIP or STP or SWP, once every quarter ending March, June, September and December within 10 working days of the end of the respective quarter. The first Statement of Accounts shall however be issued within 10 working days of the initial transaction.

b. Mutual funds shall also provide Statement of Accounts to unit holders within 5 working days, without any charges, if specific requests are received from the investors. Further, if so mandated,

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<sup>415</sup> Please refer to section on Formats for requisite formats

<sup>416</sup> SEBI Circular No. IMD/CIR/12/80083/2006 dated November 20, 2006

a soft copy of the Statement of Accounts shall be e-mailed to the unit holders on a monthly basis.

#### 15.3.4 Dormant Accountholders

- a. Mutual Funds shall also provide Statement of Accounts to those unit holders who have not transacted during the last six months prior to the date of generation of the Statement of Accounts. In such cases, the Statement of Accounts may be issued along with the scheme's Portfolio Statement or Annual Report and should reflect the last closing balance and value of the units prior to the date of generation of the Statement of Accounts. Further, if so mandated, a soft copy of the Statement of Accounts shall be e-mailed to the unit holders instead of a physical statement.

### **15.4 AMC's Annual Reports for unitholders<sup>417</sup>**

- 15.4.1 The annual report containing accounts of the AMCs should be displayed on the website of Mutual Fund. It should also be mentioned in the Annual Report of Mutual Funds schemes that the unitholders, if they so desire may request for the Annual Report of the AMC.

### **15.5 Treatment and disposal of illiquid securities or securities classified as default at the time of maturity / closure of schemes<sup>418 419</sup>**

- 15.5.1 In case of close-ended schemes, some of the investments made by Mutual Funds may become default at the time of maturity of

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<sup>417</sup> SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000

<sup>418</sup> SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

<sup>419</sup> SEBI Circular No. MFD/CIR/05/432/2002 dated June 20, 2002.



schemes. Further, at the time of winding up of a scheme, some of the investments made by Mutual Funds may become default or illiquid. In due course of time i.e. after the maturity or winding up of the schemes, such investments may be realised by the Mutual Funds. It is advised to distribute such amount, if it is substantial, to the concerned investors. In case the amount is not substantial, it may be used for the purpose of investor education. The decision as to the determination of substantial amount shall be taken by the Trustees of Mutual Funds after considering the relevant factors including number of investors, amount recovered, cost of transferring funds to investors; among others.

### ***15.6 Change of Mutual Fund Distributor***

15.6.1 In case an investor wishes to change his distributor or wishes to go direct, Mutual Funds/AMC's shall ensure compliance with the instruction of the investor informing his desire to change his distributor and / or go direct, without compelling that investor to obtain a 'No Objection Certificate' from the existing distributor.<sup>420</sup>

### ***15.7 Additional mode of payment through Applications Supported by Blocked Amount (hereinafter referred to as "ASBA") in Mutual Funds<sup>421</sup>***

15.7.1 ASBA facility which investors have been enjoying for subscription to public issue of equity capital of companies has been extended to the investors subscribing to New Fund Offers (NFOs) of mutual fund

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<sup>420</sup> SEBI Circular No -SEBI/IMD/CIR No./ 13/187052 /2009 December 11, 2009

<sup>421</sup> SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

schemes. It shall co-exist with the current process, wherein cheques/demand drafts are used as a mode of payment.

15.7.2 The banks which are in SEBI's list shall extend the same facility in case of NFOs of mutual fund schemes to all eligible investors in Mutual Fund units.

15.7.3 Mutual Funds shall ensure that adequate arrangements are made by Registrar and Transfer Agents for the implementation of ASBA. Mutual Funds/AMCs shall make all relevant disclosures in this regard in the SAI.

15.7.4 SEBI circulars<sup>422</sup> related to ASBA shall be followed to the extent applicable.

15.7.5 The Mutual Funds/AMCs have to compulsorily provide ASBA facility to the investors for all NFOs launched on or after October 1, 2010.

## ***15.8 Instant Access Facility and use of e-wallet for investment in Mutual Funds<sup>423</sup>***

### **15.8.1 Instant Access Facility (IAF)**

1. IAF facilitates credit of redemption proceeds in the bank account of the investor on the same day of redemption request. In order to further enhance the reach of Mutual Funds (MFs) towards the retail

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<sup>422</sup> SEBI Circular No. SEBI/CFD/DIL/DIP/31/2008/30/7 dated July 30, 2008, SEBI/CFD/DIL/2008/25/09 dated September 25, 2008, SEBI/CFD/DIL/MB/IS/5/2009/05/08 dated August 5, 2009 and SEBI/CFD/DIL/ASBA/1/2009/30/12 dated December 30, 2009 and CIR/CFD/DIL/7/2010 dated July 13, 2010

<sup>423</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/39 dated May 08, 2017

investors, it has been decided to issue guidelines for extending IAF. MFs/AMCs may offer IAF subject to the following conditions:

- a. **Eligibility** -IAF shall be allowed through online mechanism and only for resident individual investors.

b. **Applicability**

- i. **NAV:** While observing the extant cut-off timings with respect to repurchase (i.e. Redemption), under IAF the following NAVs shall be applied:
  - where the IAF application is received up to 3.00pm—the lower of (i) NAV of previous calendar day and (ii) NAV of calendar day on which application is received;
  - where the IAF application is received after 3.00 pm –the lower of (i) NAV of calendar day on which such application is received, and (ii) NAV of the next calendar day.
- ii. **Scheme**—MFs/ AMCs can offer IAF only in Liquid schemes of the MF.
- iii. **Monetary Limit**—The monetary limit under IAF shall be INR 50,000/-or 90% of latest value of investment in the scheme, whichever is lower. This limit shall be applicable per day per scheme per investor.

c. **Liquidity**

- i. Liquidity for IAF has to be provided out of the available funds with the scheme and MFs/ AMCs should put in place a mechanism so that adequate balance is available in the bank account of the scheme to meet liquidity/ redemption requirements under IAF. Such mechanism may be based on historical trends of instant access. For example, AMCs offering IAF may set aside in cash at least 3 times of –

the higher of, last one month's or three month's daily average of redemptions under instant access on a rolling day basis. AMCs should also lay down robust processes for continuous monitoring and for funding the redemptions under the IAF.

- ii. MFs/ AMCs cannot borrow to meet the redemption requirements under IAF.

**d. Disclosures**

- i. AMCs shall make appropriate disclosures in the scheme related documents about IAF and ensure that no mis-selling is done on the pretext of instant availability of funds to the investors.
- ii. Appropriate disclosures shall be made to the investors mentioning the scenarios under which IAF may be suspended and that IAF request would be processed as a normal redemption request in such circumstances.

**e. Approvals and Controls**

- i. MFs/ AMCs shall offer IAF only after obtaining approvals from the AMC Board and the Trustees and keep in place adequate safeguards in the system to implement this facility.
- ii. IAF shall also be considered while carrying out stress testing of the schemes.

**15.8.2 Use of e-wallet for investment in MFs**

15.8.2.1 With an objective to promote digitalization, MFs/AMCs can accept investment by an investor through e-wallets (Prepaid Payment Instruments (PPIs)) subject to the following:

- a. MFs/ AMCs shall ensure that extant regulations such as cut-off timings, time stamping, etc., are complied with for investment in MFs using e-wallets.

- b. MFs/ AMCs shall enter into an agreement / arrangement with issuers of PPIs for facilitating payment from e-wallets to MF schemes.
- c. Redemption proceeds should be made only to the bank account of the investor/ unit holder as required under SEBI Circular MFD/CIR/15/19133/2002 dated September 30, 2002.
- d. MFs/ AMCs shall ensure that total subscription through e-wallets for an investor is restricted to INR 50,000/-per MF per financial year. Further, in partial modification to the Circular CIR/IMD/DF/10/2014 dated May 22, 2014, the limit of INR 50,000/-would be an umbrella limit for investments by an investor through both e-wallet and/or cash, per MF per financial year.
- e. MFs/ AMCs shall ensure that e-wallet issuers shall not offer any incentives such as cashback, vouchers, etc., directly or indirectly for investing in MF schemes.
- f. MFs/ AMCs shall ensure that only amounts loaded into e-wallet through cash or debit card or net banking, can be used for subscription to MF schemes.
- g. MFs/ AMCs shall ensure that amount loaded into e-wallet through credit card, cash back, promotional scheme etc. should not be allowed for subscription to MF schemes.
- h. MFs/ AMCs shall also comply with the requirement of no third party payment norm for investment made using e-wallets.

## **PART II – INVESTOR’S OBLIGATIONS**

### ***15.9 Mandatory mentioning of PAN Number<sup>424</sup>***

15.9.1 For, the requirement of mentioning PAN Number by investors of mutual fund schemes, the applicable SEBI guidelines may be referred<sup>425</sup>

### ***15.10 Mandatory mentioning of Bank Account by Investors<sup>426</sup>***

15.10.1 It shall be mandatory for the investors of the Mutual Funds schemes to mention their bank account numbers in their applications/request for redemption. For this purposes Mutual Funds shall provide space in applications and redemption request forms.

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<sup>424</sup> SEBI Circular No. MRD/DoP/Cir-05/2007 dated April 27, 2007, SEBI Circular No. MRD/DoP/Cir-08/2007 dated June 25, 2007, SEBI Circular No. MRD/DoP/MF/Cir-08/2008 dated April 3, 2008

<sup>425</sup> SEBI Circular No. MRD/DoP/MF/Cir-08/2008 dated April 3, 2008

<sup>426</sup> SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998

## **PART III- INVESTOR EDUCATION**

### ***15.11 SEBI Investors Education Programme – Investments in Mutual Funds<sup>427</sup>***

- 15.11.1 Board has prepared a brochure in question-answer format explaining the fundamental issues pertaining to mutual funds. The same is enclosed at Annexure 5. The same is also available at our website [www.sebi.gov.in](http://www.sebi.gov.in) under the "Mutual Funds" section.
- 15.11.2 AMC's are advised to circulate copies of the brochure among their distributors and agents (including brokers, banks, post offices) and the investors.
- 15.11.3 AMC's may publish the same as small booklets. In such a case, while the booklets must bear SEBI name and logo, AMC may give their name as publisher. This may also be displayed prominently on their web sites
- 15.11.4 AMFI may consider including the brochure as a part of study material for their training programmes for investors and for their certification programme conducted for agents and distributors.
- 15.11.5 Board may be kept informed about the steps taken by the AMC's in this regard from time to time.

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<sup>427</sup> SEBI Cir No. MFD/CIR NO -13/370/02 dated January 16,2002

## **15.12 Financial Inclusion:**

15.12.1 In context of Mutual Funds, financial inclusion implies that the concept of Mutual Fund products is understood by all and are accessible to anyone who wishes to make an investment in them. Also, investors should be capable of figuring out which Mutual Fund scheme is appropriate for their financial objectives. Towards this, it has been decided that:

- a. Mutual Funds shall mandatorily also make available printed literature on mutual funds in regional languages for investor awareness and education.
- b. Mutual Funds to introduce Investor awareness campaign in regional languages both in print and electronic media



## **CHAPTER 16**

### **CERTIFICATION AND REGISTRATION OF INTERMEDIARIES**<sup>428, 429</sup>

**16.1** No Mutual Fund shall deal with any intermediary (i.e. distributors, agents, brokers, sub brokers or called by any other name, whether individuals or belonging to any other organization structure) in relation to selling and marketing of Mutual Fund units unless they have cleared the certification examination.

**16.2** No Mutual Fund shall engage/employ employee(s) interacting with investors (i.e. those working in investors relations, call centers, employees engaged in sales and marketing etc. ) unless they have cleared the certification examination.

**16.3** Further, such intermediaries and employees shall also adhere to the Guidelines specified by the Board and AMFI.<sup>430</sup>

#### ***16.4 Distributors of Mutual Fund products***<sup>431</sup>

16.4.1 The AMCs shall regulate the distributors by putting in place a due diligence process as follows:

16.4.1.1 The due diligence of distributors is solely the responsibility of mutual funds/AMCs. This responsibility shall not be delegated to

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<sup>428</sup> SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001, SEBI Circular No. MFD/CIR/20/23230/2002 dated November 28, 2002, SEBI Circular No. SEBI/MFD/CIR No.01/6693/03 dated April 3, 2003, SEBI Circular No. SEBI/IMD/CIR No.2/254/04 dated February 4, 2004, SEBI Circular No. MFD/CIR/06/210/2002 dated June 26, 2002.

<sup>429</sup> Exemption for Senior Citizens: Senior citizens with experience in distributing Mutual Funds units are exempt from the mandatory certification examination if they have completed 50 years of age and have experience of at least 5 years as on September 30, 2003. They are also required to follow the guidelines prescribed by the Board and AMFI. They had to attend a mutual fund training programme and a certificate to that effect endorsed by a mutual fund should be submitted to AMFI.

<sup>430</sup> SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001, SEBI Circular No. MFD/CIR/20/23230/2002 dated November 28, 2002.

<sup>431</sup> SEBI Circular No. CIR/IMD/DF/13/2011 dated August 22, 2011.

any agency. However, mutual funds/AMCs may take assistance of an agency of repute while carrying out due diligence process of distributors.<sup>432</sup>

16.4.1.2 The due diligence process shall be initially applicable for distributors satisfying one or more of the following criteria:

- a. Multiple point presence (More than 20 locations)
- b. AUM raised over Rs.100 Crore across industry in the non-institutional category but including high net worth individuals (HNIs)
- c. Commission received of over Rs.1 Crore p.a. across industry
- d. Commission received of over Rs.50 Lakh from a single Mutual Fund

16.4.1.3 At the time of empanelling distributors and during the period i.e. review process, Mutual Funds/AMCs shall undertake a due diligence process to satisfy 'fit and proper' criteria that incorporate, amongst others, the following factors:

- a. Business model, experience and proficiency in the business.
- b. Record of regulatory / statutory levies, fines and penalties, legal suits, customer compensations made; causes for these and resultant corrective actions taken.
- c. Review of associates and subsidiaries on above factors.
- d. Organizational controls to ensure that the following processes are delinked from sales and relationship management processes and personnel:
  1. Customer risk / investment objective evaluation.
  2. MF scheme evaluation and defining its appropriateness to various customer risk categories.

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<sup>432</sup> SEBI Circular No. Cir/IMD/DF/7/2012 dated February 28, 2012

16.4.1.4 In this respect, customer relationship and transactions shall be categorized as:

- a. Advisory - where a distributor represents to offer advice while distributing the product, it will be subject to the principle of 'appropriateness' of products to that customer category. Appropriateness is defined as selling only that product categorization that is identified as best suited for investors within a defined upper ceiling of risk appetite. No exception shall be made.
- b. Execution Only - in case of transactions that are not booked as 'advisory', it shall still require:
  - i. The distributor has information to believe that the transaction is not appropriate for the customer, a written communication be made to the investor regarding the unsuitability of the product. The communication shall have to be duly acknowledged and accepted by investor.
  - ii. A customer confirmation to the effect that the transaction is 'execution only notwithstanding the advice of inappropriateness from that distributor be obtained prior to the execution of the transaction.
  - iii. That on all such 'execution only' transactions, the customer is not required to pay the distributor anything other than the standard flat transaction charge.
- c. There shall be no third categorization of customer relationship / transaction.
- d. While selling Mutual Fund products of the distributors' group/affiliate/associates, the distributor shall make disclosure to the customer regarding the conflict of interest arising from the distributor selling of such products.

16.4.1.5 Compliance and risk management functions of the distributor shall include review of defined management processes for:

- a. The criteria to be used in review of products and the periodicity of such review.
- b. The factors to be included in determining the risk appetite of the customer and the investment categorization and periodicity of such review.
- c. Review of transactions, exceptions identification, escalation and resolution process by internal audit.
- d. Recruitment, training, certification and performance review of all personnel engaged in this business.
- e. Customer on boarding and relationship management process, servicing standards, enquiry / grievance handling mechanism.
- f. Internal/ external audit processes, their comments / observations as it relates to MF distribution business.
- g. Findings of ongoing review from sample survey of investors.

16.4.1.6 Mutual Funds/AMCs may implement additional measures as deemed appropriate to help achieve greater investor protection.

### ***16.5 Code of Conduct:***

16.5.1 Mutual Funds are required to monitor the activities of their distributors, agents, brokers to ensure that they do not indulge in any malpractice or unethical practice while selling or marketing Mutual Funds units. Any non compliance with the Mutual Funds Regulations and Guidelines pertaining to Mutual Funds especially guidelines on advertisements and/ or sales literature and/or Code of Conduct shall be reported in the periodic meetings of the Board of the AMC and the Trustee(s) and shall also be reported to the Board

by the AMC(s) in their CTR(s) and by the Trustees in their Half Yearly Reports.

16.5.2 AMFI has prescribed a Code of Conduct for Mutual Fund intermediaries enclosed herewith as Annexure 1<sup>433</sup>. All intermediaries shall follow the Code of Conduct strictly and not indulge in any practice contravening it directly or indirectly.

16.5.3 Non compliance with the Code of Conduct shall be reported by the Mutual Funds to the Board and AMFI. Further, no Mutual Fund shall deal with intermediaries contravening the prescribed Code of Conduct.

## ***16.6 Empanelment of Intermediaries by Mutual Funds***

16.6.1 Empanelment of intermediaries by Mutual Funds, payment of commissions, brokerage and/or sub-brokerage etc. shall be in accordance with parameters and guidelines specified by the Board and AMFI from time to time. Mutual Funds shall monitor the compliance of these guidelines and Code of Conduct by their intermediaries in terms of business done across all Mutual Funds. In case of non-compliance, Mutual Funds shall suspend further business and payment of commissions, etc. until full compliance by the empanelled intermediary.

## ***16.7 Certification Programme for sale and/ or distribution of mutual fund products***<sup>434</sup>

16.7.1 With effect from June 01, 2010, the certification examination for distributors, agents or any other persons employed or engaged or to

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<sup>433</sup> Refer Annexure and Reports for details on Code of Conduct

<sup>434</sup> SEBI Circular No. Cir/IMD/DF/5/2010 dated June 24, 2010

be employed or engaged in the sale and/or distribution of mutual fund products, would be conducted by the National Institute of Securities Markets (NISM)<sup>435</sup>. The text of notification in this regard is enclosed herewith as Annexure 6.

16.7.2 Under the existing instructions, the agent/ distributor was exempted from the AMFI certification examination if he had completed fifty years of age and had at least five years of experience in distribution of mutual fund units. As per regulation 4(3) of the Certification Regulations, persons who have attained the age of fifty years or who have at least ten years' experience in the securities markets in the sale and/ or distribution of mutual fund products as on May 31, 2010, will be given the option of obtaining the certification either by passing the NISM certification examination or qualifying for Continuing Professional Education (CPE) by obtaining such classroom credits as may be specified by NISM from time to time.

16.7.3 The Certification Regulations require the persons referred to in paragraph 16.7.1 above to comply with the requirements for CPE as specified by NISM within the validity period of the certificate obtained by passing the certification examination. However, to facilitate the transition process from AMFI to NISM, it has been decided that a person holding a valid AMFI certification whose validity expires between June 01, 2010 and December 31, 2010, would be required to comply with the CPE requirements as laid down by NISM under

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<sup>435</sup> For Notification under regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 please refer to section on Annexures

the relevant clauses of the Certification Regulations, by December 31, 2010.

16.7.4 An associated person holding a valid AMFI/NISM certification whose validity expires any time after December 31, 2010, would be required to comply with the CPE requirements as laid down by NISM under the relevant clauses of the Certification Regulations, prior to the expiry of the validity of the certification.

16.7.5 The requirement of obtaining registration from AMFI after obtaining certification, as per the Circular dated November 28, 2002, would continue.

## **16.8 *New cadre of distributors***<sup>436</sup>

16.8.1 A new cadre of distributors, such as postal agents, retired government and semi-government officials (class III and above or equivalent) with a service of at least 10 years, retired teachers with a service of at least 10 years, retired bank officers with a service of at least 10 years, and other similar persons (such as Bank correspondents) as may be notified by AMFI/AMC from time to time, shall be allowed to sell units of simple and performing mutual fund schemes.

16.8.2 Simple and performing mutual fund schemes shall comprise of diversified equity schemes, fixed maturity plans (FMPs), index schemes, Retirement benefit schemes having tax benefits and Liquid schemes/ Money Market Mutual Fund schemes<sup>437</sup> and should have

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<sup>436</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

<sup>437</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/37 February 25, 2016.

returns equal to or better than their scheme benchmark returns during each of the last three years.

16.8.3 These new cadre of distributors would require a simplified form of NISM certification and AMFI Registration.

### ***16.9 Developing alternative distribution channels<sup>438</sup>***

16.9.1 In order to increase penetration of Mutual Fund products and to energise the distribution network while protecting the interest of investors, SEBI had permitted additional expense ratio of 30 bps for garnering funds from B-30 cities. This development would lead to setting up of distribution infrastructure by AMCs. However, in order to achieve participation from all parts of the country in Mutual Funds there is greater need for developing additional distribution channels. Therefore, it has been decided that:

- a. Distribution through PSU banks: PSU banks which have wide bank branches network and have distribution reach in the nook and corner of the country, could play a key role in Mutual Funds distribution. In order to leverage the PSU banks infrastructure, Mutual Funds/ AMCs need to develop a system for active support to PSU banks to distribute Mutual Fund products through them. Such active support would also encourage PSU banks to distribute products of all Mutual Funds.
- b. Online distribution: Online distribution not only increases customer convenience, but also significantly improves distributor economics. The online phenomenon is increasing rapidly and it is observed that more and more people especially younger generation prefers online transactions. Therefore, it has been decided that all

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<sup>438</sup> SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014



Mutual Funds should enhance the online investment facility and tap the internet savvy users to invest in Mutual Funds by providing an online investment facility on their websites. Mutual Funds also need to tap the burgeoning mobile-only internet users for direct distribution of Mutual Fund products.

### ***16.10 Unique Identity Number***

16.10.1 AMFI shall create a unique identity number of the employee/ relationship manager/ sales person of the distributor interacting with the investor for the sale of mutual fund products, in addition to the AMFI Registration Number (ARN) of the distributor.

16.10.2 The application form for mutual fund schemes shall have provision for disclosing the unique identity number of such sales personnel along with the ARN of distributor.

## **CHAPTER 17**

### **TRANSACTION IN MUTUAL FUNDS UNITS**

#### **17.1 Maintenance of documents<sup>439</sup>**

- 17.1.1 As per the requirements specified by Board in respect of “Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT) / Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed there-under”<sup>440</sup>, maintenance of all documentation pertaining to the unitholders/ investors is the responsibility of the AMC.
- 17.1.2 Accordingly, vide SEBI Circular No - SEBI/IMD/CIR No.12 /186868 /2009 dated December 11, 2009, AMCs were advised to confirm whether all the investor related documents were maintained/ available with the AMC. If not, and to the extent of and relating to such investor accounts/folios where investor related documentation was incomplete/inadequate/not available or was stated to be maintained by the distributors, then the Trustees were advised to ensure the following:
- 17.1.2.1 No further payment of any commissions, fees and / or payments in any other mode should be made to such distributors till full compliance/ completion of the steps enumerated herein.
- 17.1.2.2 Take immediate steps to obtain all investor/ unit holders documents in terms of the AML/ CFT, including KYC documents/ PoA as applicable.

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<sup>439</sup> SEBI Circular No - SEBI/IMD/CIR No.12 /186868 /2009 dated December 11,2009

<sup>440</sup> SEBI Circular No ISD/AML/CIR-1/2008 dated December 19, 2008

- 17.1.2.3 Take immediate steps to obtain all supporting documents in respect of the past transactions.
- 17.1.2.4 On a one time basis, send statement of holdings and all transactions since inception of that folio in duplicate to the investor and seek confirmation from the unit holders on the duplicate copy.
- 17.1.2.5 Set up a separate customer services mechanism to handle/ address queries and grievance of the above mentioned unitholders.
- 17.1.3 Pending completion of documentation, exercise great care and be satisfied of investor bonafides before authorizing any transaction, including redemption, on such accounts/ folios.
- 17.1.4 The Trustees were required forthwith to confirm to Board that the steps had been taken to address the above and also send a status to the Board as and when process was completed to their satisfaction.
- 17.1.5 All mutual funds/ AMCs are directed that<sup>441</sup>:
- 17.1.5.1 All new folios/ accounts shall be opened only after ensuring that all investor related documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signature are available with AMCs/RTAs and not just with the distributor.
- 17.1.5.2 For existing folios, AMCs shall be responsible for updation of the investor related documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signature by November 15, 2010.

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<sup>441</sup> SEBI Circular No Cir /IMD/DF/9 / 2010 dated August 12, 2010

17.1.5.3 The trustees shall submit a confirmation after they receive certification from an Independent auditor on completion of the said process latest by November 22, 2010.

## ***17.2 Facilitating transactions in Mutual Fund schemes through the Stock Exchange infrastructure<sup>442</sup>***

17.2.1 Stock Exchange terminals can be used for facilitating transactions in mutual fund schemes. The Stock Exchange mechanism would also extend the present convenience available to secondary market investors to mutual fund investors.

17.2.2 Units of mutual fund schemes may be permitted to be transacted through registered stock brokers of recognized stock exchanges and such stock brokers will be eligible to be considered as official points of acceptance<sup>443</sup>.

17.2.3 The respective stock exchange would provide detailed operating guidelines to facilitate the same.

17.2.4 In this regard, Mutual Funds/AMC are advised that:

17.2.4.1 Empanelment and monitoring of Code of Conduct for brokers acting as mutual fund intermediaries-

- a. The stock brokers intending to extend the transaction in Mutual Funds through stock exchange mechanism shall be required to comply with the requirements of passing the AMFI certification examination<sup>444</sup>. All such stock brokers would then be considered as empanelled distributors with mutual fund/AMC.

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<sup>442</sup> SEBI Circular No - SEBI /IMD / CIR No.11/183204/ 2009 dated November 13,2009

<sup>443</sup> SEBI Circular No. SEBI/IMD/CIR No.11/78450/06 dated October 11, 2006

<sup>444</sup> Please refer Chapter 16 on Certification and Registration of Mutual Funds intermediaries

- b. These stock brokers shall also comply with Code of Conduct<sup>445</sup> for intermediaries of Mutual Funds, and applicable SEBI guidelines<sup>446</sup>, applicable to intermediaries engaged in selling and marketing of mutual fund units.
- c. It is clarified that, stock exchanges shall monitor the compliance of the code of conduct specified regarding empanelment of intermediaries by mutual funds<sup>447</sup>.

#### 17.2.4.2 Time stamping

- a. Time stamping as evidenced by confirmation slip given by stock exchange mechanism to be considered sufficient compliance with clause for cut-off timing for liquid scheme and plans, cut-off timing for other schemes and plans and time stamping provisions mandated by Board<sup>448</sup>.

#### 17.2.4.3 Statement of Account

- a. Where investor desires to hold units in dematerialised form, demat statement given by depository participant would be deemed to be adequate compliance with requirements for account statement prescribed by SEBI <sup>449</sup>.

#### 17.2.4.4 Investor grievance mechanism

- a. Stock exchanges shall provide for investor grievance handling mechanism to the extent they relate to disputes between brokers and their client.

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<sup>445</sup> For Code of Conduct, please refer to Annexure I

<sup>446</sup> Please refer Chapter 16 on Certification and Registration of Mutual Funds intermediaries

<sup>447</sup> Please refer Chapter 16 on Certification and Registration of Mutual Funds intermediaries

<sup>448</sup> Please refer to Chapter 8 – Net Asset Value for details on cut off timing provisions

<sup>449</sup> For details on dispatch of statement of accounts. refer to Chapter 15- Investor Rights and services

#### 17.2.4.5 Dematerialization of existing units held by investors

- a. In case investors desire to convert their existing physical units (represented by statement of account) into dematerialized form, mutual funds / AMCs shall take such steps in coordination with Registrar and Transfer Agents, Depositories and Depository participants (DPs) to facilitate the same.

#### 17.2.4.6 Option to hold units in demat form<sup>450</sup>

- a. Mutual Funds/AMCs are advised to invariably provide an option to the investors to mention demat account details in the subscription form, in case they desire to hold units in demat form while subscribing to any scheme (open ended/close ended/Interval).
- b. Mutual Funds/AMCs shall ensure that above mentioned option is provided to the investors in all their schemes (existing and new).
- c. Mutual Funds/AMCs are advised to obtain ISIN for each option of the scheme and quote the respective ISIN along with the name of the scheme, in all Statement of Account/Common Account Statement (CAS) issued to the investors.

#### 17.2.4.7 Know your client (KYC)

- a. Where investor desires to hold units in dematerialised form, the KYC performed by DP in terms of SEBI requirements<sup>451</sup> would be

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<sup>450</sup> SEBI circular no.CIR/IMD/DF/9/2011, dated May 19, 2011

<sup>451</sup> SEBI Circular No - MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004 and SEBI/IMD/CIR No.11/183204/2009 dated November 13, 2009

considered compliance with applicable requirements specified in this regard<sup>452</sup> by Mutual Funds/AMCs.

- b. The Mutual Funds/AMC shall take necessary steps to do KYC requirements of all investors as per the prescribed guidelines<sup>453</sup>.

17.2.4.8 Stock exchanges and mutual funds/AMCs, based on the experience gained may improve the mechanism in the interest of investors.

17.2.4.9 In addition to the existing facilities of purchasing and redeeming directly with the Mutual Funds and Stock Brokers, the following be noted<sup>454</sup>:

- a. Units of mutual funds schemes may be permitted to be transacted through clearing members of the registered Stock Exchanges.
- b. Permit Depository participants of registered Depositories to process only redemption request of units held in demat form.

17.2.4.10 The following be noted with respect to investors having demat account and purchasing and redeeming mutual funds units through stock brokers and clearing members:

- a. Investors shall receive redemption amount (if units are redeemed) and units (if units are purchased) through broker/clearing member's pool account. Mutual Funds(MF)/ Asset management Companies(AMC) would pay proceeds to the broker/clearing member (in case of redemption) and

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<sup>452</sup> SEBI Circular No - ISD/AML/CIR-1/2008 dated December 19, 2008

<sup>453</sup> SEBI Circular No. MIRSD/SE/Cir-21/2011, dated October 5, 2011, SEBI Circular No.MIRSD/Cir-23/2011 dated December 2, 2011 and SEBI Circular No.MIRSD/Cir- 26 /2011 dated December 23, 2011

<sup>454</sup> SEBI Circular No CIR/IMD/DF/17/2010 dated November 9, 2010

broker/clearing member in turn to the respective investor and similarly units shall be credited by MF/AMC into broker/clearing member's pool account (in case of purchase) and broker/clearing member in turn to the respective investor.

- b. Payment of redemption proceeds to the broker/clearing members by MF/AMC shall discharge MF/AMC of its obligation of payment to individual investor. Similarly, in case of purchase of units, crediting units into broker/clearing member pool account shall discharge MF/AMC of its obligation to allot units to individual investor.

17.2.4.11 The following may be noted in this regard:

- a. Clearing members and Depository participants will be eligible to be considered as official points of acceptance<sup>455</sup> and conditions stipulated<sup>456</sup> Viz. AMFI /NISM certification, code of conduct prescribed by SEBI for Intermediaries of Mutual Fund, shall be applicable for such Clearing members and Depository participants as well.
- b. Stock exchanges and Depositories shall provide investor grievance handling mechanism to the extent they relate to disputes between their respective regulated entity and their client and shall also monitor the compliance of code of conduct specified<sup>457</sup> regarding empanelment and code of conduct for intermediaries of Mutual Funds.

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<sup>455</sup> SEBI Circular No. SEBI/IMD/CIR No.11/78450/06 dated October 11, 2006

<sup>456</sup> SEBI Circular dated November 13, 2009 for stock brokers

<sup>457</sup>SEBI Circulars MFD/CIR/20/23230/02 dated November 28, 2002 and SEBI/IMD/08/174648/2009 dated August 27, 2009



17.2.4.12 The respective stock exchanges and Depositories would provide detailed operating guidelines to facilitate the above and ensure that timelines prescribed<sup>458</sup> shall be adhered to with regard to allotment of units and receipt of redemption proceeds at the investor's level.

17.2.4.13 Transferability of Mutual Fund units<sup>459</sup>

a. Regulations<sup>460</sup> states that "a unit unless otherwise restricted or prohibited under the scheme, shall be freely transferable by act of parties or by operation of law." The spirit and intention of this regulation is not to prohibit transferability of units as a general rule or practice.

b. All AMCs shall clarify by way of an addendum that units of all mutual fund schemes held in demat form shall be freely transferable from the date of the issue of said addendum which shall be not later than October 1, 2010. However, restrictions on transfer of units of ELSS schemes during the lock-in period shall continue to be applicable as per the ELSS Guidelines.

17.2.5 Stock exchanges and mutual funds/AMCs, based on the experience gained may further improve the mechanism in the interest of investors. Necessary clarifications, if any, would be issued at appropriate time by SEBI in this regard.

17.2.6 <sup>461</sup>SEBI Registered Investment Advisors (RIAs) has been allowed to use infrastructure of the recognised stock exchanges to purchase and redeem mutual fund units directly from Mutual

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<sup>458</sup> SEBI (Mutual Funds) Regulations, 1996

<sup>459</sup> SEBI Circular No - CIR/IMD/DF/10/2010 dated August 18, 2010

<sup>460</sup> Regulation 37(1) of SEBI (Mutual Fund) Regulations, 1996

<sup>461</sup> SEBI Circular No. SEBI/HO/MRD/DSA/CIR/P/2016/113 dated October 19, 2016

Fund/Assets Management Companies on behalf of their clients, including direct plans.

The other provisions of circular no. CIR/MRD/DSA/32/2013 dated October 04, 2013 remain unchanged.

### **17.3 Cash Investments in mutual funds<sup>462</sup>**

- 17.3.1 In order to help enhance the reach of mutual fund products amongst small investors, who may not be tax payers and may not have PAN/bank accounts, such as farmers, small traders/businessmen/workers, cash transactions in mutual funds to the extent of 50,000/-<sup>463</sup> per investor, per mutual fund, per financial year shall be allowed subject to (i) compliance with Prevention of Money Laundering Act, 2002 and Rules framed there under; the SEBI Circular(s) on Anti Money Laundering (AML) and other applicable AML rules, regulations and guidelines and (ii) sufficient systems and procedures in place.
- 17.3.2 Repayment in the form of redemptions, dividend, etc. with respect to aforementioned investments shall be paid only through banking channel.

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<sup>462</sup> SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

<sup>463</sup> SEBI Circular No. CIR/IMD/DF/10/2014 dated May 22, 2014

## CHAPTER 18

### MISCELLANEOUS

#### ***18.1 Online Registration Mechanism for Mutual Funds<sup>464</sup>***

- 18.1.1 It has been decided to operationalize SEBI Intermediary Portal (<https://siportal.sebi.gov.in>) for the entities to submit the mutual funds registration applications online. For registration of mutual funds the SEBI Intermediary Portal shall include online application for registration, processing of application, grant of in-principle approval, grant of final registration etc. Link for SEBI Intermediary Portal is also available on SEBI website - [www.sebi.gov.in](http://www.sebi.gov.in).
- 18.1.2 SEBI Intermediary Portal for application of registration of Mutual Funds shall be made operational from June 01, 2017. Thereafter, all applications for registration of Mutual Fund shall be made through SEBI Intermediary Portal only.
- 18.1.3 The applicants will be separately required to submit relevant documents viz. declarations/ undertakings required as a part of application form prescribed in relevant regulations, in physical form only for records, without impacting the online processing of applications for registration.

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<sup>464</sup> SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2017/52 dated June 01, 2017

18.1.4 In case of any queries and clarifications with regard to the SEBI Intermediary Portal, intermediaries may contact on 022-26449364 or may write at [portalhelp@sebi.gov.in](mailto:portalhelp@sebi.gov.in).

## **18.2 Clarification<sup>465</sup> to Regulation 24<sup>466</sup>**

18.2.1 The amended Regulation mandates that AMC's shall appoint separate fund manager for each separate fund managed by it unless the investment objectives and assets allocations are the same and the portfolio is replicated across all the funds managed by the fund manager.

18.2.2 The replication of minimum 70% of portfolio value shall be considered as adequate for the purpose of said compliance, provided that AMC has in place a written policy for trade allocation and it ensures at all points of time that the fund manager shall not take directionally opposite positions in the schemes managed by him.

18.2.3 Wherein a fund manager is common across mutual fund schemes and schemes/products under other permissible activities of AMC, then the AMC shall:

18.2.4 Disclose on their websites, the returns provided by the said manager for all the schemes (mutual fund, pension funds, offshore funds etc. ) on a monthly basis.

18.2.5 In case of any performance advertisement is issued by the AMC for any scheme, then the details of returns of all the schemes (mutual

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<sup>465</sup> SEBI Circular No.Cir/IMD/DF/7/2012 dated February 28, 2012

<sup>466</sup> Of SEBI (Mutual Funds) Regulations, 1996

fund, pension funds, offshore funds etc.) managed by that fund manager shall be provided.

18.2.6 In case the difference between the annual returns provided by the schemes managed by the same fund manager is more than 10% then the same shall be reported to the trustee and explanation for the same shall be disclosed on the website of the AMC.

### ***18.3 Management and advisory services by AMCs to Foreign Portfolio Investors<sup>467</sup>***

- i.* AMCs may provide management and advisory services in terms of Regulation 24(b) of MF Regulations to FPIs falling under the following categories of FPIs as specified in FPI Regulations:
  - a.* Government and Government related investors such as central banks, sovereign wealth funds, international or multilateral organizations or agencies including entities controlled or at least 75% directly or indirectly owned by such Government and Government related investor(s);
  - b.* Appropriately regulated entities such as pension funds, insurance or reinsurance entities, banks and mutual funds;
  - c.* Appropriately regulated FPIs wherein (a) or (b) above hold more than 50% of shares/ units.
- ii.* The proviso to clause (vi) of regulation 24(b) of MF Regulations shall be applicable for the categories of FPIs as mentioned under paragraph (i) above.

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<sup>467</sup> SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/155 dated December 16, 2019  
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## **18.4 Product Labeling in Mutual Funds<sup>468</sup>**

18.4.1 All the mutual funds shall 'Label' their schemes on the parameters as mentioned under:

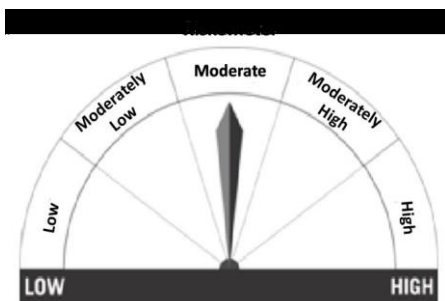
- a. Nature of scheme such as to create wealth or provide regular income in an indicative time horizon (short/ medium/ long term).
- b. A brief about the investment objective (in a single line sentence) followed by kind of product in which investor is investing (Equity/Debt).
- c. Level of risk in mutual fund schemes shall be increased to five as under<sup>469</sup>
  - i. Low - principal at low risk
  - ii. Moderately Low - principal at moderately low risk
  - iii. Moderate - principal at moderate risk
  - iv. Moderately High -- principal at moderately high risk
  - v. High - principal at high risk.

The depiction of risk using colour codes would be replaced by pictorial meter named "Riskometer" and this meter would appropriately depict the level of risk in any specific scheme. For enumeration, a scheme having moderate risk would be depicted as under:

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<sup>468</sup> SEBI Circular No. CIR/IMD/DF/5/2013 dated March 18, 2013

<sup>469</sup> SEBI Circular No. CIR/IMD/DF/4/2013 dated April 30, 2015



*“Investors understand that their principal will be at moderate risk”*

Mutual Funds may 'product label' their schemes on the basis of the best practice guidelines issued by Association of Mutual Funds in India (AMFI) in this regard.

- d. A disclaimer that investors should consult their financial advisers if they are not clear about the suitability of the product.

#### 18.4.2 Product label shall be disclosed in:

- a. Front page of initial offering application forms, Key Information Memorandum (KIM) and Scheme Information Documents (SIDs).
- b. Common application form – along with the information about the scheme.

The product label with respect to (a) & (b) shall be placed in proximity to the caption of the scheme and shall be prominently visible.

- c. Scheme advertisements-placed in manner so as to be prominently visible to investors.

## ***18.5 Investment in units of Mutual Funds in the name of minor through guardian and ease of process for transmission of units<sup>470</sup>***

### 18.5.1 Process for Investments made in the name of a Minor through a Guardian

- a. Payment for investment by means of Cheque, Demand Draft or any other mode shall be accepted from the bank account of the minor or from a joint account of the minor with the guardian only. For existing folios, the AMCs shall insist upon a Change of Pay-out Bank mandate before redemption is processed.
- b. Upon the minor attaining the status of major, the minor in whose name the investment was made, shall be required to provide all the KYC details, updated bank account details including cancelled original cheque leaf of the new account. No further transactions shall be allowed till the status of the minor is changed to major.
- c. AMCs shall build a system control at the account set up stage of Systematic Investment Plan (SIP), Systematic Transfer Plan (STP) and Systematic Withdrawal Plan (SWP) on the basis of which, the standing instruction is suspended when the minor attains majority, till the status is changed to major.

### 18.5.2 Process for transmission of Units

- a. In order to improve the processing turnaround time for transmission requests, AMCs shall implement image based processing wherever the claimant is a nominee or a joint holder in the investor folio.

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<sup>470</sup> SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2019/166 dated December 24,2019



- b. AMCs shall have a dedicated, Central Help Desk and a webpage carrying relevant information and instructions in order to provide assistance on the transmission process.
- c. AMCs shall adopt a common Transmission Request Form (common fields) and NOC form. All such forms and formats shall be made available on the website of the AMCs, RTAs and AMFI.
- d. AMCs shall implement a common set of document requirements for transmission of units to claimant who are nominees or joint holders in the investor account.
- e. AMCs shall implement a uniform process for treatment of unclaimed funds to be transferred to the claimant including the unclaimed dividends.
- f. AMCs shall not accept requests for redemption from a claimant pending completion of the transmission of units in his / her favour.
- g. The Stamp duty payable by the claimant with respect to the indemnity bond and affidavit, shall be in accordance with the stamp duty prescribed by law.

AMCs and AMFI shall promote the importance of nomination as a part of its investor education and awareness programmes.

18.5.3 To ensure uniformity across the industry, AMFI is advised to prescribe the forms and formats referred in point 18.5.2 (c), common set of documents referred in point 18.5.2 (d) and uniform process for treatment of unclaimed funds referred in point 18.5.2 (e), and shall mandatorily be followed by all Mutual Funds/AMCs.