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EXTRAORDINARY

PART II - SECTION 3 - SUB-SECTION (ii)

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SECURITIES AND EXCHANGE BOARD OF INDIA

NOTIFICATION

Mumbai, the 9th December, 1996

SECURITIES AND EXCHANGE BOARD OF INDIA

(MUTUAL FUNDS) REGULATIONS, 1996

S.O. 856 (E).- In exercise of the powers conferred by section 30, read with clause (c) of sub-section (2) of section 11 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Securities and Exchange Board of India hereby makes the following regulations :—

CHAPTER I

PRELIMINARY

Short title, application and commencement.

- 1.** (1) These regulations may be called the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.
(2) They shall come into force on the date of their publication in the Official Gazette.

Definitions.

- 2.** In these regulations, unless the context otherwise requires:—

- (a) “Act” means the Securities and Exchange Board of India Act, 1992 (15 of 1992);
(b) “advertisement” includes every form of advertising, whether in a publication, by display of notices, signs, labels or by means of circulars, catalogues or other documents, by an exhibition of pictures or photographic films, by way of sound broadcasting or television, or in any other manner;
(c) “associate” includes a person,—
(i) who directly or indirectly, by himself, or in combination with relatives, exercises control over the asset management company or the trustee, as the case may be, or
(ii) in respect of whom the asset management company or the trustee, directly or indirectly, by itself, or in combination with other persons exercises a control, or

- (iii) whose director, officer or employee is a director, officer or employee of the asset management company;
- (d) “asset management company” means a company formed and registered under the Companies Act, 1956 (1 of 1956) and approved as such by the Board under sub-regulation (2) of regulation 21;
- (e) “broker” means a stock broker as defined in Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Rules, 1992;
- ¹[(ea) “capital protection oriented scheme” means a mutual fund scheme which is designated as such and, which endeavours to protect the capital invested therein through suitable orientation of its portfolio structure;]
- (f) “close-ended scheme” means any scheme of a mutual fund in which the period of maturity of the scheme is specified;
- (g) “control” means,—
 - (i) in the case of a company any person or combination of persons who directly or indirectly own, control or hold shares carrying not less than 10% of the voting rights of such company; or
 - (ii) as between two companies, if the same person or combination of persons directly or indirectly, own, control or hold shares carrying not less than 10% of the voting rights of each of the two companies; or
 - (iii) majority of the directors of any company who are in a position to exercise control over the asset management company;
- (h) “custodian” means a person who has been granted a certificate of registration to carry on the business of custodian of securities under the Securities and Exchange Board of India (Custodian of Securities) Regulations, 1996;
- (i) “depository” means a body corporate as defined in the Depositories Act, 1996 (22 of 1996);
- (j) “economic offence” means an offence to which the Economic Offences (Limitation of Prosecution) Act, 1974 (12 of 1974), applies for the time being;
- (k) ²[***]
- (l) “form” means any of the forms specified as such in the First Schedule;
- (m) “fraud” for the purpose of these regulations has the same meaning as is assigned to it in section 17 of the Indian Contract Act, 1872 (9 of 1872);
- ³[(ma) “fund of funds scheme” means a mutual fund scheme that invests primarily in other schemes of the same mutual fund or other mutual funds;]
- ⁴[(mb) “gold exchange traded fund scheme” shall mean a mutual fund scheme that invests primarily in gold or gold related instruments;

¹ Inserted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006, w.e.f. 3-8-2006.

² Omitted by SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, w.e.f. 27-9-2003. Prior to omission this clause was read as,

“(k) “**enquiry officer**” means any person appointed as such by the Board under chapter ix;”

³ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2003, w.e.f. 29-5-2003.

⁴ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2006, w.e.f. 12-1-2006.

(mc) “gold related instrument” shall mean such instrument having gold as underlying, as may be specified by the Board from time to time;]

⁵[(mm) “group” means a group as defined in clause (ef) of section 2 of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969);]

⁶[(mn) “index fund scheme” means a mutual fund scheme that invests in securities in the same proportion as an index of securities;]

(n) “inspecting officer” means any person appointed as such by the Board under Chapter VIII;

(o) “money market instruments” includes commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time;

(p) “money market mutual fund” means a scheme of a mutual fund which has been set up with the objective of investing exclusively in money market instruments;

⁷[(q) “mutual fund” means a fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments or gold or gold related instruments or real estate assets;]

(r) “offer document” means any document by which a mutual fund invites public for subscription of units of a scheme;

(s) “open-ended scheme” means a scheme of a mutual fund which offers units for sale without specifying any duration for redemption;

⁸[(sa) “real estate mutual fund scheme” means a mutual fund scheme that invests directly or indirectly in real estate assets or other permissible assets in accordance with these regulations;]

(t) “relative” means a person as defined in section 6 of the Companies Act, 1956 (1 of 1956);

(u) “scheme” means a scheme of a mutual fund launched under Chapter V;

(v) “schedule” means any of the schedules annexed to these regulations;

(w) “securities laws” means the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and the Depositories Act, 1996 (22 of 1996), including their amendments and such other laws as may be enacted from time to time;

(x) “sponsor” means any person who, acting alone or in combination with another body corporate, establishes a mutual fund;

⁵ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2003, w.e.f. 12-1-1998.

⁶ Inserted by the SEBI (Mutual Funds) ((Second Amendment) Regulations, 2007, w.e.f. **31-10-2007**.

⁷ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to substitution, it was read as,

“(q) “mutual fund” means a fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments **[or gold or gold related instruments]*.”

[*Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2006, w.e.f. 12-1-2006]

⁸ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008.

⁹[(y)“trustees” mean the Board of Trustees or the Trustee Company who hold the property of the Mutual Fund in trust for the benefit of the unitholders;]

(z) “unit” means the interest of the unitholders in a scheme, which consists of each unit representing one undivided share in the assets of a scheme;

(z)(i) “unitholder” means a person holding unit in a scheme of a mutual fund.

CHAPTER II

REGISTRATION OF MUTUAL FUND

Application for registration

3. An application for registration of a mutual fund shall be made to the Board in Form A by the sponsor.

Application fee to accompany the application

4. Every application for registration under regulation 3 shall be accompanied by non-refundable application fee as specified in the Second Schedule.

Application to conform to the requirements

5. An application, which is not complete in all respects shall be liable to be rejected:

Provided that, before rejecting any such application, the applicant shall be given an opportunity to complete such formalities within such time as may be specified by the Board.

Furnishing information

6. The Board may require the sponsor to furnish such further information or clarification as may be required by it.

Eligibility criteria

7. For the purpose of grant of a certificate of registration, the applicant has to fulfill the following, namely :—

(a) the sponsor should have a sound track record and general reputation of fairness and integrity in all his business transactions.

Explanation : For the purposes of this clause “sound track record” shall mean the sponsor should,—

- (i) be carrying on business in financial services for a period of not less than five years; and
- (ii) the networth is positive in all the immediately preceding five years; and
- (iii) the networth in the immediately preceding year is more than the capital contribution of the sponsor in the asset management company; and
- (iv) the sponsor has profits after providing for depreciation, interest and tax in three out of the immediately preceding five years, including the fifth year;

¹⁰[(aa) the applicant is a fit and proper person;]

⁹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999, w.e.f. 8-12-1999. Prior to substitution , it was read as,

“ (y) “**trustee**” means a person who holds the property of the mutual fund in trust for the benefit of the unitholders and includes a trustee company and the directors of the trustee company;”

- (b) in the case of an existing mutual fund, such fund is in the form of a trust and the trust deed has been approved by the Board;
- (c) the sponsor has contributed or contributes at least 40% to the net worth of the asset management company:

Provided that any person who holds 40% or more of the net worth of an asset management company shall be deemed to be a sponsor and will be required to fulfill the eligibility criteria specified in these regulations;

- (d) the sponsor or any of its directors or the principal officer to be employed by the mutual fund should not have been guilty of fraud or has not been convicted of an offence involving moral turpitude or has not been found guilty of any economic offence;
- (e) appointment of trustees to act as trustees for the mutual fund in accordance with the provisions of the regulations;
- (f) appointment of asset management company to manage the mutual fund and operate the scheme of such funds in accordance with the provisions of these regulations;
- ¹¹[(g) appointment of custodian in order to keep custody of the securities or gold and gold related instrument or other assets of the mutual fund held in terms of these regulations, and provide such other custodial services as may be authorised by the trustees.]

¹²**[Applicability of Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004**

7A. The provisions of the Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004 shall, as far as may be, apply to all applicants or the mutual funds under these regulations.]

Consideration of application

8. The Board, may on receipt of all information decide the application.

Grant of Certificate of Registration

9. The Board may register the mutual fund and grant a certificate in Form B on the applicant paying the registration fee as specified in Second Schedule.

Terms and conditions of registration

10. The registration granted to a mutual fund under regulation 9, shall be subject to the following terms and conditions :

- (a) the trustees, the sponsor, the asset management company and the custodian shall comply with the provisions of these regulations;

¹⁰ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

¹¹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to substitution , it was read as,

“(g) appointment of a custodian in order to keep custody of the securities **[or gold and gold related instruments]* and carry out the custodian activities as may be authorised by the trustees.”

[*Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2006, w.e.f. 12-1-2006.]

¹² Inserted by the SEBI (Criteria for fit and Proper Person) Regulations, 2004, w.e.f. 10-3-2004.

- (b) the mutual fund shall forthwith inform the Board, if any information or particulars previously submitted to the Board was misleading or false in any material respect;
- (c) the mutual fund shall forthwith inform the Board, of any material change in the information or particulars previously furnished, which have a bearing on the registration granted by it;
- (d) payment of fees as specified in the regulations and the Second Schedule.

Rejection of application

11. Where the sponsor does not satisfy the eligibility criteria mentioned in regulation 7, the Board may reject the application and inform the applicant of the same.

Payment of ¹³[annual] service fee

12. A mutual fund shall pay before the 15th April each year a service fee as specified in the Second Schedule for every financial year from the year following the year of registration:

Provided that the Board may, on being satisfied with the reasons for the delay permit the mutual fund to pay the service fee at any time before the expiry of two months from the commencement of the financial year to which such fee relates.

Failure to pay ¹⁴[annual] service fee

13. The Board may not permit a mutual fund who has not paid service fee to launch any scheme.

CHAPTER III

CONSTITUTION AND MANAGEMENT OF MUTUAL FUND AND OPERATION OF TRUSTEES, ETC.

Trust deed to be registered under the Registration Act

14. A mutual fund shall be constituted in the form of a trust and the instrument of trust shall be in the form of a deed, duly registered under the provisions of the Indian Registration Act, 1908 (16 of 1908), executed by the sponsor in favour of the trustees named in such an instrument.

Contents of trust deed

15. (1) The trust deed shall contain such clauses as are mentioned in the Third Schedule and such other clauses which are necessary for safeguarding the interests of the unitholders.

(2) No trust deed shall contain a clause which has the effect of—

- (i) limiting or extinguishing the obligations and liabilities of the trust in relation to any mutual fund or the unitholders; or

¹³ Substituted for “service” by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006, w.e.f. 3-8-2006.

¹⁴ Substituted for “service” by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006, w.e.f. 3-8-2006.

- (ii) indemnifying the trustees or the asset management company for loss or damage caused to the unitholders by their acts of negligence or acts of commission or omission.

Disqualification from being appointed as trustees

16. (1) A mutual fund shall appoint trustees in accordance with these regulations.

(2) No person shall be eligible to be appointed as a trustee unless—

- (a) he is a person of ability, integrity and standing; and
- (b) has not been found guilty of moral turpitude; and
- (c) has not been convicted of any economic offence or violation of any securities laws; and
- (d) has furnished particulars as specified in Form C.

(3) ¹⁵[No asset management company and no director (including independent director), officer or employee of an asset management company shall be eligible to be appointed as a trustee of any mutual fund.]”

(4) ¹⁶[No person who is appointed as a trustee of a mutual fund shall be eligible to be appointed as a trustee of any other mutual fund:

Provided that any mutual fund which is not in compliance with sub-regulation (3) or (4) as at the commencement of the Securities and Exchange Board of India (Mutual Funds) (Fifth Amendment) Regulations, 2006 shall ensure compliance therewith within three months from such commencement.]”

¹⁷[(5) Two-thirds of the trustees shall be independent persons and shall not be associated with the sponsors or be associated with them in any manner whatsoever.]

(6) In case a company is appointed as a trustee then its directors can act as trustees of any other trust provided that the object of the trust is not in conflict with the object of the mutual fund.

Approval of the Board for appointment of trustee

17. (1) No trustee shall initially or any time thereafter be appointed without prior approval of the Board.

¹⁸[***]

¹⁵ Substituted by the SEBI (Mutual Funds) (Fifth Amendment) Regulations, 2006, w.e.f. **21-12-2006**. Prior to substitution it was read as,

“An asset management company or any of its officers or employees shall not be eligible to act as a trustee of any mutual fund.”

¹⁶ Substituted by the SEBI (Mutual Funds) (Fifth Amendment) Regulations, 2006, w.e.f. **21-12-2006**. Prior to substitution it was read as,

“No person who is appointed as a trustee of a mutual fund can be appointed as a trustee of any other mutual fund unless—

- (a) such a person is an independent trustee referred to in sub-regulation (5); and
- (b) prior approval of the mutual fund of which he is a trustee has been obtained for such an appointment.”

¹⁷ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998. Prior to substitution it was read as,

“Atleast 50% of the trustees shall be independent persons and no such trustee shall be an associate or a subsidiary or associated in any manner with the sponsor.”

(2) The existing trustees of any mutual fund may form a trustee company to act as a trustee with the prior approval of the Board.

Rights and obligations of the trustees.

18. (1) The trustees and the asset management company shall with the prior approval of the Board enter into an investment management agreement.

(2) The investment management agreement shall contain such clauses as are mentioned in the Fourth Schedule and such other clauses as are necessary for the purpose of making investments.

(3) The trustees shall have a right to obtain from the asset management company such information as is considered necessary by the trustees.

(4) The trustees shall ensure before the launch of any scheme that the asset management company, has,—

- (a) systems in place for its back office, dealing room and accounting;
- (b) appointed all key personnel including fund manager(s) for the scheme(s) and submitted their bio-data which shall contain the educational qualifications, past experience in the securities market with the trustees, within 15 days of their appointment;
- (c) appointed auditors to audit its accounts;
- ¹⁹[(d) appointed a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by the Board or the Central Government and for redressal of investors grievances;]
- (e) appointed registrars and laid down parameters for their supervision;
- (f) prepared a compliance manual and designed internal control mechanisms including internal audit systems;
- (g) specified norms for empanelment of brokers and marketing agents;
- ²⁰[(h) obtained, wherever required under these regulations, prior in principle approval from the recognised stock exchange(s) where units are proposed to be listed.]
- ²¹[(4A) The compliance officer appointed under clause (d) of sub-regulation (4) shall immediately and independently report to the Board any non-compliance observed by him.]

(5) The trustees shall ensure that an asset management company has been diligent in empanelling the brokers, in monitoring securities transactions with brokers and avoiding undue concentration of business with any broker.

¹⁸ Omitted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 1998, w.e.f.12-1-1998. Prior to omission, it was read as,

“Provided further that if any trustee resigns or retires, a new trustee shall be appointed within a period of three months with the prior approval of the Board.”

¹⁹ Substituted by the SEBI (Investment Advise by Intermediaries) (Amendment) Regulations, 2001, w.e.f. 29-5-2001. Prior to substitution it was read as,

“appointed a compliance officer to comply with regulatory requirement and to redress investor grievances;”

²⁰ Inserted by SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009.

²¹ Inserted by SEBI (Investment Advice by Intermediaries) (Amendment) Regulations, 2001, w.e.f. 29-5-2001.

(6) The trustees shall ensure that the asset management company has not given any undue or unfair advantage to any associates or dealt with any of the associates of the asset management company in any manner detrimental to interest of the unitholders.

(7) The trustees shall ensure that the transactions entered into by the asset management company are in accordance with these regulations and the scheme.

(8) The trustees shall ensure that the asset management company has been managing the mutual fund schemes independently of other activities and have taken adequate steps to ensure that the interest of investors of one scheme are not being compromised with those of any other scheme or of other activities of the asset management company.

(9) The trustees shall ensure that all the activities of the asset management company are in accordance with the provisions of these regulations.

(10) Where the trustees have reason to believe that the conduct of business of the mutual fund is not in accordance with these regulations and the scheme they shall forthwith take such remedial steps as are necessary by them and shall immediately inform the Board of the violation and the action taken by them.

²²[(11) Each trustee shall file the details of his transactions of dealing in securities with the Mutual Fund on a quarterly basis.]

(12) The trustees shall be accountable for, and be the custodian of, the funds and property of the respective schemes and shall hold the same in trust for the benefit of the unitholders in accordance with these regulations and the provisions of trust deed.

(13) The trustees shall take steps to ensure that the transactions of the mutual fund are in accordance with the provisions of the trust deed.

(14) The trustees shall be responsible for the calculation of any income due to be paid to the mutual fund and also of any income received in the mutual fund for the holders of the units of any scheme in accordance with these regulations and the trust deed.

(15) The trustees shall obtain the consent of the unitholders—

- (a) whenever required to do so by the Board in the interest of the unitholders; or
- (b) whenever required to do so on the requisition made by three-fourths of the unitholders of any scheme; or
- (c) when the majority of the trustees decide to wind up or prematurely redeem the units.
- (d) ²³[* * *]

²² Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999, w.e.f. 8-12-1999. Prior to substitution it was read as,

“Each trustee shall file the details of his holdings in securities on a half yearly basis with the trust.”

²³ Omitted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2000, w.e.f. 22-5-2000. Earlier second proviso was inserted by SEBI (Mutual Funds) (Amendment) Regulations, 1999, w.e.f. 8-12-1999.. Prior to omission it was read as,

“(d) when any change in the fundamental attributes of any scheme or the trust or fees and expenses payable or any other change which would modify the scheme or affect the interest of the unitholders is proposed to be carried out unless the consent of not less than three-fourths of the unit holders is obtained:

Provided that no such change shall be carried out unless three fourths of the unit holders have given their consent and the unit holders who do not give their consent are allowed to redeem their holdings in the scheme.

*[Provided further that in case of an open ended scheme, the consent of the unitholders shall not be necessary if:

²⁴[(15A) The trustees shall ensure that no change in the fundamental attributes of any scheme or the trust or fees and expenses payable or any other change which would modify the scheme and affects the interest of unitholders, shall be carried out unless,—

- (i) a written communication about the proposed change is sent to each unitholder and an advertisement is given 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; and
- (ii) the unitholders are given an option to exit at the prevailing Net Asset Value without any exit load.]

(16) The trustees shall call for the details of transactions in securities by the key personnel of the asset management company in his own name or on behalf of the asset management company and shall report to the Board, as and when required.

(17) The trustees shall quarterly review all transactions carried out between the mutual funds, asset management company and its associates.

(18) The trustees shall ²⁵[quarterly] review the networth of the asset management company and in case of any shortfall, ensure that the asset management company make up for the shortfall as per clause (f) of sub-regulation (1) of regulation 21.

(19) The trustees shall periodically review all service contracts such as custody arrangements, transfer agency of the securities and satisfy itself that such contracts are executed in the interest of the unitholders.

(20) The trustees shall ensure that there is no conflict of interest between the manner of deployment of its networth by the asset management company and the interest of the unit- holders.

(21) The trustees shall periodically review the investor complaints received and the redressal of the same by the asset management company.

(22) The trustees shall abide by the Code of Conduct as specified in the Fifth Schedule.

(23) The trustees shall furnish to the Board on a half-yearly basis,—

- (a) a report on the activities of the mutual fund;

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- (i) the change in fundamental attribute is carried out after one year from the date of allotment of units.
 - (ii) (ii) the unitholders are informed about the proposed change in fundamental attribute by sending individual communication and an advertisement is given in English daily newspaper having nationwide circulation and in a newspaper published in the language of the region where the head office of the mutual fund is situated.
 - (iii) the unitholders are given an option to exit at the prevailing Net Asset Value without any exit load]

Explanation: For the purposes of this clause "fundamental attributes" means the investment objective and terms of a scheme."

[* this proviso had been inserted by Amendment Regulations, 1999, as mentioned above]

²⁴ Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2000, w.e.f. 22-5-2000

²⁵ Substituted for 'continuously' by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

- (b) a certificate stating that the trustees have satisfied themselves that there have been no instances of self-dealing or front running by any of the trustees, directors and key personnel of the asset management company;
- (c) a certificate to the effect that the asset management company has been managing the schemes independently of any other activities and in case any activities of the nature referred to in sub-regulation (2) of regulation 24 have been undertaken by the asset management company and has taken adequate steps to ensure that the interests of the unitholders are protected.

²⁶[(24) The independent trustees referred to in sub-regulation (5) of regulation 16 shall give their comments on the report received from the asset management company regarding the investments by the mutual fund in the securities of group companies of the sponsor.]

²⁷[(25) Trustees shall exercise due diligence as under :

A. General Due Diligence :

- (i) The Trustees shall be discerning in the appointment of the directors on the Board of the asset management company.
- (ii) Trustees shall review the desirability or continuance of the asset management company if substantial irregularities are observed in any of the schemes and shall not allow the asset management company to float new schemes.
- (iii) The Trustee shall ensure that the trust property is properly protected, held and administered by proper persons and by a proper number of such persons.
- (iv) The Trustee shall ensure that all service providers are holding appropriate registrations from the Board or concerned regulatory authority.
- (v) The Trustees shall arrange for test checks of service contracts.
- (vi) Trustees shall immediately report to the Board of any special developments in the mutual fund.

B. Specific due diligence :

The Trustees shall :

- (i) obtain internal audit reports at regular intervals from independent auditors appointed by the Trustees,
- (ii) obtain compliance certificates at regular intervals from the asset management company,
- (iii) hold meeting of trustees more frequently,
- (iv) consider the reports of the independent auditor and compliance reports of asset management company at the meetings of trustees for appropriate action,
- (v) maintain records of the decisions of the Trustees at their meetings and of the minutes of the meetings,
- (vi) prescribe and adhere to a code of ethics by the Trustees, asset management company and its personnel,

²⁶ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

²⁷ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999, w.e.f. 8-12-1999.

(vii) communicate in writing to the asset management company of the deficiencies and checking on the rectification of deficiencies.

(26) Notwithstanding anything contained in sub-regulations (1) to (25), the trustees shall not be held liable for acts done in good faith if they have exercised adequate due diligence honestly.

(27) The independent directors of the trustees or asset management company shall pay specific attention to the following, as may be applicable, namely:—

- (i) the Investment Management Agreement and the compensation paid under the agreement,
- (ii) service contracts with affiliates—whether the asset management company has charged higher fees than outside contractors for the same services,
- (iii) selections of the asset management company's independent directors,
- (iv) securities transactions involving affiliates to the extent such transactions are permitted,
- (v) selecting and nominating individuals to fill independent directors vacancies,
- (vi) code of ethics must be designed to prevent fraudulent, deceptive or manipulative practices by insiders in connection with personal securities transactions,
- (vii) the reasonableness of fees paid to sponsors, asset management company and any others for services provided,
- (viii) principal underwriting contracts and their renewals,
- (ix) any service contract with the associates of the asset management company.]

CHAPTER IV

CONSTITUTION AND MANAGEMENT OF ASSET MANAGEMENT COMPANY AND CUSTODIAN

Application by an asset management company

19. (1) The application for the approval of the asset management company shall be made in Form D.

(2) The provisions of regulations 5, 6 and 8 shall, so far as may be, apply to the application made under sub-regulation (1) as they apply to the application for registration of a mutual fund.

Appointment of an asset management company

20. (1) The sponsor or, if so authorised by the trust deed, the trustee, shall appoint an asset management company, which has been approved by the Board under sub-regulation (2) of regulation 21.

(2) The appointment of an asset management company can be terminated by majority of the trustees or by seventy-five per cent of the unitholders of the scheme.

(3) Any change in the appointment of the asset management company shall be subject to prior approval of the Board and the unitholders.

Eligibility criteria for appointment of asset management company

21. (1) For grant of approval of the asset management company the applicant has to fulfill the following :—

- (a) in case the asset management company is an existing asset management company it has a sound track record, general reputation and fairness in transactions.

Explanation: For the purpose of this clause sound track record shall mean the networth and the profitability of the asset management company;

²⁸[(aa) the asset management company is a fit and proper person;]

- (b) the directors of the asset management company are persons having adequate professional experience in finance and financial services related field and not found guilty of moral turpitude or convicted of any economic offence or violation of any securities laws;
- (c) the key personnel of the asset management company ²⁹[have not been found guilty of moral turpitude or convicted of economic offence or violation of securities laws] ³⁰[or worked] for any asset management company or mutual fund or any intermediary ³¹[during the period when its] registration has been suspended or cancelled at any time by the Board;
- (d) the board of directors of such asset management company has at least fifty per cent directors, who are not associate of, or associated in any manner with, the sponsor or any of its subsidiaries or the trustees;
- (e) the Chairman of the asset management company is not a trustee of any mutual fund;
- (f) the asset management company has a networth of not less than rupees ten crores :

Provided that an asset management company already granted approval under the provisions of Securities and Exchange Board of India (Mutual Funds) Regulations, 1993 shall within a period of twelve months from the date of notification of these regulations increase its networth to rupees ten crores :

³²[**Provided [further]** that the period specified in the first proviso may be extended in appropriate cases by the Board up to three years for reasons to be recorded in writing :

Provided further that no new schemes shall be allowed to be launched or managed by such asset management company till the networth has been raised to rupees ten crores.]

³³[*Explanation* : For the purposes of this clause, “networth” means the aggregate of the paid up capital and free reserves of the asset management company after deducting therefrom miscellaneous expenditure to the extent not written off or adjusted or deferred revenue expenditure, intangible assets and accumulated losses.]

- (2) The Board may, after considering an application with reference to the matters specified in sub-regulation (1), grant approval to the asset management company.

²⁸ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

²⁹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

³⁰ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998, for the words, “has not been working”.

³¹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998, for the words, “whose”.

³² Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

³³ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999, w.e.f. 8-12-1999. Prior to substitution it was read as,

“For the purpose of this clause, “networth” means the paid up capital and free reserves of the company.”

Terms and conditions to be complied with

22. The approval granted under sub-regulation (2) of regulation 21 shall be subject to the following conditions, namely:—

- (a) any director of the asset management company shall not hold the office of the director in another asset management company unless such person is an independent director referred to in clause (d) of sub-regulation (1) of regulation 21 and approval of the Board of asset management company of which such person is a director, has been obtained;
- (b) the asset management company shall forthwith inform the Board of any material change in the information or particulars previously furnished, which have a bearing on the approval granted by it;
- (c) no appointment of a director of an asset management company shall be made without prior approval of the trustees;
- (d) the asset management company undertakes to comply with these regulations;
- ³⁴[(e) no change in the controlling interest of the asset management company shall be made unless,—
 - (i) prior approval of the trustees and the Board is obtained;
 - (ii) a written communication about the proposed change is sent to each unitholder and an advertisement is given in one English daily newspaper having nationwide circulation and in a newspaper published in the language of the region where the Head Office of the mutual fund is situated; and
 - (iii) the unitholders are given an option to exit on the prevailing Net Asset Value without any exit load;]
- (f) the asset management company shall furnish such information and documents to the trustees as and when required by the trustees.

Procedure where approval is not granted

23. Where an application made under regulation 19 for grant of approval does not satisfy the eligibility criteria laid down in regulation 21, the Board may reject the application.

Restrictions on business activities of the asset management company

³⁴ Substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2000, w.e.f. 22-5-2000. Prior to this substitution it was amended by the SEBI (Mutual Funds) (Amendment) Regulations, 1999, w.e.f. 8-12-1999.

“any change in controlling interest of the asset management company shall be only with prior approval of trustees, the Board and the unitholders.” [this was the original text by regulations, 1996]

“Provided that in case of an open ended scheme, the consent of the unitholders shall not be necessary if;

- (i) the change in control takes place after one year from the date of allotment of units
- (ii) (ii) the unitholders are informed about the proposed change in the controlling interest of asset management company by sending individual communication and an advertisement is given in one English daily newspaper having nationwide circulation and in a newspaper published in the language of the region where the head office of the mutual fund is situated.
- (iii) The unitholders are given an option to exit at the prevailing Net Asset Value without any exit load.” [this Proviso had been added by SEBI (Mutual Funds) (Amendment) Regulations., 1999]

24. The asset management company shall—

(1) not act as a trustee of any mutual fund;

(2) not undertake any other business activities except activities in the nature of ³⁵[portfolio management services,] management and advisory services to offshore funds, pension funds, provident funds, venture capital funds, management of insurance funds, financial consultancy and exchange of research on commercial basis if any of such activities are not in conflict with the activities of the mutual fund :

Provided that the asset management company may itself or through its subsidiaries undertake such activities if it satisfies the Board that the key personnel of the asset management company, the systems, back office, bank and securities accounts are segregated activity-wise and there exist systems to prohibit access to inside information of various activities :

Provided further that asset management company shall meet capital adequacy requirements, if any, separately for each such activity and obtain separate approval, if necessary under the relevant regulations.

(3) The asset management company shall not invest in any of its schemes unless full disclosure of its intention to invest has been made in the offer documents ³⁶[in case of schemes launched after the notification of these regulations] :

Provided that an asset management company shall not be entitled to charge any fees on its investment in that scheme.

Asset management company and its obligations

25. (1) The asset management company shall take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of these regulations and the trust deed.

(2) The asset management company shall exercise due diligence and care in all its investment decisions as would be exercised by other persons engaged in the same business.

³⁷[2A) The asset management company shall obtain, wherever required under these regulations, prior in-principle approval from the recognized stock exchange(s) where units are proposed to be listed.]

(3) The asset management company shall be responsible for the acts of commission or omission by its employees or the persons whose services have been procured by the asset management company.

(4) The asset management company shall submit to the trustees quarterly reports of each year on its activities and the compliance with these regulations.

(5) The trustees at the request of the asset management company may terminate the assignment of the asset management company at any time:

³⁵ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999, w.e.f. 8-12-1999

³⁶ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

³⁷ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009.

Provided that such termination shall become effective only after the trustees have accepted the termination of assignment and communicated their decision in writing to the asset management company.

(6) Notwithstanding anything contained in any contract or agreement or termination, the asset management company or its directors or other officers shall not be absolved of liability to the mutual fund for their acts of commission or omission, while holding such position or office.

³⁸[(6A) The Chief Executive Officer (whatever his designation may be) of the asset management company shall ensure that the mutual fund complies with all the provisions of these regulations and the guidelines or circulars issued in relation thereto from time to time and that the investments made by the fund managers are in the interest of the unit holders and shall also be responsible for the overall risk management function of the mutual fund.

Explanation.—For the purpose of this sub-regulation, the words “these regulations” shall mean and include the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 as amended from time to time.

(6B) The fund managers (whatever the designation may be) shall ensure that the funds of the schemes are invested to achieve the objectives of the scheme and in the interest of the unit holders.]

³⁹[(7)(a) An asset management company shall not through any broker associated with the sponsor, purchase or sell securities, which is average of 5 per cent or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes :

Provided that for the purpose of this sub-regulation, the aggregate purchase and sale of securities shall exclude sale and distribution of units issued by the mutual fund :

Provided further that the aforesaid limit of 5 per cent shall apply for a block of any three months.

(b) An asset management company shall not purchase or sell securities through any broker [other than a broker referred to in clause (a) of sub-regulation (7)] which is average of 5 per cent or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes, unless the asset management company has recorded in writing the justification for exceeding the limit of 5 per cent and reports of all such investments are sent to the trustees on a quarterly basis :

Provided that the aforesaid limit shall apply for a block of three months.]

(8) An asset management company shall not utilise the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction and distribution and sale of securities :

³⁸ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2003, w.e.f. 29-5-2003.

³⁹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998. Prior to substitution, it was read as,

“No asset management company shall deal in securities through any broker associated with the sponsor or a firm which is an associate of a sponsor beyond 5% of the daily gross business of the mutual fund.”

Provided that an asset management company may utilise such services if disclosure to that effect is made to the unitholders and the brokerage or commission paid is also disclosed in the half-yearly annual accounts of the mutual fund :

⁴⁰**[Provided further** that the mutual funds shall disclose at the time of declaring half-yearly and yearly results :

- (i) any underwriting obligations undertaken by the schemes of the mutual funds with respect to issue of securities associate companies,
- (ii) devolvement, if any,
- (iii) subscription by the schemes in the issues lead managed by associate companies,
- (iv) subscription to any issue of equity or debt on private placement basis where the sponsor or its associate companies have acted as arranger or manager.]

(9) The asset management company shall file with the trustees the details of transactions in securities by the key personnel of the asset management company in their own name or on behalf of the asset management company and shall also report to the Board, as and when required by the Board.

(10) In case the asset management company enters into any securities transactions with any of its associates a report to that effect shall ⁴¹[***] be sent to the trustees ⁴²[at its next meeting].

(11) In case any company has invested more than 5 per cent of the net asset value of a scheme, the investment made by that scheme or by any other scheme of the same mutual fund in that company or its subsidiaries shall be brought to the notice of the trustees by the asset management company and be disclosed in the half-yearly and annual accounts of the respective schemes with justification for such investment ⁴³[provided the latter investment has been made within one year of the date of the former investment calculated on either side].

(12) The asset management company shall file with the trustees and the Board—

- (a) detailed bio-data of all its directors along with their interest in other companies within fifteen days of their appointment;
- (b) any change in the interests of directors every six months; and
- ⁴⁴[(c) a quarterly report to the trustees giving details and adequate justification about the purchase and sale of the securities of the group companies of the sponsor or the asset management company, as the case may be, by the mutual fund during the said quarter.]

⁴⁵[(13) Each director of the asset management company shall file the details of his transactions of dealing in securities with the trustees on a quarterly basis in accordance with guidelines issued by the Board.]

⁴⁰ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999, w.e.f. 8-12-1999.

⁴¹ Word ‘immediately’ omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f.12-1-1998.

⁴² Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

⁴³ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

⁴⁴ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

⁴⁵ Substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2001, w.e.f. 23-7-2001.

Prior to substitution, it was read as,

(14) The asset management company shall not appoint any person as key personnel who has been found guilty of any economic offence or involved in violation of securities laws.

(15) The asset management company shall appoint registrars and share transfer agents who are registered with the Board:

Provided if the work relating to the transfer of units is processed in-house, the charges at competitive market rates may be debited to the scheme and for rates higher than the competitive market rates, prior approval of the trustees shall be obtained and reasons for charging higher rates shall be disclosed in the annual accounts.

(16) The asset management company shall abide by the Code of Conduct as specified in the Fifth Schedule.

Appointment of custodian

26. (1) The mutual fund shall appoint a Custodian to carry out the custodial services for the schemes of the fund and sent intimation of the same to the Board within fifteen days of the appointment of the Custodian:

⁴⁶[**Provided** that in case of a gold exchange traded fund scheme, the assets of the scheme being gold or gold related instruments may be kept in custody of a bank which is registered as a custodian with the Board.]

⁴⁷[**Provided further** that in case of a real estate mutual fund scheme, the title deed of real estate assets held by it may be kept in the custody of a custodian registered with the Board.]

(2) No custodian in which the sponsor or its associates hold 50 per cent or more of the voting rights of the share capital of the custodian or where 50 per cent or more of the directors of the custodian represent the interest of the sponsor or its associates shall act as custodian for a mutual fund constituted by the same sponsor or any of its associates or subsidiary company.

Agreement with custodian

27. The mutual fund shall enter into a custodian agreement with the custodian, which shall contain the clauses which are necessary for the efficient and orderly conduct of the affairs of the custodian:

Provided that the agreement, the service contract, terms and appointment of the custodian shall be entered into with the prior approval of the trustees.

CHAPTER V

SCHEMES OF MUTUAL FUND

Procedure for launching of schemes

28. (1) No scheme shall be launched by the asset management company unless such scheme is approved by the trustees and a copy of the offer document has been filed with the Board.

“A statement of holding in securities of the directors of the asset management company shall be filed with the trustees with the dates of acquisition of such securities at the end of each financial year.”

⁴⁶ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2006, w.e.f. 12-1-2006.

⁴⁷ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008.

⁴⁸[(2) The mutual fund shall pay the minimum filing fee specified in the Second Schedule to the Board while filing the offer document under sub-regulation (1).

(3) The mutual fund shall pay the balance filing fee calculated in accordance with the Second Schedule to the Board within such time as may be specified by the Board.]

Disclosures in the offer document

29. (1) The offer document shall contain disclosures which are adequate in order to enable the investors to make informed investment decision ⁴⁹[including the disclosure on maximum investments proposed to be made by the scheme in the listed securities of the group companies of the sponsor.]

(2) The Board may in the interest of investors require the asset management company to carry out such modifications in the offer document as it deems fit.

(3) In case no modifications are suggested by the Board in the offer document within 21 ⁵⁰[working] days from the date of filing, the asset management company may issue the offer document.

⁵¹[(4) No one shall issue any form of application for units of a mutual fund unless the form is accompanied by the memorandum containing such information as may be specified by the Board.]

⁵²[(5) The offer document shall contain the disclosure regarding the prior in principle approval obtained from the recognized stock exchange(s), where units are proposed to be listed in accordance with these regulations.]

⁵³[Nomination]

29A. (1) The asset management company shall provide an option to the unitholder to nominate, in the manner specified in Fourth Schedule, a person in whom the units held by him shall vest in the event of his death.

(2) Where the units are held by more than one person jointly, the joint unitholders may together nominate a person in whom all the rights in the units shall vest in the event of death of all the joint unitholders.]

Advertisement material.

30. (1) Advertisements in respect of every scheme shall be in conformity with the Advertisement Code as specified in the Sixth Schedule and shall be submitted to the Board within 7 days from the date of issue.

(2) The advertisement for each scheme shall disclose ⁵⁴[investment objective of each scheme].

⁴⁸ Substituted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006, w.e.f. 3-8-2006. Prior to substitution, it was read as,

“(2) Every mutual fund shall along with the offer document of each scheme pay filing fees as specified in the Second Schedule.”

⁴⁹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

⁵⁰ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

⁵¹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

⁵² Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009.

⁵³ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2002, w.e.f. 11-6-2002.

⁵⁴ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998. Prior to substitution, it was read as,

Misleading statements

31. The offer document and advertisement materials shall not be misleading or contain any statement or opinion which are incorrect or false.

⁵⁵**[Listing of close ended schemes**

32. Every close ended scheme, other than an equity linked savings scheme, shall be listed on a recognised stock exchange within such time period and subject to such conditions as specified by the Board:

Provided that listing of close ended scheme launched prior to the commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009 shall not be mandatory —

- (a) if the said scheme provides for periodic repurchase facility to all the unitholders with restriction, if any, on the extent of such repurchase; or
- (b) if the said scheme provides for monthly income or caters to special classes of persons like senior citizens, women, children, widows or physically handicapped or any special class of persons providing for repurchase of units at regular intervals; or
- (c) if the details of such repurchase facility are clearly disclosed in the offer document; or
- (d) if the said scheme opens for repurchase within a period of six months from the closure of subscription; or
- (e) if the said scheme is a capital protection oriented scheme.]

Repurchase of close ended schemes

33. ⁵⁶[(1) Units of a close ended scheme, other than those of an equity linked savings scheme, launched on or after the commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009 shall not be repurchased before the end of maturity period of such scheme.]

“in addition the investment objectives, the method and periodicity of valuation of investment, the method and periodicity of sales and repurchase”

⁵⁵ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009. Prior to substitution, it was read as,

“Listing of close ended schemes

32. Every close ended scheme shall be listed in a recognized stock exchange within six months from the closure of the subscription:

Provided that listing of close ended scheme shall not be mandatory—

- (a) if the said scheme provides for periodic repurchase facility to all the unitholders with restriction, if any, on the extent of such repurchase; or
 - (b) if the said scheme provides for monthly income or caters to special classes of persons like senior citizens, women, children, widows or physically handicapped or any special class of persons providing for repurchase of units at regular intervals; or
 - (c) if the details of such repurchase facility are clearly disclosed in the offer document; or
 - (d) if the said scheme opens for repurchase within a period of six months from the closure of subscription.
- *[(e) if the said scheme is a capital protection oriented scheme.]”

[*Inserted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006, w.e.f. 3-8-2006.]

⁵⁶ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009. Prior to substitution, it was read as,

“(1) The asset management company may at its option repurchase or reissue the repurchased units of a close ended scheme.”

(2) The units of close ended schemes referred to in the proviso to regulation 32 may be open for sale or redemption at fixed predetermined intervals ⁵⁷[***] if the maximum and minimum amount of sale or redemption of the units and the periodicity of such sale or redemption have been disclosed in the offer document.

⁵⁸[***]

(3) The units of close ended scheme may be converted into open-ended scheme,—

(a) if the offer document of such scheme discloses the option and the period of such conversion; or

⁵⁹[(b) the unitholders are provided with an option to redeem their units in full ⁶⁰[; and]]

⁶¹[(c) the initial issue expenses of the scheme launched prior to commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2008 have been amortised fully in accordance with the Tenth Schedule.]

(4) A close ended scheme shall be fully redeemed at the end of the maturity period

⁶²[***]

⁶³**Provided** that a close-ended scheme may be allowed to be rolled over if the purpose, period and other terms of the roll over and all other material details of the scheme including the likely composition of assets immediately before the roll over, the net assets and net asset value of the scheme, are disclosed to the unitholders and a copy of the same has been filed with the Board :

Provided further that such roll over will be permitted only in the case of those unitholders who express their consent in writing and the unitholders who do not opt for the roll over or have not given written consent shall be allowed to redeem their holdings in full at net asset value based price.]

Offering period

⁵⁷ Words ‘without listing’ omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

⁵⁸ Omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009. Prior to omission, it was read as,

“* [(2A) The asset management company shall not repurchase units of a capital protection oriented scheme before end of the maturity period.]”

[*Inserted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006, w.e.f. 3-8-2006.]

⁵⁹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998, for the words ‘the majority of the unitholders gives a consent to that effect.’

⁶⁰ Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006, w.e.f. 22-5-2006.

⁶¹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to substitution, it was read as,

“*[(c) the initial issue expenses of the scheme have been amortised fully in accordance with the Tenth Schedule.]”

[*Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006, w.e.f. 22-5-2006.]

⁶² The words, ‘unless a majority of the unitholders otherwise decide for its roll over by passing a resolution’ omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

⁶³ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998 Prior to substitution it was read as,

“A close ended scheme shall be fully redeemed at the end of the maturity period unless a majority of the unitholders otherwise decides for its rollover by passing a resolution:

Provided that the unitholders not opting for the rollover shall be allowed to redeem their holdings in the scheme.”

34. No scheme of a mutual fund other than the ⁶⁴[initial] offering period of any equity linked savings schemes shall be open for subscription for more than ⁶⁵[fifteen days].

Allotment of units and refunds of moneys

35. (1) The asset management company shall specify in the offer document,—

- (a) the minimum subscription amount it seeks to raise under the scheme; and
- (b) in case of oversubscription the extent of subscription it may retain :

Provided that where the asset management company retains the oversubscription referred to in clause (b), all the applicants applying upto five thousand units shall be given full allotment subject to the oversubscription mentioned in clause (b).

(2) The mutual fund and asset management company shall be liable to refund the application money to the applicants,—

- (i) if the mutual fund fails to receive the minimum subscription amount referred to in clause (a) of sub-regulation (1);
- (ii) if the moneys received from the applicants for units are in excess of subscription as referred to in clause (b) of sub-regulation (1).

(3) Any amount refundable under sub-regulation (2) shall be refunded within a period of ⁶⁶[five working days] from the date of closure of subscription list, by Registered post with acknowledgement due and by cheque or demand draft marked “A/c payee” to the applicants.

(4) In the event of failure to refund the amounts within the period specified in sub-regulation (3), the asset management company shall be liable to pay interest to the applicants at a rate of fifteen per cent per annum from the expiry of ⁶⁷[five working days] from the date of closure of the subscription list.

⁶⁸[Statement of accounts or unit certificates]

36. (1) The asset management company shall issue to the applicant whose application has been accepted, a statement of accounts specifying the number of units allotted to the

⁶⁴ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

⁶⁵ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2010, w.e.f. 29-7-2010, for the figure and words “45 days”

⁶⁶ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2010, w.e.f. 29-7-2010, for the words “six weeks”

⁶⁷ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2010, w.e.f. 29-7-2010, for the words “six weeks”

⁶⁸ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009. Prior to substitution, it was read as,

“Unit certificates or statement of accounts

36. The asset management company shall issue to the applicant whose application has been accepted, unit certificates or a statement of accounts specifying the number of units allotted to the applicant as soon as possible but not later than six weeks from the date of closure of the *[initial subscription list and/or from the date of receipt of the request from the unitholders in any open ended scheme] :

Provided that if an applicant so desires, the asset management company shall issue the unit certificates to the applicant within six weeks of the receipt of request for the certificate.”

[*Substituted for the words ‘subscription list’ by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998]

applicant as soon as possible but not later than ⁶⁹[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 in any open ended scheme:

Provided that if an applicant so desires, the asset management company shall issue the unit certificates to the applicant within ⁷⁰[five working days] of the receipt of request for the certificate.

(2) An applicant in a close ended scheme whose application has been accepted shall have the option either to receive the statement of accounts or to hold units in dematerialised form and the asset management company shall issue to such applicant, a statement of accounts specifying the number of units allotted to the applicant or issue units in dematerialized form as soon as possible but not later than ⁷¹[five working days] from the date of closure of the initial subscription list.

(3) The asset management company shall issue units in dematerialized form to a unitholder in a close ended scheme listed on a recognised stock exchange within two working days of the receipt of request from the unitholder.]

Transfer of units

37. (1) ⁷²[A unit] unless otherwise restricted or prohibited under the scheme, shall be freely transferable by act of parties or by operation of law.

⁷³[(1A) A unitholder, in a close ended scheme listed on a recognized stock exchange, who desires to trade in units shall hold units in dematerialised form.]

(2) The asset management company shall, on production of instrument of transfer together with relevant unit certificates, register the transfer and return the unit certificate to the transferee within thirty days from the date of such production :

Provided that if the units are with the depository such units will be transferable in accordance with the provisions of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996.

Guaranteed returns

38. No guaranteed return shall be provided in a scheme,—

- (a) unless such returns are fully guaranteed by the sponsor or the asset management company;
- (b) unless a statement indicating the name of the person who will guarantee the return, is made in the offer document;
- (c) the manner in which the guarantee is to be met has been stated in the offer document.

⁷⁴**[Capital Protection oriented schemes]**

⁶⁹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2010, w.e.f. 29-7-2010, for the words “thirty days”

⁷⁰ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2010, w.e.f. 29-7-2010, for the words “thirty days”

⁷¹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2010, w.e.f. 29-7-2010, for the words “thirty days”

⁷² Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009, for the words ‘A unit certificate’.

⁷³ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009.

38A. A capital protection oriented scheme may be launched, subject to the following:

- (a) the units of the scheme are rated by a registered credit rating agency from the viewpoint of the ability of its portfolio structure to attain protection of the capital invested therein;
- (b) the scheme is close ended; and
- (c) there is compliance with such other requirements as may be specified by the Board in this behalf.]

Winding up

39. (1) A close-ended scheme shall be wound up on the expiry of duration fixed in the scheme on the redemption of the units unless it is rolled over for a further period under sub-regulation (4) of regulation 33.

(2) A scheme of a mutual fund may be wound up, after repaying the amount due to the unit holders,—

- (a) on the happening of any event which, in the opinion of the trustees, requires the scheme to be wound up; or
- (b) if seventy-five per cent of the unit holders of a scheme pass a resolution that the scheme be wound up; or
- (c) if the Board so directs in the interest of the unitholders.

(3) Where a scheme is to be wound up under ⁷⁵[***] sub-regulation (2), the trustees shall give notice disclosing the circumstances leading to the winding up of the scheme:—

- (a) to the Board; and
- (b) in two daily newspapers having circulation all over India, a vernacular newspaper circulating at the place where the mutual fund is formed.

Effect of winding up

40. On and from the date of the publication of notice under clause (b) of sub-regulation (3) of regulation 39, the trustee or the asset management company as the case may be, shall—

- (a) cease to carry on any business activities in respect of the scheme so wound up;
- (b) cease to create or cancel units in the scheme;
- (c) cease to issue or redeem units in the scheme.

Procedure and manner of winding up

41. (1) The trustee shall call a meeting of the unitholders to approve by simple majority of the unitholders present and voting at the meeting resolution for authorising the trustees or any other person to take steps for winding up of the scheme:

Provided that a meeting of the unitholders shall not be necessary if the scheme is wound up at the end of maturity period of the scheme.

⁷⁴ Inserted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006, w.e.f. 3-8-2006.

⁷⁵ Words 'sub-regulation (1) or' omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

(2)(a) The trustee or the person authorised under sub-regulation (1) shall dispose of the assets of the scheme concerned in the best interest of the unitholders of that scheme.

(b) The proceeds of sale realised under clause (a), shall be first utilised towards discharge of such liabilities as are due and payable under the scheme and after making appropriate provision for meeting the expenses connected with such winding up, the balance shall be paid to the unitholders in proportion to their respective interest in the assets of the scheme as on the date when the decision for winding up was taken.

(3) On the completion of the winding up, the trustee shall forward to the Board and the unitholders a report on the winding up containing particulars such as circumstances leading to the winding up, the steps taken for disposal of assets of the fund before winding up, expenses of the fund for winding up, net assets available for distribution to the unit holders and a certificate from the auditors of the fund.

(4) Notwithstanding anything contained in this regulation, the provisions of these regulations in respect of disclosures of half-yearly reports and annual reports shall continue to be applicable ⁷⁶[until winding up is completed or the scheme ceases to exist].

Winding up of the scheme

42. After the receipt of the report under sub-regulation (3) of regulation 41, if the Board is satisfied that all measures for winding up of the scheme have been complied with, the scheme shall cease to exist.

⁷⁷[Delisting of units]

42A. The units of a mutual fund scheme shall be delisted from a recognised stock exchange in accordance with the guidelines as may be specified by the Board.]

CHAPTER VI

INVESTMENT OBJECTIVES AND VALUATION POLICIES

⁷⁸[Investment objective]

43. (1) Subject to other provisions of these regulations, a mutual fund may invest moneys collected under any of its schemes only in—

- (a) securities;
- (b) money market instruments;
- (c) privately placed debentures;
- (d) securitised debt instruments, which are either asset backed or mortgage backed securities; ⁷⁹[***]

⁷⁶ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

⁷⁷ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009.

⁷⁸ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2006, w.e.f. 12-1-2006. Prior to substitution it was read as,

“The moneys collected under any scheme of a mutual fund shall be invested only in transferable securities in the money market or in the capital market or in privately placed debentures or securitised debts.

Provided that moneys collected under any money market scheme of a mutual fund shall be invested only in money market instruments in accordance with directions issued by the Reserve Bank of India;

Provided further that in case of securitised debts such fund may invest in asset backed securities *[and] mortgaged backed securities.

[* word ‘and’ substituted for the word ‘excluding’ by SEBI (MF) (Second Amend.) Regulations, 2000.]

(e) gold or gold related instruments⁸⁰ [; or]

⁸¹[(f) real estate assets as defined in clause (a) of regulation 49A.]

(2) Any investment made under sub-regulation (1) shall be in accordance with the investment objective of the relevant mutual fund scheme.

(3) Moneys collected under any money market scheme of a mutual fund shall be invested only in money market instruments.

(4) Moneys collected under any gold exchange traded fund scheme shall be invested only in gold or gold related instruments, in accordance with sub-regulation (5) of regulation 44.]

⁸²[(5) Moneys collected under a real estate mutual fund scheme shall be invested in accordance with regulation 49E.]

Investment, borrowing, restriction, etc.

44. (1) Any investment to be made under regulation 43 shall be invested subject to the investment restriction specified in the Seventh Schedule :

⁸³[**Provided** that nothing in the Seventh Schedule shall apply to a gold exchange traded fund scheme.]

⁸⁴[(1A) The mutual fund having an aggregate of securities which are worth Rs. 10 crores or more, as on the latest balance-sheet date, shall subject to such instructions as may be issued from time to time by the Board settle their transactions entered on or after January 15, 1998, only through dematerialised securities.]

(2) The mutual fund shall not borrow except to meet temporary liquidity needs of the mutual funds for the purpose of repurchase, redemption of units or payment of interest or dividend to the unitholders:

Provided that the mutual fund shall not borrow more than 20 per cent of the net asset of the scheme and the duration of such a borrowing shall not exceed a period of six months.

(3) The mutual fund shall not advance any loans for any purpose.

⁸⁵[(4) A mutual fund may lend and borrow securities in accordance with the framework relating to short selling and securities lending and borrowing specified by the Board.]

⁸⁶[(5) A gold exchange traded fund scheme shall be subject to the following investment restrictions :

(a) ⁸⁷[***]

⁷⁹ Word 'or' omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008.

⁸⁰ Substituted for "." by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008.

⁸¹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008.

⁸² Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008.

⁸³ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2006, w.e.f. 12-1-2006.

⁸⁴ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

⁸⁵ Substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2007, w.e.f. 21-4-2008.

Prior to substitution, it was read as,

"The mutual fund may lend securities in accordance with the Stock Lending Scheme of the Board."#

[inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f.12-1-1998.]

⁸⁶ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2006, w.e.f. 12-1-2006

⁸⁷ Omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to this it had been inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2006, w.e.f. 12-1-2006 as,

- (b) the funds of any such scheme shall be invested only in gold or gold related instruments in accordance with its investment objective, except to the extent necessary to meet the liquidity requirements for honouring repurchases or redemptions, as disclosed in the offer document; and
- (c) pending deployment of funds in accordance with clause (b), the mutual fund may invest such funds in short-term deposits of scheduled commercial banks.]

⁸⁸“**Carry forward transactions, derivatives transactions and short selling transactions.**

45. (1) The funds of a scheme shall not in any manner be used in carry forward transactions:

⁸⁹[**Provided** that a mutual fund may enter into derivatives transactions on a recognized stock exchange, subject to the framework specified by the Board.]

(2) A mutual fund may enter into short selling transactions on a recognized stock exchange, subject to the framework relating to short selling and securities lending and borrowing specified by the Board.”

Underwriting of securities

46. Mutual funds may enter into underwriting agreement after obtaining a certificate of registration in terms of the Securities and Exchange Board of India (Underwriters) Rules and Securities and Exchange Board of India (Underwriters) Regulations, 1993 authorising it to carry on activities as underwriters.

Explanation : (1) For the purpose of these regulations, the underwriting obligation will be deemed as if investments are made in such securities.

(2) The capital adequacy norms for the purpose of underwriting shall be the net asset of the scheme :

Provided that the underwriting obligation of a mutual fund shall not at any time exceed the total net asset value of the scheme.

Method of valuation of investments

“the initial issue expenses in respect of any such scheme shall not exceed six per cent of the funds raised under that scheme;”

⁸⁸ Substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2007, w.e.f. 21-4-2008.

Prior to substitution, it was read as,

“Option trading, etc.

45. The funds of a scheme shall not in any manner be used in option trading or in short selling or carry forward transactions:”

⁸⁹ Substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2007, w.e.f. 21-4-2008.

Prior to substitution, it was read as,

[Provided that a mutual fund may enter into derivatives transactions in a recognised stock exchange, subject to such Guidelines as may be specified by the Board.]

[this proviso had been substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006, w.e.f.22-5-2006.]

Prior to substitution, it was read as,

“Provided that mutual funds shall inter into derivatives transactions in a recognised stock exchange for the purpose of hedging and portfolio balancing in accordance with the guidelines issued by the Board.”

[this proviso had been inserted by the SEBI (MF) Regulations, 1999.]

47. Every mutual fund shall compute and carry out valuation of its investments in its portfolio and publish the same in accordance with the valuation norms specified in Eighth Schedule.

Computation of Net Asset Value

48. (1) Every mutual fund shall compute the Net Asset Value of each scheme by dividing the net assets of the scheme by the number of units outstanding on the valuation date.

(2) The Net Asset Value of the scheme shall be calculated and published at least in two daily newspapers at intervals of not exceeding one week :

⁹⁰[**Provided** that the Net Asset Value of a close ended scheme, other than that of equity linked savings scheme, shall be calculated on daily basis and published in at least two daily newspapers having circulation all over India.]

Pricing of Units

49. (1) The price at which the units may be subscribed or sold and the price at which such units may at any time be repurchased by the mutual fund shall be made available to the investors.

(2) The mutual fund, in case of open-ended scheme, shall at least once a week publish in a daily newspaper of all India circulation, the sale and repurchase price of units.

(3) While determining the prices of the units, the mutual fund shall ensure that the repurchase price is not lower than 93 per cent of the Net Asset Value and the sale price is not higher than 107 per cent of the Net Asset Value:

⁹¹[**Provided** that the repurchase price of the units of close ended scheme launched prior to the commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009 shall not be lower than ninety five per cent of the Net Asset Value:]

Provided further that the difference between the repurchase price and the sale price of the unit shall not exceed 7 per cent calculated on the sale price:

⁹²[***]

⁹³[(3A) Where a mutual fund repurchases units in a close ended scheme ⁹⁴[launched prior to the commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009] which fulfils the conditions mentioned in sub-

⁹⁰ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009. Prior to substitution, it was read as,

“**Provided** that the Net Asset Value of any scheme for special target segment or any monthly income scheme which are not mandatorily required to be listed in any stock exchange under regulation 32, may publish the Net Asset Value at monthly or quarterly intervals as may be permitted by the Board.”

⁹¹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009. Prior to substitution, it was read as,

“**Provided** that the repurchase price of the units of a close ended scheme shall not be lower than 95 per cent of the Net Asset Value:”

⁹² Omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to this it had been inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006, w.e.f. 22-5-2006 as,

“**Provided further** that no entry load shall be charged by any close-ended scheme after commencement of the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2006.”

⁹³ Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006, w.e.f. 22-5-2006.

⁹⁴ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009.

regulation (3B), it shall deduct an amount representing proportionate initial issue expenses or part thereof remaining unamortized, from the repurchase proceeds.

Explanation : The term “proportionate initial issue expenses or part thereof remaining unamortised” refers to such proportion of the expenses of the scheme as are attributable to the units being repurchased.

⁹⁵[(3B) The conditions referred to in sub-regulation (3A) are the following:

(a) the scheme is launched after the commencement of the Securities and Exchange Board of India (Mutual Funds)(Second Amendment) Regulations, 2006 and prior to commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2008;

(b) initial issue expenses in respect of the scheme are accounted in the books of accounts of the scheme in accordance with Tenth Schedule.]

(3C) The amount recovered under sub-regulation (3A) shall be credited to the unamortized initial issue expenses of the scheme.]

(4) The price of units shall be determined with reference to the last determined Net Asset Value as mentioned in sub-regulation (3) unless,—

(a) the scheme announces the Net Asset Value on a daily basis; and

⁹⁶[(b) the sale price is determined with or without a fixed premium added to the future net asset value which is declared in advance.]

⁹⁷ [CHAPTER VIA

REAL ESTATE MUTUAL FUND SCHEMES

Definitions

49A. For the purposes of this Chapter, unless the context otherwise requires-

(a) “real estate asset” means an identifiable immovable property-

(i) which is located within India in such city as may be specified by the Board from time to time or in a special economic zone within the meaning of clause (za) of section 2 of the Special Economic Zones Act, 2005 (28 of 2005);

(ii) on which construction is complete and which is usable;

(iii) which is evidenced by valid title documents;

(iv) which is legally transferable;

(v) which is free from all encumbrances;

(vi) which is not subject matter of any litigation;

⁹⁵ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to substitution, it was read as,

“*[(3B) The conditions referred to in sub-regulation (3A) are the following :

(a) the scheme is launched after commencement of the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2006; and

(b) initial issue expenses in respect of the scheme have been charged or are proposed to be charged to the mutual fund, as per clause (a) of sub-regulation (4) of regulation 52.]”

[*Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006, w.e.f. 22-5-2006.]

⁹⁶ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998 for, “the sale price is determined by adding to the future Net Asset Value a fixed premium which is declared in advance.

⁹⁷ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008.

but does not include-

I. a project under construction; or 4

II. vacant land; or

III. deserted property; or

IV. land specified for agricultural use; or

V. a property which is reserved or attached by any Government or other authority or pursuant to orders of a court of law or the acquisition of which is otherwise prohibited under any law for the time being in force;

(b) “real estate valuer” means a qualified valuer of real estate assets who has been accredited by a credit rating agency registered with the Board.

Applicability

49B. (1) The provisions of this Chapter shall apply to real estate mutual fund schemes.

(2) Unless the context otherwise requires, all other provisions of these regulations and the guidelines and circulars issues thereunder shall apply to real estate mutual fund schemes, and trustees and asset management companies in relation to such schemes, except where specific provisions are made in relation thereto under this Chapter.

Additional eligibility criteria

49C. (1) A Certificate of registration may be granted under regulation 9 to an applicant proposing to launch only real estate mutual fund schemes if he;-

(a) has been carrying on business in real estate for a period of not less than five years;

(b) fulfills eligibility criteria provided in regulation 7, except that specified in item (i) of the Explanation to clause (a) thereof;

(2) A real estate mutual fund scheme of a mutual fund registered under subregulation (1) shall not invest in the securities mentioned in sub-clauses (ii) to (iii) of clause (a) or in clause (b) of sub-regulation (2) of regulation 49E unless it has key personnel having adequate professional experience in finance and financial services related field.

(3) An existing mutual fund may launch a real estate mutual fund scheme if it has an adequate number of key personnel and directors having adequate experience in real estate.

Other conditions for real estate mutual fund schemes

49D. (1) Every real estate mutual fund scheme shall be close-ended and its units shall be listed on a recognized stock exchange:

Provided that the redemption of a real estate mutual fund scheme may be done in a staggered manner.

(2) The units issued by a real estate mutual fund scheme shall not confer any right on the unit holders to use the real estate assets held by the scheme and any provision to the contrary in the trust deed or in the terms of issue shall be void.

(3) The title deeds pertaining to real estate assets held by a real estate mutual fund scheme shall be kept in safe custody with the custodian of the mutual fund.

(4) A real estate mutual fund scheme shall not undertake lending or housing finance activities.

(5) All financial transactions of a real estate mutual fund scheme shall be routed through banking channels and they shall not be cash or unaccounted transactions.

Permissible investments

49E. (1) Every real estate mutual fund scheme shall invest at least thirty five per cent. of the net assets of the scheme directly in real estate assets.

(2) Subject to sub-regulation (1), every real estate mutual fund scheme shall invest-

(a) at least seventy five per cent. of the net assets of the scheme in-

(i) real estate assets;

(ii) mortgage backed securities (but not directly in mortgages);

(iii) equity shares or debentures of companies engaged in dealing in real estate assets or in undertaking real estate development projects, whether listed on a recognized stock exchange in India or not;

(b) the balance in other securities;

(3) Unless otherwise disclosed in the offer document, no mutual fund shall, under all its real estate mutual fund schemes, invest more than thirty per cent. of its net assets in a single city.

(4) No mutual fund shall, under all its real estate mutual fund schemes, invest more than fifteen per cent. of its net assets in the real estate assets of any single real estate project.

Explanation: For the purposes of this regulation, “single real estate project” means a project by a builder in a single location within a city.

(5) No mutual fund shall, under all its real estate mutual fund schemes, invest more than twenty five per cent. of the total issued capital of any unlisted company.

(6) No mutual fund shall invest more than fifteen per cent of the net assets of any of its real estate mutual fund schemes in the equity shares or debentures of any unlisted company.

(7) No real estate mutual fund scheme shall invest in –

(a) any unlisted security of the sponsor or its associate or group company;

(b) any listed security issued by way of preferential allotment by the sponsor or its associate or group company;

(c) any listed security of the sponsor or its associate or group company, in excess of twenty five per cent of the net assets of the scheme.

(8) No mutual fund shall transfer real estate assets amongst its schemes.

(9) No mutual fund shall invest in any real estate asset which was owned by the sponsor or the asset management company or any of its associates during the period of last five years or in which the sponsor or the asset management company or any of its associates hold tenancy or lease rights.

Valuation of real estates assets and declaration of net asset value

49F. (1) The real estate assets held by a real estate mutual fund scheme shall be valued –

(a) at cost price on the date of acquisition; and

(b) at fair price on every ninetieth day from the day of its purchase in accordance with the norms specified in Schedule IXB.

(2) The asset management company, its directors, the trustees and the real estate valuer shall ensure that the valuation of assets held by a real estate mutual fund scheme are done in good faith, in accordance with the norms specified in Schedule IX B and that the accounts of the scheme are prepared in accordance with accounting principles specified in Schedule XI.

(3) The net asset value of every real estate mutual fund scheme shall be calculated and declared at the close of each business day on the basis of the most current valuation of the real estate assets held by the scheme and accrued income thereon, if any.

Duties of asset management company

49G. (1) Without prejudice to the provisions of regulation 21, the asset management company of a mutual fund having real estate mutual fund schemes shall appoint suitable number of qualified key personnel with relevant experience, before undertaking investment management of real estate assets of a real estate mutual fund scheme.

(2) The asset management company may appoint advisors to advise it on acquisitions or proposed acquisitions of real estate assets.

(3) The asset management company shall exercise due care while appointing real estate valuers for valuing the real estate assets held by the real estate mutual fund scheme and shall ensure that there is no conflict of interest.

(4) The asset management company shall lay down an adequate system of internal controls and risk management.

(5) The asset management company shall put in place systems to ensure that all financial transactions are done through banking channels and exclude transactions in cash or unaccounted transactions.

(6) The asset management company shall exercise due diligence in maintenance of the assets of a real estate mutual fund scheme and shall ensure that there is no avoidable deterioration in their value.

(7) The asset management company shall ensure that the real estate assets held by a real estate mutual fund scheme are adequately insured against impair, damage or destruction.

(8) The asset management company shall ensure that the cost of maintenance and insurance of real estate assets is within reasonable limits and that no funds of the scheme are utilized towards development of such assets.

(9) The asset management company shall ensure that a real estate valuer certifies compliance with sub-regulation (8) on an annual basis.

(10) The asset management company shall ensure that no real estate valuer continues with valuation of particular real estate asset for more than two years and that no such valuer values the same asset for a period of at least three years thereafter.

(11) The asset management company shall record in writing, the details of its decision making process in buying or selling real estate assets together with the justifications for such decisions and forward the same periodically to trustees.

(12) The asset management company shall ensure that investment of funds of the real estate mutual fund scheme is not made contrary to provisions of this chapter and the trust deed.

⁹⁸[(13) The asset management company shall obtain, wherever required under these regulations, prior in-principle approval from the recognized stock exchange(s) where units are proposed to be listed.]

Usage of real estate assets of a real estate mutual fund scheme

49H. (1) The asset management company may let out or lease out the real estate assets held by the real estate mutual fund scheme if the term of such lease or letting does not extend beyond the period of maturity of the scheme.

(2) Where real estate assets are let out or leased out, the asset management company shall diligently collect the rents or other income in a timely manner.

(3) Real estate assets held by a real estate mutual fund scheme may be let out to the sponsor, asset management company or any of their associates, at market price or otherwise on commercial terms:

Provided that not more than 25% of the total rental income of the scheme shall be derived from assets so let out.

Duties of trustees

49I. (1) The trustees shall ensure that the asset management company has the necessary expertise, internal control systems and risk management mechanism to invest in and manage investments in real estate assets on a continuous basis.

(2) The trustees shall monitor whether due diligence is exercised by the asset management company in managing the investments.

(3) The trustees shall review the market price of the units during the year and shall recommend proportionate buy back of units from unit holders, if the units are traded at steep discount to the net asset value.

(4) The magnitude of discount which shall amount to steep discount referred to in sub-regulation (3) shall be disclosed in the offer document.

(5) The trustees shall ensure that only permissible investments are made by the asset management company.

(6) The trustees shall ensure that all financial transactions of the real estate mutual fund scheme are made only through banking channels and that systems exist to exclude transactions in cash and unaccounted transactions.

(7) The trustees shall lay down the criteria for empanelment of real estate brokers.

(8) The trustees shall lay down the broad procedure to be followed by the asset management company while transacting in real estate assets.

(9) The trustees shall require the asset management company to set up such systems and submit such reports to trustees, as may be necessary for them to effectively monitor the performance and functioning of the real estate mutual fund schemes.

(10) The trustees shall include a confirmation on compliance with sub regulation (9) in their half yearly reports made to the Board.

⁹⁹[(11) The trustees shall obtain, wherever required under these regulations, prior in-principle approval from the recognised stock exchange(s) where units are proposed to be listed.]

⁹⁸ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009.

⁹⁹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009.

Disclosures in offer document and other disclosures

49J. (1) The offer documents of real estate mutual fund schemes shall contain disclosures which are adequate for investors to make informed investment decisions and such further disclosures as may be specified by the Board.

(2) The portfolio disclosures and financial results in respect of a real estate mutual fund scheme shall contain such further disclosures as are specified by the Board.

(3) Advertisements in respect of real estate mutual fund schemes shall conform to such guidelines as may be specified by the Board.

Transactions by employees etc.

49K. (1) All transactions done by the trustees or the employees or directors of the asset management company or the trustee company in real estate assets shall be disclosed by them to the compliance officer within one month of the transaction.

(2) The compliance officer shall make a report thereon from the view point of possible conflict of interest and shall submit it to the trustees with his recommendations, if any.

(3) The persons covered in sub-regulation (1) may obtain the views of the trustees before entering into the transaction in real estate assets, by making a suitable request to them.]

CHAPTER VII

GENERAL OBLIGATIONS

To maintain proper books of account and records, etc.

50. (1) Every asset management company for each scheme shall keep and maintain proper books of account, records and documents, for each scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the fund and intimate to the Board the place where such books of account, records and documents are maintained.

(2) Every asset management company shall maintain and preserve for a period of ¹⁰⁰[eight] years its books of account, records and documents.

(3) The asset management company shall follow the accounting policies and standards as specified in Ninth Schedule so as to provide appropriate details of the schemewise disposition of the assets of the fund at the relevant accounting date and the performance during that period together with information regarding distribution or accumulation of income accruing to the unitholder in a fair and true manner.

Financial year

51. The financial year for all the schemes shall end as of March 31st of each year :

Provided that, for a new scheme commenced during a financial year, the disclosure and reporting requirements would apply for the period beginning from the date of its commencement and ending on March 31st of ¹⁰¹[that financial] year.

Limitation on fees and expenses on issue of schemes

52. (1) All expenses should be clearly identified and appropriated in the individual schemes.

¹⁰⁰ Substituted for 'ten' by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

¹⁰¹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998, for the words 'the following'.

(2) The Asset Management Company may charge the mutual fund with investment and advisory fees which are fully disclosed in the offer document subject to the following namely:—

- (i) One and a quarter of one per cent of the weekly average net assets outstanding in each accounting year for the scheme concerned, as long as the net assets do not exceed Rs.100 crores, and
- (ii) One per cent of the excess amount over Rs.100 crores, where net assets so calculated exceed Rs.100 crores.

¹⁰²“Provided that in case of an index fund scheme, the investment and advisory fees shall not exceed three fourths of one percent (0.75%) of the weekly average net assets.”

(3) ¹⁰³[***]

(4) In addition to the fees mentioned in sub-regulation (2), the asset management company may charge the mutual fund with the following expenses, namely:—

(a) ¹⁰⁴[***]

(b) recurring expenses including:—

- (i) marketing and selling expenses including agents' commission, if any ;
- (ii) brokerage and transaction cost ;
- (iii) registrar services for transfer of units sold or redeemed ;
- (iv) fees and expenses of trustees ;
- (v) audit fees ;
- (vi) custodian fees ;
- ¹⁰⁵[(vii) costs related to investor communication ;
- (viii) costs of fund transfer from location to location ;
- (ix) costs of providing account statements and dividend/redemption cheques and warrants ;
- (x) insurance premium paid by the fund ;
- (xi) winding up costs for terminating a fund or a scheme ;
- (xii) costs of statutory advertisements ;] ¹⁰⁶[***]

¹⁰⁷[(xii-a) in case of a gold exchange traded fund scheme, recurring expenses incurred towards storage and handling of gold; ¹⁰⁸[***]]

¹⁰² Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2007, w.e.f. **31-10-2007**.

¹⁰³ Omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2010, w.e.f. 29-7-2010. Prior to its omission, it existed as

“For schemes launched on a no load basis, the asset management company shall be entitled to collect an additional management fee not exceeding 1% of the weekly average net assets outstanding in each financial year.”

¹⁰⁴ Omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to this it had been inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006, w.e.f. 22-5-2006 as,

“initial expenses of launching close-ended schemes, which shall be accounted in the books of account of the scheme in accordance with the Tenth Schedule;”

¹⁰⁵ Sub-clause (vii) to (xii) inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

¹⁰⁶ The word ‘and’ omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2006, w.e.f. 12-1-2006

¹⁰⁷ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2006, w.e.f. 12-1-2006

¹⁰⁹[(xii-b) in case of a capital oriented scheme, rating fees; ¹¹⁰[***]]

¹¹¹[(xii-c) in case of a real estate mutual fund scheme, insurance premia and costs of maintenance of the real estate assets (excluding costs of development of such assets) over and above the expenses specified in regulation 52 to the extent disclosed in the offer document;]

¹¹²[(xii-d) listing fees, in case of schemes listed on a recognised stock exchange; and]

¹¹³[(xiii)] such other costs as may be approved by the Board.

(5) Any expense other than those specified in sub-regulations (2) and (4) shall be borne by the asset management company ¹¹⁴[or trustee or sponsors].

¹¹⁵[***]

¹¹⁶[(6) The total expenses of the scheme excluding issue or redemption expenses, whether initially borne by the mutual fund or by the asset management company, but including the investment management and advisory fee shall be subject to the following limits:—

¹⁰⁸ The word 'and' omitted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006, w.e.f.3.8.2006

¹⁰⁹ Inserted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006, w.e.f. 3-8-2006

¹¹⁰ The word 'and' omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008.

¹¹¹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009. Prior to substitution, it was read as,

“*[(xii-b) in case of a real estate mutual fund scheme, insurance premia and costs of maintenance of the real estate assets (excluding costs of development of such assets) over and above the expenses specified in regulation 52 to the extent disclosed in the offer document; and]”

[*Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008]

¹¹² Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009.

¹¹³ Sub-clause (vii) renumbered as sub-clause (xiii) by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

¹¹⁴ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

¹¹⁵ Omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to this, it was read as,

“***[Provided]** that initial expenses of launching a close-ended scheme shall not exceed six per cent of initial resources raised under that scheme:]

#**[Provided further]** that any excess over the 6 per cent initial issue expense shall be borne by the asset management company.]”

[*Substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006, w.e.f. 22-5-2006]

[#Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998]

¹¹⁶ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2010, w.e.f. 29-7-2010. Prior to substitution, it was read as

“The total expenses of the scheme excluding issue or redemption expenses, whether initially borne by the mutual fund or by the asset management company, but including the investment management and advisory fee shall be subject to the following limits :—

- (i) On the first Rs.100 crores of the average weekly net assets 2.5%;
- (ii) On the next Rs.300 crores of the average weekly net assets 2.25%;
- (iii) On the next Rs.300 crores of the average weekly net assets 2.0%;
- (iv) On the balance of the assets 1.75% :

Provided that such recurring expenses shall be lesser by at least 0.25% of the weekly average net assets outstanding in each financial year in respect of a scheme investing in bonds :

(a) in case of a fund of funds scheme, the total expenses of the scheme including the management fees shall be either:-

(i) not exceeding 0.75% of the daily or weekly average net assets, depending upon whether the NAV of the scheme is calculated on daily or weekly basis; or

(ii) it may consist of -

(A) management fees for the scheme not exceeding 0.75% of the daily or weekly average net assets depending upon whether the NAV of the scheme is calculated on daily or weekly basis;

(B) other expenses relating to administration of the scheme; and

(C) charges levied by the underlying schemes:

Provided that the sum total of (A), (B) and the weighted average of the total expense ratio of the underlying schemes shall not exceed 2.50% of the daily or weekly average net assets (depending upon whether the NAV of the scheme is calculated on daily or weekly basis) of the scheme.

(b) in case of an index fund scheme or exchange traded fund, the total expenses of the scheme including the investment and advisory fees shall not exceed one and one half percent (1.5%) of the weekly average net assets;

(c) in case of any other scheme-

(i) on the first Rs.100 crores of the daily or average weekly net assets 2.5%;

(ii) on the next Rs.300 crores of the daily or average weekly net assets 2.25%;

(iii) on the next Rs.300 crores of the daily or average weekly net assets 2.0%;

(iv) on the balance of the assets 1.75%:

Provided that in respect of a scheme investing in bonds such recurring expenses shall be lesser by at least 0.25% of the daily or weekly average net assets outstanding in each financial year.]

(7) Any expenditure in excess of the limits specified in sub-regulation (6) shall be borne by the asset management company ¹¹⁷[or by the trustee or sponsors].

(8) The provisions of sub-regulations (3), (4), (5) and (6) will come into effect ¹¹⁸[from 1st April, 1997] for those schemes of mutual funds which have been launched prior to notification of these regulations.

¹¹⁶[**Provided further** that in case of a fund of funds scheme, the total expenses of the scheme including the management fees shall not exceed 0.75% of the daily or weekly average net assets, depending upon whether the NAV of the scheme is calculated on daily or weekly basis.]

¹¹⁶[**Provided further** that in case of an index fund scheme, the total expenses of the scheme including the investment and advisory fees shall not exceed one and one half percent (1.5%) of the weekly average net assets.]”

¹¹⁷ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

¹¹⁸ Substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 1997, w.e.f. 15-4-1997.

Prior to this, it was read as,

“after three months from the date of notification of these regulations”

¹¹⁹**[Declaration of dividends]**

52A. A mutual fund may declare dividends in accordance with the offer document and subject to such Guidelines as may be specified by the Board.]

Despatch of warrants and proceeds

53. Every mutual fund and asset management company shall,

- (a) despatch to the unitholders the dividend warrants within ¹²⁰[30] days of the declaration of the dividend;
- (b) despatch the redemption or repurchase proceeds within 10 working days from the date of redemption or repurchase;
- ¹²¹[(c) in the event of failure to despatch the redemption or repurchase proceeds within the period specified in sub-clause (b), the asset management company shall be liable to pay interest to the unitholders at such rate as may be specified by the Board for the period of such delay;
- (d) notwithstanding payment of such interest to the unit-holders under sub-clause (c), the asset management company may be liable for penalty for failure to despatch the redemption or repurchase proceeds within the stipulated time.]

Annual Report

54. Every mutual fund or the asset management company shall prepare in respect of each financial year an annual report and annual statement of accounts of the schemes and the fund as specified in Eleventh Schedule.

Auditor's report

55. (1) Every mutual fund shall have the annual statement of accounts audited by an auditor who is not in any way associated with the auditor of the asset management company.

Explanation : For the purposes of this sub-regulation and regulation 66 “auditor” means a person who is qualified to audit the accounts of a company under section 224 of the Companies Act, 1956 (1 of 1956).

(2) An auditor shall be appointed by the trustees.

(3) The auditor shall forward his report to the trustees and such report shall form part of the Annual Report of the mutual fund.

(4) The auditor's report shall comprise the following:—

- (a) a certificate to the effect that,—
 - (i) he has obtained all information and explanations which, to the best of his knowledge and belief, were necessary for the purpose of the audit ;
 - (ii) the balance sheet and the revenue account give a fair and true view of the scheme, state of affairs and surplus or deficit in the Fund for the accounting period to which the Balance Sheet or, as the case may be, the Revenue Account relates ;

¹¹⁹ Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006, w.e.f. 22-5-2006.

¹²⁰ Substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2001, w.e.f. 23-7-2001, for '42'.

¹²¹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2000, w.e.f. 14-3-2000.

(iii) the statement of account has been prepared in accordance with accounting policies and standards as specified in the Ninth Schedule.

¹²²**[Mailing] of Annual Report and summary thereof**

56. (1) The schemewise Annual Report of a mutual fund or an abridged summary thereof ¹²³*** shall be mailed to all unitholders as soon as may be but not later than ¹²⁴[four months] from the date of closure of the relevant accounts year.

(2) The Annual Report and abridged summary thereof shall contain details as specified in the Eleventh Schedule and such other details as are necessary for the purpose of providing a true and fair view of the operations of the mutual fund:

¹²⁵**[Provided** that the abridged schemewise Annual Report mailed to the unitholders is in the format prescribed by the Board in this regard.]

(3) The report ¹²⁶[mailed in abridged summary form as per sub-regulation (1)] shall carry a note that ¹²⁷[for unitholders of a scheme] full Annual Report shall be available for inspection at the Head Office of the mutual fund and a copy thereof shall be made available to unitholder on payment of such nominal fees as may be specified by the mutual fund.

Annual Report to be forwarded to the Board

57. Every mutual fund ¹²⁸*** shall within ¹²⁹[four months] from the date of closure of each financial year forward to the Board a copy of the Annual Report and other information including details of investments and deposits held by the mutual fund so that the entire schemewise portfolio of the mutual funds is disclosed to the Board.

Periodic and continual disclosures

¹²² Substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2002, w.e.f. 20-2-2002, for 'Publication'.

¹²³ Words 'shall be published through an advertisement and an abridged schemewise annual report' omitted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2002, w.e.f. 20-2-2002. Prior to this the words "and an abridged schemewise annual report shall be mailed to all unitholders" had been inserted by SEBI (MF) Amend. Regulations, 1998.

¹²⁴ Substituted for 'six months' by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2008, w.e.f. 29-9-2008.

¹²⁵ Substituted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2008, w.e.f. 29-9-2008. Prior to this, it was read as,

“***[Provided** that the abridged schemewise annual report mailed to unitholders need not contain full portfolio disclosure but must contain details on group company investments such as the name of the company, the amount of investment made in each company of the group by each scheme and the aggregate investments made by all schemes in the group companies of the sponsor.

#[***]]”

* Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

Omitted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2002, w.e.f. 20-2-2002. Prior to this it had been inserted by the SEBI (Mutual Funds) Amend. Regulations, 1998 as,

“Provided further that full portfolio disclosure is not required if the full accounts are published in newspapers.”

¹²⁶ Substitute for 'if published in summary form' by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2002, w.e.f. 20-2-2002

¹²⁷ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998

¹²⁸ Words “and asset management company’ omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

¹²⁹ Substituted for 'six months' by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2008, w.e.f. 29-9-2008.

58. (1) The mutual fund, the asset management company, the trustee, custodian, sponsor of the mutual fund shall make such disclosures or submit such documents as they may be called upon to do so by the Board.

(2) Without prejudice to the generality of sub-regulation (1), the mutual fund ¹³⁰[***] shall furnish the following periodic reports to the Board, namely :—

- (a) copies of the duly audited annual statements of accounts including the balance sheet and the profit and loss account for the fund and in respect of each scheme, once a year;
- (b) a copy of six monthly unaudited accounts ;
- (c) a quarterly statement of movements in the net assets for each of the schemes of the fund;
- (d) a quarterly portfolio statement, including changes from the previous periods, for each scheme.

(3) No sale of units of any scheme of a mutual fund shall be made by the trustees or an asset management company unless accompanied by documents which contain information which is adequate for the investors to take an informed decision.

Half-yearly disclosures

59. A mutual fund and asset management company shall before the expiry of ¹³¹[one month] from the close of each half year that is on 31st March and on 30th September, publish its unaudited financial results in one English daily newspaper circulating in the whole of the India and in a newspaper published in the language of the region where the Head Office of the mutual fund is situated ¹³²[The half-yearly results must be printed in at least 7 point times Roman font with proper spacing for easy reading] :

Provided that the half-yearly unaudited report referred in this sub-regulation shall contain details as specified in Twelfth Schedule and such other details as are necessary for the purpose of providing a true and fair view of the operations of the mutual fund.

Statement of Portfolio

¹³³**[59A.** A mutual fund shall before the expiry of one month from the close of each half-year (*i.e.*, 31st March and 30th September), send to all unitholders a complete statement of its scheme portfolio :

Provided that statement of scheme portfolio may not be sent to the unitholders, if the statement is published, by way of an advertisement, in one English daily circulating in the whole of India and in a newspaper published in the language of the region where the head office of the mutual fund is situated.]

Disclosures to the investors

¹³⁰ Words ‘‘and asset management company’’ omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998, w.e.f. 12-1-1998.

¹³¹ Substituted for, ‘two months’ by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2001, w.e.f. 23-7-2001.

¹³² Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2001, w.e.f. 23-7-2001.

¹³³ Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2000, w.e.f. 14-3-2000. (heading was not there in notification)

60. The trustee shall be bound to make such disclosures to the unitholders as are essential in order to keep them informed about any information which may have an adverse bearing on their investments.

CHAPTER VIII

INSPECTION AND AUDIT

Board's right to inspect and investigate

61. (1) The Board may appoint one or more persons as inspecting officer to undertake the inspection of the books of account, records, documents and infrastructure, systems and procedures or to investigate the affairs of a mutual fund, the trustees and asset management company for any of the following purposes, namely :—

- (a) to ensure that the books of account are being maintained by the mutual fund, the trustees and asset management company in the manner specified in these regulations;
- (b) to ascertain whether the provisions of the Act and these regulations are being complied with by the mutual fund, the trustees and asset management company ;
- (c) to ascertain whether the systems, procedures and safeguards followed by the mutual fund are adequate ;
- (d) to ascertain whether the provisions of the Act or any rules or regulations made thereunder have been violated ;
- (e) to investigate into the complaints received from the investors or any other person on any matter having a bearing on the activities of the mutual funds, trustees and asset management company ;
- (f) to *suo motu* ensure that the affairs of the mutual fund, trustees or asset management company are being conducted in a manner which is in the interest of the investors or the securities market.

Notice before inspection and investigation

62. (1) Before ordering an inspection or investigation under regulation 61 the Board shall give not less than ten days notice to the mutual fund, asset management company or trustees as the case may be.

(2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors no such notice should be given, it may, by an order in writing direct that such inspection or investigation be taken up without such notice.

(3) During the course of inspection or investigation, the mutual fund, trustees or asset management company against whom the inspection or investigation is being carried out shall be bound to discharge his obligations as provided in regulation 63.

Obligations on inspection and investigation

63. (1) It shall be the duty of the mutual fund, trustees or asset management company whose affairs are being inspected or investigated, and of every director, officer and employee thereof, to produce to the inspecting officer such books, accounts, records, and other documents in its custody or control and furnish him such statements and information relating to the activities as mutual funds, trustees or asset management

company, as the inspecting officer may require, within such reasonable period as the inspecting officer may specify.

(2) The mutual fund, trustees or asset management company shall allow the inspecting officer to have a reasonable access to the premises occupied by it or by any other person on its behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the mutual fund, trustees and asset management company or such other person and also provide copies of documents or other materials which in the opinion of the inspecting officer are relevant for the purpose of the inspection.

(3) The inspecting officer, in the course of inspection or investigation, shall be entitled to examine or record the statements of any director, officer, or employee of the mutual fund, trustees and asset management company.

(4) It shall be the duty of every director, officer, or employee of the mutual fund, asset management company or trustee to give to the inspecting officer all assistance in connection with the inspection or investigation, which the inspecting officer may reasonably require.

Submission of report to the Board

64. The inspecting officer shall, as soon as possible, on completion of the inspection or investigation submit a report to the Board :

Provided that if directed to do so by the Board, he may submit an interim report.

¹³⁴**[Action on inspection or investigation report]**

65. The Board or the Chairman shall after consideration of inspection or investigation report take such action as the Board or Chairman may deem fit and appropriate including action under the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.]

Appointment of auditor

66. Without prejudice to the provisions of regulation 55, the Board shall have the power to appoint an auditor to inspect or investigate, as the case may be, into the books of account or the affairs of the mutual fund, trustee or asset management company:

Provided that the Auditor so appointed shall have the same powers of the inspecting officer as stated in regulation 61 and the obligation of the mutual fund, asset management company, trustee, and their respective employees in regulation 63, shall be applicable to the investigation under this regulation.

¹³⁴ Substituted by the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, w.e.f. 27-9-2002. Prior to substitution it was read as under,

“(1) The Board shall, after consideration of the inspection report referred to in regulation 64, communicate the findings report of the inspecting officer to the mutual fund, trustee or asset management company as the case may be, and give him an opportunity of being heard:

Provided that if any proceeding under Chapter viii are initiated the procedure under Chapter shall be followed.

(2) On receipt of the reply if any, from the mutual fund, trustees or asset management company, as the case may be the Board may call upon the trustees or asset management company to take such measures as the Board may deem fit in the interest of investors, securities market and for due compliance with the provisions of these regulations.”

Payment of inspection fees to the Board

67. The Board shall be entitled to recover such expenses including fees paid to the auditors as may be incurred by it for the purposes of inspecting the books of account, records and documents of the mutual fund, the trustees and the asset management company.

CHAPTER IX

PROCEDURE FOR ACTION IN CASE OF DEFAULT

¹³⁵**[Liability for action in case of default**

68. A mutual fund which—

- (a) contravenes any of the provisions of the Act and these regulations;
- (b) fails to furnish any information or furnishes wrong information relating to its activity as a mutual fund as required under these regulations;
- (c) fails to submit periodical returns as required under these regulations;
- (d) does not co-operate in any inquiry or inspection conducted by the Board;
- (e) fails to comply with any directions of the Board issued under the provisions of the Act or the regulations;
- (f) fails to resolve the complaints of the investors or fails to give a satisfactory reply to the Board in this behalf;
- (g) indulges in unfair trade practices in securities.

Explanation.—For the purposes of this clause “unfair trade practices” has the same meaning as in the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995;

¹³⁵ Substituted by the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, w.e.f. 27-9-2002. Prior to substitution it was read as under,

“The Board may suspend a certificate granted to a mutual fund if such mutual fund : -

- (a) contravenes any of the provisions of the Act and these regulations;
- (b) fails to furnish any information or furnishes wrong information relating to its activity as a mutual fund as required under these regulations;
- (c) fails to submit periodical returns as required under these regulations;
- (d) does not co-operate in any inquiry or inspection conducted by the Board;
- (e) fails to comply with any directions of the Board issued under the provisions of the Act or the regulations;
- (f) fails to resolve the complaints of the investors or fails to give a satisfactory reply to the Board in this behalf;
- (g) indulges in unfair trade practices in securities;

Explanation: For the purpose of this clause "unfair trade practices" has the same meaning as in Securities & Exchange Board of India (Fraudulent and Unfair Trade Practices in Securities Market) Regulations, 1995;

- (h) is guilty of misconduct or improper or unbusinesslike or unprofessional conduct which is not in accordance with the Code of Conduct specified in the Fifth Schedule;
- (i) asset management company fails to maintain the networth in accordance with the provisions of regulation 21;
- (j) fails to pay any fees;
- (k) violates the conditions of registration;
- (l) mutual fund, asset management company or trustees of that mutual fund does not carry out its obligations as specified in these regulations.”

- (h) is guilty of misconduct or improper or unbusinesslike or unprofessional conduct which is not in accordance with the Code of Conduct specified in the Fifth Schedule;
- (i) asset management company fails to maintain the net worth in accordance with the provisions of regulation 21;
- (j) fails to pay any fees;
- (k) violates the conditions of registration;
- (l) mutual fund, asset management company or trustees of that mutual fund does not carry out its obligations as specified in these regulations,

shall be dealt with in the manner provided under the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.]

69. to 74. ¹³⁶***]

¹³⁶ Regulations 69 to 74 omitted by the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, w.e.f. 27-9-2002. Prior to substitution it was read as under,

“69. The Board may cancel the certificate of registration granted to a mutual fund, if such mutual fund.

- (a) is guilty of fraud, or has been convicted of an economic offence;
- (b) has been guilty of repeated defaults of the nature specified in regulation 68;
- (c) the mutual fund, asset management company, trustee of that mutual fund indulges in price manipulation or price rigging or cornering activities affecting the securities market and the investors interest;
- (d) the financial position of the mutual fund deteriorates to such an extent that the Board is of the opinion that its continuance is not in the interest of unitholders and other mutual funds.

70. Manner of making order of cancellation or suspension

No order of suspension or cancellation of certificate or the approval, as the case may be, shall be made by the Board against a mutual fund, trustees, asset management company except after holding an enquiry in accordance with the procedure specified in regulation 71.

71. Manner of holding enquiry before suspension or cancellation.

- (1) For the purpose of holding an enquiry, under regulation 70 the Board may appoint one or more enquiry officers.
- (2) The enquiry officer shall issue to the mutual fund, asset management company or the trustee, as the case may be, at its registered office or the principal place of its business, a notice setting out the grounds on which action is proposed to be taken against it and calling upon it to show cause against such action within a period of fourteen days from the date of receipt of the notice.
- (3) The mutual fund, asset management company or trustee shall within fourteen days of the date of receipt of such notice, furnish to the enquiry officer a written reply, together with copies of documentary or other evidence relied on by it or sought by the Board from the mutual fund, trustees, or asset management company.
- (4) The enquiry officer shall give a reasonable opportunity of hearing to the mutual fund, trustees, or asset management company, to enable it to make submissions in support of its reply made under sub-regulation (3).
- (5) Before the enquiry officer, the mutual fund, trustees or asset management company may either appear in person or through any person duly authorised by the mutual fund, trustees or asset management company.

Provided that no lawyer or advocate shall be permitted to represent the mutual fund, trustees or asset management company at the enquiry:

Provided further that where a lawyer or an advocate has been appointed by the Board as a presenting officer under sub-regulation (6), it shall be lawful for the mutual fund, asset management company or trustee to present its case through a lawyer or advocate.

- (6) The enquiry officer may if he considers it necessary, ask the Board to appoint a presenting officer to present its case.

(7) The enquiry officer shall, after taking into account all relevant facts and submissions made by the mutual fund, trustees or asset management company submit a report to the Board and recommend the action, if any, to be taken against the mutual fund, trustees or asset management company as also the grounds on which the penal action is justified.

72. Show cause notice and order (1) On receipt of the report from the enquiry officer, the Board shall consider the same and issue to the mutual fund, trustees or asset management company, a show-cause notice.

(2) The mutual fund, asset management company or trustee, shall within fourteen days of the date of the receipt of the show-cause notice, send a reply to the Board.

(3) The Board, after considering the reply of the mutual fund, trustees or asset management company, if any, shall as soon as possible pass such order as it deems fit.

(4) The Board shall send to the mutual fund, trustees, or asset management company, a copy of the order made under sub-regulation (3).

73. Effect of suspension or cancellation of certificate of registration

(1) On and from the date of the suspension of the certificate or the approval, as the case may be, the mutual fund, trustees or asset management company, shall cease to carry on any activity as a mutual fund, trustee or asset management company, during the period of suspension, and shall be subject to the directions of the Board with regard to any records, documents, or securities that may be in its custody or control, relating to its activities as mutual fund, trustees or asset management company.

(2) On and from the date of cancellation of the certificate or the approval, as the case may be, the mutual fund, trustees or asset management company shall with immediate effect, cease to carry on any activity as mutual fund, trustees or asset management company, as the case may be.

(3) The Board may in the interest of the unit holders issue directions with regard to the transfer of any records, documents or securities that may be in its custody or control, relating to its activities as mutual fund, trustees or asset management company.

(4) The Board may in order to protect the interest of the unit holders order the transfer of records, document, securities, etc. to any person specifically appointed for the purpose or to any other trustee or asset management company.

Provided that the Board shall while appointing such a person determine the terms and conditions of such an appointment.

74. Publication of order of suspension or cancellation.

The order of suspension or cancellation passed under sub-regulation (3) of regulation 72, may be published by the Board in two newspaper.”

Action against intermediaries

75. The Board may initiate action for suspension or cancellation of registration of an intermediary holding a certificate of registration under section 12 of the Act who fails to exercise due diligence or to comply with the obligations under these regulations :

Provided that no such certificate of registration shall be suspended or cancelled unless the procedure specified in regulations applicable to such intermediary is complied with.

Adjudication, etc.

76. The Board may for the offences specified in sections 15A to 15E of the Act initiate action under section 15-I of the Act and in case of violation of any of the provisions of the Act or the regulations, initiate action under section 11, 11B or section 24 of the Act.

(2) The Board may in addition to suspension or cancellation of certificate, order suspension of launching of any scheme of a mutual fund for a period not exceeding one year for violation of any of the provisions of these regulations after following procedure under this Chapter.

(3) The Board may during the pendency of any proceeding of suspension or cancellation under this Chapter also order suspension for launching of any scheme not exceeding three months without following procedure under this Chapter :

Provided that no order shall be passed without giving an opportunity of hearing.

CHAPTER X

MISCELLANEOUS

Power of the Board to issue clarifications

77. In order to remove any difficulties in the application or interpretation of these regulations, the Board shall have the power to issue clarifications and guidelines in the form of notes or circulars which shall be binding on the sponsor, mutual funds, trustees, asset management companies and custodians.

Repeal and saving

78. (1) The Securities & Exchange Board of India (Mutual Funds) Regulations, 1993 are hereby repealed.

(2) Notwithstanding such repeal :

- (a) anything done or any action taken or purported to have been done or taken, including registration or approval granted, fees collected, scheme announced, registration or approval, suspended or cancelled, any inquiry or investigation commenced under the said regulations, shall be deemed to have been done or taken under the corresponding provisions of these regulations ;
 - (b) any application made to the Board under the said regulations and pending before it shall be deemed to have been made under the corresponding provisions of these regulations ;
 - (c) any appeals preferred to the Central Government under the said regulations and pending before it shall be deemed to have been preferred under the corresponding provisions of these regulations.
-

FIRST SCHEDULE

FORMS

FORM A

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

(Regulations 3, 5)

Application for the grant of registration of mutual fund

Name of applicant.....

Contact person

Name of the Compliance officer.....

Telephone No. : Fax No.

Instruction for filling up form :—

1. Applicants must submit a completed application form together with appropriate supporting documents to the Board.
2. It is important that this application form should be filled in accordance with the regulations.
3. An application which is not complete is liable to be rejected.
4. Answers must be typed and legible.
5. Information which needs to be supplied in more details may be given on separate sheets which should be attached to the application form.
6. The application must be signed by the competent person having authority to do so and all signatures must be in original.

APPLICATION BY SPONSOR OF THE MUTUAL FUND FOR REGISTRATION

1. Name of the sponsor
2. Address of the registered office/correspondence address
Telephone Nos.
Telex Nos.
Fax Nos.
3. Name of the contact person
4. Date and place of incorporation of the sponsor
(enclose a copy of certificate of incorporation)
5. Objects of the sponsor
(enclose copy of the Memorandum and Articles of Association)
Main objects
Ancillary objects
6. Capital structure and shareholding pattern
7. Present line of business activities
Number of years in that line
8. Condensed financial information
(enclose balance sheets and profit and loss account for five years)
9. Accounting policies
(furnish description of significant accounting policies)

10. Systems and procedures
(furnish description of systems and procedures in the company and essential internal controls in order to carry on the business of the company)
11. Names of the associate organisations/group companies/subsidiaries, etc.
12. Management of the sponsor
Board of the company with names, experience, qualification, and profession of the Directors
Names of key personnel
Organisational structure
Board of Directors of associate organisations, companies and subsidiaries
13. Names and addresses of the bankers of the sponsor
14. Names and addresses of the auditors of the sponsor
15. Court cases/litigations in which the sponsor may have been involved in the last three years
16. An application for registration of mutual fund shall be accompanied by a copy each of
 - (A) Draft trust deed;
 - (B) Draft investment management agreement; and
 - (C) Draft custodian agreement

CONDENSED FINANCIAL INFORMATION

(A) Income statement

	Years					(Rs.)
	1	2	3	4	5	
<i>Income:</i>						
Dividend						
Trading						
Management Fee						
Other income						
Total						<hr/>
<i>Expenses:</i>						
Director's remuneration						
Trusteeship fees						
Custodian fees						
Registrar's fees						
Other expenses						
Total						<hr/>
Gross Profit						
Depreciation						
Net profit before tax						

Tax
Profit after tax
Dividends
Retained earnings
(B) Assets and liabilities

	Years					(Rs.)
	1	2	3	4	5	
<i>Assets:</i>						
Fixed Assets						
Gross						
Depreciation						
Net value						
Current assets						
Investments*						
Others (please specify)						
Cash and bank balances						
<i>Less:</i>						
Current liabilities and						
Provisions						
Net worth						
<i>Represented by :</i>						
Issued and paid up capital						
Free reserves						
(excluding revaluation reserves)						
Total						

*Provide full particulars of investments.

FORM B

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

[Regulation 9]

Certificate of registration

I. In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), read with the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 made thereunder the Board hereby grants a certificate of registration to as a Mutual Fund.

II. Registration Code for the Mutual Fund is MF/ / /.

Date.....

By order
Sd/-

FORM C

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

[Regulation 16(1)(d)]

Trusteeship of the mutual fund

- (1) If the trusteeship of the mutual fund is with a trust company, then please furnish the following particulars
 - (a) the draft articles and Memorandum of Association for approval
 - (b) Objects of the trust company
 - (c) Board of Directors of the trustee company with age, experience and qualification
 - (d) Key personnel
 - (e) Systems and procedures, record maintenance, etc.
 - (f) Names of auditors and bankers
- (2) If the trusteeship of the mutual fund is with a debenture trustee, bank, or financial institution then please furnish the following particulars
 - (a) Name of the Institution
 - (b) Address/telephone/telex/fax Nos.
 - (c) Name of the contact person
 - (d) Background information *i.e.* (number of companies, trusts for which it has or has been acting as trustees, names of those companies, trusts, number of years of experience as trustees, total volume of business, trusteeship fee record for last three years, organisational infrastructure to handle trusteeship function including record maintenance, computer facilities, in case of debenture trustees also furnish the number of defaulting companies, number of cases of default in payment of interest and principal and action taken by the debenture trustees)
- (3) If the trusteeship of the mutual fund is with a board of individual trustees then please furnish the following particulars
 - (a) Names of the members of the Board of trustees
 - (b) Age, experience, qualification and profession
 - (c) Relationship of the members of the Board of trustees with sponsor or any associate of the sponsor
- (4) Draft trust deed
The draft trust deed should *inter alia* provide for
 - (a) Responsibilities, obligations and rights of the trustees for the protection of the fund's assets.
 - (b) A statement that investments should be of the permitted kind and within set limits.

- (c) Responsibilities, obligations and rights of the fund manager, *i.e.*, the asset management company.
 - (d) Policies for investments, creation, issue and cancellation of units, pricing and redemption of units, listing of units in case of close-ended schemes, expenses of the fund including payment of fees and distribution of income and gains and accounting.
 - (e) Policies for disclosures of scheme objectives and investment objectives in offer documents and advertisements and annual and half-yearly reporting requirements to the investors of various schemes of the fund.
 - (f) Right of the trustees to obtain necessary information from asset management company besides obtaining a quarterly report from the asset management company.
 - (g) Right to make spot checks on the asset management company regarding pricing of units and payment into and out of the fund and proper accounting of the income of the fund and charging of expenses as permitted, distribution as permitted.
 - (h) Public availability of the trust deed.
- (5) Instructions for filling up the form.
(See Form A)

FORM D

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

[Regulation 19(1)]

Asset management company

1. Name of the Asset Management Company
2. Proposed registered office/correspondence address
Telephone Nos.
Telex Nos.
Fax Nos.
3. Name of the contact person
4. Proposed objects of the asset management company
(enclose copy of the draft Articles and Memorandum of Association for approval)
Main objects
Ancillary objects
5. (a) Proposed capital structure
(b) The net worth of the company to be represented by
(necessary auditors certificate to be furnished)
6. Proposed systems and procedures for the asset management company (furnish description of systems and procedures proposed in the company and essential internal controls in order to carry on the business of the company)
7. Names of the associate organisations/group companies/subsidiaries, etc. of asset management company
8. Management of the asset management company

Board of the company with names of the Directors, experience, qualification and profession

Names of key personnel

Proposed organisational structure

Board of Directors of associate organisations, companies and subsidiaries

In case asset management company is an existing company

1. Name of the asset management company
2. Address of the registered office/correspondence address
Telephone Nos.
Telex Nos.
Fax Nos.
3. Name of the contact person
4. Date and place of incorporation of the asset management company
(enclose a copy of certificate of incorporation)
5. Objects of the asset management company
(enclose copy of the Memorandum and Articles of Association)
Main objects
Ancillary objects
(the Memorandum and Articles of Association would need the approval of SEBI and necessary amendments shall have to be incorporated in the existing Memorandum and Articles of Association)
6. Capital structure and shareholding pattern
(as of the latest date)
Net worth of the company
(as of the latest date)
To be represented by
7. Present line(s) of business activities
Number of years in that line
8. Condensed financial information
(enclose balance sheets and profit and loss account for three years)
9. Accounting policies
(furnish description of significant accounting policies)
10. Systems and procedures
(furnish description of systems and procedures in the company and essential internal controls in order to carry on the business of the company)
11. Names of the associate organisations/group companies/subsidiaries, etc.
12. Management of the asset management company
Board of the asset management company with names, experience, qualification, profession of the Directors.
Names of key personnel
Organisational structure
Board of Directors of associate organisations, companies and subsidiaries

13. Names and addresses of the Bankers of the asset management company
14. Names and addresses of the auditors of the asset management company
15. Court cases/litigations in which the asset management company may have been involved in the last three years
16. Instruction for filling up the form
(See Form A)

CONDENSED FINANCIAL INFORMATION

(A) Income statement

	Years					(Rs.)
	1	2	3	4	5	
<i>Income:</i>						
Dividend						
Trading						
Management Fee						
Other income						_____
Total						
<i>Expenses:</i>						
Director's remuneration						
Trusteeship fees						
Custodian fees						
Registrar's fees						
Other expenses						_____
Total						
Gross Profit						
Depreciation						
Net Profit before tax						
Tax						
Profit after tax						
Dividends						
Retained earnings						

(B) Assets and liabilities

	Years					(Rs.)
	1	2	3	4	5	
<i>Assets:</i>						
Fixed Assets						
Gross						
Depreciation						
Net value						_____
Current assets						

Investments*

Others (please specify)

Cash and bank balances

Less:

Current liabilities and

Provisions _____

Net worth

Represented by :

Issued and paid up capital

Free reserves

(excluding revaluation reserves)

Total _____

*Provide full particulars of investments.

SECOND SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996
[Regulations 4, 9, 12, 28(2)]

FEES

- I. A.** Application fees payable by mutual funds Rupees ¹³⁷[one lakh]
- B.** Registration fees payable by mutual funds Rupees ¹³⁸[twenty five lakhs]
- ¹³⁹**C.** ¹⁴⁰[Annual] fees payable by mutual funds

<i>Net Assets as on 31st March</i>	<i>Service fee payable</i>
Up to Rs.500 crores.	Rs.2.50 lakhs
Above Rs.500 crores and up to Rs.1,000 crores.	Rs.3.50 lakhs
Above Rs.1,000 crores and up to Rs.3,000 crores.	Rs.4.50 lakhs

¹³⁷ Substituted for “twenty five thousand” by the SEBI (Mutual Funds) (Third Amendments) Regulations, 2006 w.e.f. 3-8-2006.

¹³⁸ Substituted for “fifty lakhs”* by the SEBI (Payment of fees) (Amendment) Regulations, 2008 w.e.f. **01-04-2008**.

* Substituted for “twenty five lakhs” by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006 w.e.f. 3-8-2006

¹³⁹ Substituted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006 w.e.f. 3-8-2006 Prior to substitution it was read as,

“A. APPLICATION FEES PAYABLE BY MUTUAL FUNDS Rupees Twenty five Thousand

B. REGISTRATION FEES PAYABLE BY MUTUAL FUNDS Rupees Twenty-Five lacs

C. SERVICE FEES PAYABLE BY MUTUAL FUNDS Rupees Two lacs Fifty-Thousand

D. FILING FEES FOR OFFER DOCUMENT Rupees Twenty-Five Thousand”

¹⁴⁰ Substituted for “service” by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006 w.e.f. 3-8-2006.

Above Rs.3,000 crores and up to Rs.5,000 crores.	Rs.5.50 lakhs
Above Rs.5,000 crores and up to Rs.10,000 crores.	Rs.6.50 lakhs
Above Rs.10,000 crores.	Rs.7.50 lakhs

The above revised service fee structure shall be effective from the Financial year 2003-2004.]

D. Filing fees for offer documents ¹⁴¹[¹⁴²[0.0020]] per cent of the amount raised in the new fund offer, subject to a minimum of rupees one lakh and a maximum of rupees fifty lakhs.]

II. The fees referred to in clause I above, shall be paid by means of a bank draft payable to 'the Securities and Exchange Board of India' at Mumbai.

THIRD SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

[Regulation 15(1)]

CONTENTS OF THE TRUST DEED

The Trust Deed shall contain the following clauses namely :—

- I. (i) A trustee in carrying out his responsibilities as a member of the board of trustees or of trustee company, shall maintain arms' length relationship with other companies, or institutions or financial intermediaries or any body corporate with which he may be associated.
- (ii) No trustee shall participate in the meetings of the board of trustees or trustee company when any decisions for investments in which he may be interested are taken.
- (iii) All the trustees shall furnish to the board of trustees or trustee company particulars of interest which he may have in any other company, or institution or financial intermediary or any corporate body by virtue of his position as director, partner or with which he may be associated in any other capacity.
2. Minimum number of trustees must be mentioned in the Trust Deed.
3. The Trust Deed must provide that the trustees shall take into their custody, or under their control all the property of the schemes of the mutual fund and hold it in trust for the unitholders.

¹⁴¹ Substituted by the SEBI (Payment of Fees) (Amendment) Regulations, 2008, w.e.f.01-04-2008. Prior to substitution, it was read as, [0.03 per cent of the amount raised in the new fund offer, subject to a minimum of rupees one lakh and a maximum of rupees one crore]*.

* Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2007, w.e.f.28-05-2007. Prior to substitution, it was read as, [0.03 percent of the amount raised in the new fund offer, subject to a minimum of rupees one lakh] substituted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2006 w.e.f.3-8-2006 for "rupees twenty five thousand".

¹⁴² Substituted by the SEBI (Payment of Fees) (Amendment) Regulations, 2009, w.e.f. 01-07-2009, for the figure ".005".

4. The Trust Deed must specifically provide that unitholders would have beneficial interest in the trust property to the extent of individual holding in respective schemes only.
5. The Trust Deed shall provide that it would be the duty of the trustees to act in the interest of the unitholders.
6. The Trust Deed shall provide that it is the duty of trustees to provide or cause to provide information to unitholders and board as may be specified by the board.
7. The Trust Deed shall provide that the trustees shall appoint an asset management company approved by the board, to float schemes for the mutual fund after approval by the trustees and Board, and manage the funds mobilised under various schemes, in accordance with the provisions of the Trust Deed and Regulations. The trustees shall enter into an Investment Management Agreement with the asset management company for this purpose, and shall enclose the same with the Trust Deed.
8. The Trust Deed shall provide for the duty of the trustee to take reasonable care to ensure that the funds under the schemes floated by and managed by the asset management company are in accordance with the Trust Deed and Regulations.
9. The Trust Deed must provide for the power of the trustees to dismiss the asset management company under the specific events only with the approval of Board in accordance with the Regulations.
10. The Trust Deed shall provide that the trustees shall appoint a custodian and shall be responsible for the supervision of its activities in relation to the mutual fund and shall enter into a custodian Agreement with the custodian for this purpose.
11. The Trust Deed shall provide that the auditor for the mutual fund shall be different from the Auditor of the asset management company.
12. The Trust Deed shall provide for the responsibility of the trustees to supervise the collection of any income due to be paid to the scheme and for claiming any repayment of tax and holding any income received in trust for the holders in accordance with the Trust Deed, Regulations.
13. Broad policies regarding allocation of payments to capital or income must be indicated in the Trust Deed.
14. The Trust Deed shall also explicitly forbid the acquisition of any asset out of the trust property which involves the assumption of any liability which is unlimited or shall not result in encumbrance of the trust property in any way.
15. The Trust Deed shall forbid the mutual fund ¹⁴³[[***], to make or guarantee loans or take up any activity not in contravention of the Regulations.
16. Trusteeship fee, if any, payable to trustees shall be provided in the Trust Deed.
17. The Trust Deed shall provide that no amendment to the Trust Deed shall be carried out without the prior approval of the board and unitholders is obtained :
Provided however that in case a Board of trustees is converted into a trustee company subsequently such conversion shall not require the approval of unitholders.
18. The removal of the trustee in all cases would require the prior approval of the Board.

¹⁴³ Words ‘and the asset management company’ omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998.

19. The Trust Deed shall lay down the procedure for seeking approval of the unitholders under such circumstances as are specified in the Regulations.
- ¹⁴⁴[¹⁴⁵20. The Trust Deed shall state that a meeting of the trustees shall be held at least once in every two calendar months and at least six such meetings shall be held in every year.]
21. The trust deed shall specify the quorum for a meeting of the trustees :
Provided that the quorum for a meeting of the trustees shall not be constituted unless one independent trustee or director is present at the meeting.
22. The trust deed shall state that the minimum number of trustees shall be four.]

FOURTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

[Regulation 18(2)]

CONTENTS OF THE INVESTMENT MANAGEMENT AGREEMENT

The Investment Management Agreement shall contain the following provisions for the duties and responsibilities of the asset management company, namely :—

- (i) the asset management company appointed by the trustees with the prior approval of the Board shall be responsible for floating schemes for the mutual fund after approval of the same by the trustees and managing the funds mobilised under various schemes, in accordance with the provisions of the Trust Deed and Regulations;
- (ii) the asset management company shall not undertake any other business activity other than activities specified under ¹⁴⁶[sub-regulation (2) of regulation 24] and management of mutual funds and such other activities as financial services, consultancy, exchange of research and analysis on commercial basis as long as these are not in conflict with the fund management activity itself without the prior approval of the trustees and Board;
- (iii) the asset management company shall invest the funds raised under various schemes in accordance with the provisions of the Trust Deed and the regulations;
- (iv) the asset management company 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;
- (v) the asset management company shall not ¹⁴⁷[***] take up any activity in contravention of the Regulations;

¹⁴⁴ Clause 20 to 22 inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999 w.e.f. 8-12-1999.

¹⁴⁵ Substituted by the SEBI (Mutual Funds) (Third Amendment) Regulations, 2002 w.e.f. 30-7-2002. Prior to its substitution clause (20) was read as under,

“20. The trust deed shall state that a meeting of the trustees shall be held at least once in every three months and at least four such meetings shall be held in every year.”

¹⁴⁶ Substituted for “regulation 23” by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998.

¹⁴⁷ Words ‘give or guarantee loans or’ omitted” by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998.

- (vi) no loss or damage or expenses incurred by the asset management company or Officers of the asset management company or any person delegated by the asset management company, shall be met out of the trust property;
- (vii) the asset management company shall ensure that no ¹⁴⁸[offer document of a scheme, key information memorandum, abridged half-yearly results and annual results] is issued or published without the trustees' prior approval in writing, and contains any statement or matter extraneous to the Trust Deed or Offer Document scheme particulars approved by the trustees and Board;
- ¹⁴⁹[(viii) the asset management company shall provide an option of nomination to the unitholders in terms of regulation 29A, in the form prescribed hereunder;]
- (viii) the asset management company shall disclose the basis of calculating the repurchase price and NAV of the various schemes of the fund in the scheme particulars and disclose the same to the investors at such intervals as may be specified by the trustees and Board;
- (ix) the trustees shall have the right to obtain from the asset management company all information concerning the operations of the various schemes of the mutual fund managed by the asset management company at such intervals and in such a manner as required by the trustees to ensure that the asset management company is complying with the provisions of the Trust Deed and Regulations;
- (x) the asset management company shall submit quarterly report on the functioning of the schemes of the mutual fund to the trustees or at such intervals as may be required by the trustees or Board;
- (xi) the trustee shall have the power to dismiss the asset management company under the specific events only with the approval of the Board in accordance with the Regulations.

¹⁵⁰[FORM FOR NOMINATION/CANCELLATION OF NOMINATION

(to be filled in by individual(s) applying singly or jointly)

I/We.....and.....*do hereby nominate the person more particularly described hereunder/and/cancel the nomination made by me/us on the.....day of.....in respect of units bearing No.

(*strike out which is not applicable)

Name and Address of Nominee

Name:

Address:

¹⁴⁸ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998, for the words,

“application forms, or sales literature or other printed matters issued to prospective buyers, or advertisement, or report and or announcement (other than an announcement of prices or yields) addressed to the general body of unitholders, or to the public, or to the press or other communication media”

¹⁴⁹ Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2002 w.e.f. 11-6-2002.

¹⁵⁰ Inserted Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2002 w.e.f. 11-6-2002.

Date of Birth:

(to be furnished in case the Nominee is a minor)

*The Nominee is a minor whose guardian is:

Address of the Guardian.....

.....

Signature of the guardian:

.....

(* to be deleted if not applicable)

Unitholder(s)

(1) Signature :

Name :

Address :

Date :

(2) Signature :

.....

Name :

Address :

Date :

Instructions

1. The nomination can be made only by individuals applying for/holding units on their own behalf singly or jointly. Non-individuals including society, trust, body corporate, partnership firm, karta of Hindu undivided family, holder of Power of Attorney cannot nominate. If the units are held jointly, all joint holders will sign the nomination form. Space is provided as a specimen, if there are more joint holders more sheets can be added for signatures of holders of units and witnesses.

2. A minor can be nominated and in that event, the name and address of the guardian of the minor nominee shall be provided by the unitholder.

¹⁵¹[Nomination can also be in favour of the Central Government, State Government, a local authority, any person designated by virtue of his office or a religious or charitable trust.]

3. The Nominee shall not be a trust, ¹⁵²[other than a religious or charitable trust,] society, body corporate, partnership firm, karta of Hindu undivided family or a Power of Attorney holder. A non-resident Indian can be a Nominee subject to the exchange controls in force, from time to time.

4. Nomination in respect of the units stands rescinded upon the transfer of units.

5. Transfer of units in favour of a Nominee shall be valid discharge by the asset management company against the legal heir.

¹⁵¹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2004 w.e.f. 12-1-2004.

¹⁵² Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2004 w.e.f. 12-1-2004

6. The cancellation of nomination can be made only by those individuals who hold units on their own behalf singly or jointly and who made the original nomination.
7. On cancellation of the nomination, the nomination shall stand rescinded and the asset management company shall not be under any obligation to transfer the units in favour of the Nominee.]

FIFTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

[Regulations 18(22), 25(16), 68(h)]

CODE OF CONDUCT

1. Mutual funds schemes should not be organised, operated, managed or the portfolio of securities selected, in the interest of sponsors, directors of asset management companies, members of Board of trustees or directors of trustee company, associated persons ¹⁵³[as] in the interest of special class of unitholders other than in the interest of all classes of unitholders of the scheme.
2. Trustees and asset management companies must ensure the dissemination to all unitholders of adequate, accurate, explicit and timely information fairly presented in a simple language about the investment policies, investment objectives, financial position and general affairs of the scheme.
3. Trustees and asset management companies should avoid excessive concentration of business with broking firms, affiliates and also excessive holding of units in a scheme among a few investors.
4. Trustees and asset management companies must avoid conflicts of interest in managing the affairs of the schemes and keep the interest of all unitholders paramount in all matters.
5. Trustees and asset management companies must ensure schemewise segregation of ¹⁵⁴[bank accounts] and securities accounts.
6. Trustees and asset management companies shall carry out the business and invest in accordance with the investment objectives stated in the offer documents and take investment decision solely in the interest of unitholders.
7. Trustees and asset management companies must not use any unethical means to sell, market or induce any investor to buy their schemes.
- ¹⁵⁵[8. Trustees and the asset management company shall maintain high standards of integrity and fairness in all their dealings and in the conduct of their business.
9. Trustees and the asset management company shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment.

¹⁵³ Substituted for 'or' by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998

¹⁵⁴ Substituted for 'cash' by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998

¹⁵⁵ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999 w.e.f. 8-12-1999..

10. The asset management company shall not make any exaggerated statement, whether oral or written, either about their qualifications or capability to render investment management services or their achievements.]
- ¹⁵⁶[11. (a) The sponsor of the mutual fund, the trustees or the asset management company or any of their employees shall not render, directly or indirectly any investment advice about any security in the publicly accessible media, whether real-time or non-real-time, unless a disclosure of his interest including long or short position in the said security has been made, while rendering such advice.
- (b) In case an employee of the sponsor, the trustees or the asset management company is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.]

SIXTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

[Regulation 30(1)]

ADVERTISEMENT CODE

1. An advertisement shall be truthful, fair and clear and shall not contain a statement, promise or forecast which is untrue or misleading.
2. An advertisement shall be considered to be misleading if it contains—
 - (a) Misleading Statements : Representations made about the performance or activities of the mutual fund in the absence of necessary explanatory or qualifying statements, and which may give an exaggerated picture of the performance or activities, than what it really is.
 - (b) An inaccurate portrayal of a past performance or its portrayal in a manner which implies that past gains or income will be repeated in the future.
 - (c) Statements promising the benefits of owning units or investing in the schemes of the mutual funds without simultaneous mention of material risks associated with such investments.
3. The advertisement shall not be so designed in content and format or in print as to be likely to be misunderstood, or likely to disguise the significance of any statement. Advertisements shall not contain statements which directly or by implication or by omission may mislead the investor.
4. The sales literature may contain only information, the substance of which is included in the fund's current advertisements in accordance with this Code.
5. Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the investors. As the investors may not be sophisticated in legal or financial matters, care should be taken that the advertisement is set forth in a clear, concise, and understandable manner. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details which may detract the investors should be avoided.

¹⁵⁶ Inserted by the SEBI (Investment Advice by Intermediaries) (Amendment) Regulations, 2001, w.e.f. 29-5-2001.

6. The advertisement shall not contain information, the accuracy of which is to any extent dependent on assumptions. ¹⁵⁷[Any advertisement that makes claims about the performance of the fund shall be supported by relevant figures.]
 7. The advertisement shall not compare one fund with another, implicitly or explicitly, unless the comparison is fair and all information relevant to the comparison is included in the advertisement.
 8. The funds which advertises yield must use standardised computations such as annual dividend on face value, annual yield on the purchase price, and annual compounded rate of return.
 9. Mutual funds shall indicate in all advertisements, the names of the Settlor, Trustee, Manager and/or Financial Advisor to the Fund, bringing out clearly their legal status and liability of these entities ¹⁵⁸[***].
- ¹⁵⁹[9A. All advertisements containing information regarding performance, advertising yield, return or any scheme detail or inviting subscription to the scheme shall contain disclosures of all the risk factors.]
10. All advertisements shall also make a clear statement to the effect that all mutual funds and securities investments are subject to market risks, and there can be no assurance that the fund's objectives will be achieved.
 11. If, however, in any advertisement a mutual fund guarantees or assures any minimum rate of return or yield to prospective investors, resources to back such a guarantee shall also be indicated.
 12. If any existing mutual fund indicates the past performance of the fund in advertisements, the basis for computing the rates of return/yield and adjustments made (if any) must be expressly indicated with a statement that, such information is not necessarily indicative of future results and may not necessarily provide a basis for comparison with other investments. ¹⁶⁰[Any advertisement containing information regarding performance, NAV, yield or returns shall give such data for the past three years, wherever applicable.]
 13. All advertisements issued by a mutual fund or its sponsor or asset management company, shall state 'all investments in mutual funds and securities are subject to market risks' and the NAV of the schemes may go up or down depending upon the factors and forces affecting the securities market.
 14. All advertisement launched in connection with the scheme should also disclose prominently the risk factors as stated in the offer document alongwith the following warning statements :—
 - (a) is only the name of the scheme and does not in any manner indicate either the quality of the scheme, its future prospects or returns; and
 - (b) please read the offer document before investing.

¹⁵⁷ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999 w.e.f. 8-12-1999.

¹⁵⁸ Words 'distinction between each of them, both legally and in terms of their functions, responsibilities and obligations' omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998

¹⁵⁹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998

¹⁶⁰ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999 w.e.f. 8-12-1999.

- ¹⁶¹[14A. Any advertisement reproducing or purporting to reproduce any information contained in an offer document shall reproduce such information in full and disclose all relevant facts and not be restricted to select extracts relating to that item which could be misleading.
- 14B. No celebrities shall form part of the advertisement.]
15. No name can be given to a scheme with a view to subtly indicate any assurance of return, except in the cases of guaranteed return scheme in accordance with regulation 38.
16. No advertisement shall be issued stating that the scheme has been subscribed or oversubscribed during the period the scheme is open for subscription.
17. If a corporate advertisement is issued by the sponsor or any of the companies in the group, or an associate company of the sponsor during the subscription period, no reference shall be made to the scheme of the mutual fund or mutual fund itself; otherwise it will be treated as an issue advertisement.
18. If a corporate advertisement of a sponsor issued prior to the launch of a scheme makes a reference to the mutual fund sponsored by it or any of its schemes launched or to be launched, it shall contain a statement to the effect that the performance of the sponsor has no bearing on the expected performance of the mutual fund or any of its schemes.
19. Advertisements on the performance of a mutual fund or its asset management company shall compare the past performances only on the basis of per unit of statistics as per these Regulations. Advertisements for NAVs must indicate the past as well as the latest NAV of a scheme. The yield calculations will be made as provided in these regulations.

SEVENTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds)

Regulations, 1996

[Regulation 44(1)]

RESTRICTIONS ON INVESTMENTS

- ¹⁶²[1. A mutual fund scheme shall not invest more than 15% of its NAV in debt instruments issued by a single issuer which are rated not below investment grade by a credit rating agency authorised to carry out such activity under the Act. Such investment limit may be extended to 20% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of asset management company :
Provided that such limit shall not be applicable for investments in Government securities ¹⁶³[***]:

¹⁶¹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999 w.e.f. 8-12-1999.

¹⁶² Clause 1 and clause 1A substituted for clause 1 by the SEBI (Mutual Funds) (Amendment) Regulations, 2000 w.e.f. 22-5-2000.

¹⁶³ Words “and money market instruments” omitted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2009 w.e.f. 5-6-2009.

¹⁶⁴[**Provided further** that investment within such limit can be made in mortgaged backed securitised debt which are rated not below investment grade by a credit rating agency registered with the Board.]

- 1A. A mutual fund scheme shall not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and the total investment in such instruments shall not exceed 25% of the NAV of the scheme. All such investments shall be made with the prior approval of the Board of Trustees and the Board of asset management company.]

¹⁶⁵[1B. No mutual fund scheme shall invest more than thirty percent of its net assets in money market instruments of an issuer:

Provided that such limit shall not be applicable for investments in Government securities, treasury bills and collateralized borrowing and lending obligations.]

2. No mutual fund under all its schemes should own more than ten per cent of any company's paid up capital carrying voting rights.
3. Transfers of investments from one scheme to another scheme in the same mutual fund shall be allowed only if,—

(a) such transfers are done at the prevailing market price for quoted instruments on spot basis.

¹⁶⁶[*Explanation.*—"Spot basis" shall have same meaning as specified by stock exchange for spot transactions;]

(b) the securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.

4. A scheme may invest in another scheme under the same asset management company or any other mutual fund without charging any fees, provided that aggregate inter-scheme investment made by all schemes under the same management or in schemes under the management of any other asset management company shall not exceed 5% of the net asset value of the mutual fund :

¹⁶⁷[**Provided** that this clause shall not apply to any fund of funds scheme.]

5. ¹⁶⁸[***]

¹⁶⁹6. Every mutual fund shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relevant securities and in all cases of sale, deliver the securities:

¹⁶⁴ Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 1999 w.e.f. 8-12-1999

¹⁶⁵ Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2009 w.e.f. 5-6-2009.

¹⁶⁶ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998

¹⁶⁷ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2003 w.e.f. 29-5-2003.

¹⁶⁸ Omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to this, it was read as,

"The initial issue expenses in respect of any scheme may not exceed six per cent of the funds raised under that scheme."

¹⁶⁹ Substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2007, w.e.f. 21-4-2008. Prior to substitution, it was read as,

"Every mutual fund shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relative securities and in all cases of sale, deliver the securities and shall in no case put itself in a position whereby it has to make short sale or carry forward transactions or engage in badla finance:

Provided that a mutual fund may engage in short selling of securities in accordance with the framework relating to short selling and securities lending and borrowing specified by the Board:

¹⁷⁰**[Provided further** that a mutual fund may enter into derivatives transactions in a recognized stock exchange, subject to the framework specified by the Board.]

¹⁷¹**[Provided further** that sale of government security already contracted for purchase shall be permitted in accordance with the guidelines issued by the Reserve Bank of India in this regard.]

7. Every mutual fund shall get the securities purchased or transferred in the name of the mutual fund on account of the concerned scheme, wherever investments are intended to be of long-term nature.

¹⁷²8. Pending deployment of funds of a scheme in terms of investment objectives of the scheme, a mutual fund may invest them in short term deposits of schedule commercial banks, subject to such Guidelines as may be specified by the Board.

¹⁷³9. No mutual fund [scheme] shall make any investment in,—

(a) any unlisted security of an associate or group company of the sponsor; or

(b) any security issued by way of private placement by an associate or group company of the sponsor; or

(c) the listed securities of group companies of the sponsor which is in excess of 25 per cent of the net assets.¹⁷⁴[***]]

¹⁷⁵9A. No scheme of a mutual fund shall make any investment in any fund of funds scheme.]

¹⁷⁶10. No mutual fund scheme shall invest more than 10 per cent of its NAV in the equity shares or equity related instruments of any company :

Provided that a Mutual Fund may enter into derivatives transactions in a recognized stock exchange, subject to such guidelines as may be specified by the Board”

¹⁷⁰Substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2007, w.e.f. 21-4-2008. Prior to substitution, it was read as,

[Provided that a mutual fund may enter into derivatives transactions in a recognised stock exchange, subject to such Guidelines as may be specified by the Board]

[this proviso had been substituted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006 w.e.f. 22-5-2006] for,

“Provided that mutual funds shall enter into derivative transactions in a recognised stock exchange for the purpose of hedging and portfolio balancing, in accordance with the guidelines issued by the Board.”

[this Proviso had been inserted by the SEBI (Mutual Funds) Amendments Regulations, 1999]

¹⁷¹ Inserted by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2008 w.e.f. 22-5-2008.

¹⁷² Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2007, w.e.f. **28-05-2007**. Prior to substitution, it was read as,

“Pending deployment of funds of a scheme in securities in terms of investment objectives of the scheme a mutual fund can invest the funds of the scheme in short term deposits of scheduled commercial banks.”

¹⁷³ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998. This was corrected by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 6-2-1998 as in sub regulation (c), it had been appeared 30 percent (mistakenly).

¹⁷⁴ Words ‘of all the schemes of a mutual fund’ omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999 w.e.f. 8-12-1999.

¹⁷⁵ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2003 w.e.f. 29-5-2003.

¹⁷⁶ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999 w.e.f. 8-12-1999

Provided that, the limit of 10 per cent shall not be applicable for investments in ¹⁷⁷[case of] index fund or sector or industry specific scheme.

¹⁷⁸[11. A mutual fund scheme shall not invest more than 5% of its NAV in the unlisted equity shares or equity related instruments in case of open ended scheme and 10% of its NAV in case of close ended scheme.]

¹⁷⁹[12. A fund of funds scheme shall be subject to the following investment restrictions:
(a) A fund of funds scheme shall not invest in any other fund of funds scheme;
(b) A fund of funds scheme shall not invest its assets other than in schemes of mutual funds, except to the extent of funds required for meeting the liquidity requirements for the purpose of repurchases or redemptions, as disclosed in the offer document of fund of funds scheme.]

EIGHTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

[Regulation 47]

INVESTMENT VALUATION NORMS

Mutual fund shall value its investments according to the following valuation norms:

NAV of a scheme as determined by dividing the net assets of the scheme by the number of outstanding units on the valuation date.

1. Traded Securities:

- (i) The securities shall be valued at the last quoted closing price on the stock exchange.
- (ii) When the securities are traded on more than one recognised stock exchange, the securities shall be valued at the last quoted closing price on the stock exchange where the security is principally traded. It would be left to the asset management company to select the appropriate stock exchange, but the reasons for the selection should be recorded in writing. There should, however, be no objection for all scrips being valued at the prices quoted on the stock exchange where a majority in value of the investments are principally traded.
- (iii) Once a stock exchange has been selected for valuation of a particular security, reasons for change of the exchange shall be recorded in writing by the asset management company.
- (iv) When on a particular valuation day, a security has not been traded on the selected stock exchange, the value at which it is traded on another stock exchange may be used.

¹⁷⁷ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2000 w.e.f. 14-3-2000. SEBI (Mutual Funds) (Amendment) Regulations, 2000 w.e.f. 14-3-2000.

¹⁷⁸ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2000 w.e.f. 22-5-2000, for, "A mutual fund scheme shall not invest more than 5% of its NAV in the *[unlisted] equity shares or equity related **[instrument] in case of open ended scheme and 10% of its NAV in case of close ended scheme" [this clause 1st inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1999 and thereafter * this word inserted and ** substituted for the word 'investment' by the SEBI (Mutual Funds) (Amendment) Regulations, 2000 w.e.f. 14-3-2000.]

¹⁷⁹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2003 w.e.f. 29-5-2003.

- (v) When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than ¹⁸⁰[thirty] days prior to the valuation date.

2. 'Non-traded Securities' :

- (i) When a security is not traded on any stock exchange for a period of ¹⁸⁰[thirty] days prior to the valuation date, the scrip must be treated as a 'non-traded' scrip.
- (ii) Non-traded securities shall be valued "in-good faith" by the asset management company on the basis of appropriate valuation methods based on the principles approved by the Board of the asset management company. Such decision of the Board must be documented in the Board minutes and the supporting data in respect of each security so valued must be preserved. The methods used to arrive at values "in-good faith" shall be periodically reviewed by the trustees and reported upon by the auditors as "fair and reasonable" in their report on the annual accounts of the fund. For the purpose of valuation of non-traded securities, the following principles should be adopted:—
 - (a) equity instruments shall generally be valued on the basis of capitalization of earnings solely or in combination with the net asset value, using for the purposes of capitalization, the price or earning ratios of comparable traded securities and with an appropriate discount for lower liquidity;
 - (b) debt instruments shall generally be valued on a yield to maturity basis, the capitalization factor being determined for comparable traded securities and with an appropriate discount for lower liquidity;
 - ¹⁸¹[(c) while investments in call money, bills purchased under rediscounting scheme and short-term deposits with banks shall be valued at cost *plus* accrual; other money market instruments shall be valued at the yield at which they are currently traded. For this purpose, non-traded instruments that is instruments not traded for a period of seven days will be valued at cost *plus* interest accrued till the beginning of the day *plus* the difference between the redemption value and cost spread uniformly over the remaining maturity period of the instruments;
 - (cc) Government securities will be valued at yield to maturity based on the prevailing market rate;]
 - (d) in respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same

¹⁸⁰ Substituted for 'sixty' by the SEBI (Mutual Funds) (Amendment) Regulations, 2001 w.e.f. 23-1-2001.

¹⁸¹ Item (c) and (cc) substituted for the existing item (c) by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998, prior to this it was read as, "money market instruments may be valued on the basis of quotations obtained from more than one dealer or broker;"

basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded *pari passu* with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount of the non-tradability of the instrument during the period preceding the conversion while valuing such instruments, the fact whether the conversion is optional should also be factored in;

- (e) in respect of warrants to subscribe for shares attached to instruments, the warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. A discount similar to the discount to be determined in respect of convertible debentures [as referred to in subparagraph (d) above] must be deducted to account for the period which must elapse before the warrant can be exercised;
- (f) where instruments have been bought on 'repo' basis, the instrument must be valued at the resale price after deduction of applicable interest upto date of resale. Where an instrument has been sold on a 'repo' basis, adjustment must be made for the difference between the repurchase price (after deduction of applicable interest upto date of repurchase) and the value of the instrument. If the repurchase price exceeds the value, the depreciation must be provided for and if the repurchase price is lower than the value, credit must be taken for the appreciation.

3. Until they are traded, the value of the "rights" shares should be calculated as:

$$V_r = n/m \times (P_{ex} - P_{of})$$

Where

V_r	= Value of rights
n	= No. of rights offered
m	= No. of original shares held
P_{ex}	= Ex-rights price
P_{of}	= Rights Offer Price

Where the rights are not treated *pari passu* with the existing shares, suitable adjustment should be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value.

¹⁸²[3A.Value of Gold: (1) the gold held by a gold exchange traded fund scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand, subject to the following:

- (a)adjustment for conversion to metric measure as per standard conversion rates;

¹⁸² Inserted by the SEBI (Mutual Funds) (Fourth Amendment) Regulations, 2006 w.e.f. 20-12-2006.

(b) adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate declared by the Foreign Exchange Dealers Association of India (FEDAI); and

(c) Addition of-

(i) transportation and other charges that may be normally incurred in bringing such gold from London to the place where it is actually stored on behalf of the mutual fund; and

(ii) notional customs duty and other applicable taxes and levies that may be normally incurred to bring the gold from the London to the place where it is actually stored on behalf of the mutual fund;

Provided that the adjustment under clause (c) above may be made on the basis of a notional premium that is usually charged for delivery of gold to the place where it is stored on behalf of the mutual fund;

Provided further that where the gold held by a gold exchange traded fund scheme has a greater fineness, the relevant LBMA prices of AM fixing shall be taken as the reference price under this sub-paragraph.

(2) If the gold acquired by the gold exchange traded fund scheme is not in the form of standard bars, it shall be assayed and converted into standard bars which comply with the good delivery norms of the LBMA and thereafter valued in terms of sub-paragraph (1).”

4. All expenses and incomes accrued upto the valuation date shall be considered for computation of net asset value. For this purpose, while major expenses like management fees and other periodic expenses should be accrued on a day-to-day basis, other minor expenses and income need not be so accrued, provided the non-accrual does not affect the NAV calculations by more than 1%.

5. Any changes in securities and in the number of units be recorded in the books not later than the first valuation date following the date of transaction. If this is not possible given the frequency of the Net Asset Value disclosure, the recording may be delayed upto a period of seven days following the date of the transaction, provided that as a result of the non-recording, the Net Asset Value calculations shall not be affected by more than ¹⁸³[1%].

¹⁸⁴[¹⁸⁵6. In case the Net Asset Value of a scheme differs by more than 1%, due to non-recording of the transactions, the investors or scheme/s as the case may be, shall be paid the difference in amount as follows :—

(i) If the investors are allotted units at a price higher than Net Asset Value or are given a price lower than Net Asset Value at the time of sale of their units, they shall be paid the difference in amount by the scheme.

(ii) If the investors are charged lower Net Asset Value at the time of purchase of their units or are given higher Net Asset Value at the time of sale of their units, asset management company shall pay the difference in amount to the scheme.

¹⁸³ Substituted for ‘2%’ by the SEBI (Mutual Funds) (Amendment) Regulations, 2002 w.e.f. 30-7-2002.

¹⁸⁴ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2002 w.e.f. 30-7-2002, for, “Thinly traded securities as clarified in the guidelines shall be valued in the manner as specified in the guidelines issued by the Board.”

¹⁸⁵ Clause (6) and (7) inserted by the (SEBI) (MF) Amendment Regulations, 2001.

The asset management company may recover the difference from the investors.]

¹⁸⁶[7.] Thinly traded securities as defined in the guidelines shall be valued in the manner as specified in the guidelines issued by the Board.

¹⁸⁷[8.] The aggregate value of illiquid securities as defined in the guidelines shall not exceed 15 per cent of the total assets of the scheme and any illiquid securities held above 15 per cent of the total assets shall be valued in the manner as specified in the guidelines issued by Board.]

NINTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

¹⁸⁸[[Regulations 49F(1) and (2), 50(3),55(4)(iii)]]

ACCOUNTING POLICIES AND STANDARDS

¹⁸⁹**[Part A: For Investment in Securities]**

- a. For the purposes of the financial statements, mutual funds shall mark all investments to market and carry investments in the balance sheet at market value. However, since the unrealised gain arising out of appreciation on investments cannot be distributed, provision has to be made for exclusion of this item when arriving at distributable income.
- b. Dividend income earned by a scheme should be recognised, not on the date the dividend is declared, but on the date the share is quoted on an ex-dividend basis. For investments which are not quoted on the stock exchange, dividend income must be recognised on the date of declaration.
- c. In respect of all interest-bearing investments, income must be accrued on a day to day basis as it is earned. Therefore, when such investments are purchased, interest paid for the period from the last interest due date upto the date of purchase must not be treated as a cost of purchase but must be debited to Interest Recoverable Account. Similarly interest received at the time of sale for the period from the last interest due date upto the date of sale must not be treated as an addition to sale value but must be credited to Interest Recoverable Account.
- d. In determining the holding cost of investments and the gains or loss on sale of investments, the “average cost” method must be followed.
- e. Transactions for purchase or sale of investments should be recognised as of the trade date and not as of the settlement date, so that the effect of all investments traded during a financial year are recorded and reflected in the financial statements for that year. Where investment transactions take place outside the stock market, for example, acquisitions through private placement or purchases or sales through

¹⁸⁶ Clause (6) and (7) renumbered as clause (7) and (8) by the SEBI (Mutual Funds) (Fourth Amendment) Regulations, 2002 w.e.f. 9-9-2002.

¹⁸⁷ Clause (6) and (7) renumbered as clause (7) and (8) by the SEBI (Mutual Funds) (Fourth Amendment) Regulations, 2002 w.e.f. 9-9-2002.

¹⁸⁸ Substituted for ‘[Regulations 50(3), 55(4)(iii)]’ by the SEBI (Mutual Funds) (Amendment) Regulations, 2008 w.e.f. 16-4-2008.

¹⁸⁹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008

private treaty, the transaction should be recorded in the event of a purchase, as of the date on which the scheme obtains an enforceable obligation to pay the price or, in the event of a sale, when the scheme obtains an enforceable right to collect the proceeds of sale or an enforceable obligation to deliver the instruments sold.

- f.* Bonus shares to which the scheme becomes entitled should be recognised only when the original shares on which the bonus entitlement accrues are traded on the stock exchange on an ex-bonus basis. Similarly, rights entitlements should be recognised only when the original shares on which the right entitlement accrues are traded on the stock exchange on an ex-rights basis.

¹⁹⁰[(*g*) Where income receivable on investments has accrued but has not been received for the period specified in the guidelines issued by the Board, provision shall be made by debiting to the revenue account the income so accrued in the manner specified by guidelines issued by the Board.]

- h.* When in the case of an open-ended scheme units are sold, the difference between the sale price and the face value of the unit, if positive, should be credited to reserves and if negative be debited to reserves, the face value being credited to Capital Account. Similarly, when in respect of such a scheme, units are repurchased, the difference between the purchase price and face value of the unit, if positive should be debited to reserves and, if negative, should be credited to reserves, the face value being debited to the capital account.

- i.* In the case of an open-ended scheme, when units are sold and appropriate part of the sale proceeds should be credited to an Equalisation Account and when units are repurchased an appropriate amount should be debited to Equalisation Account. The net balance on this account should be credited or debited to the Revenue Account. The balance on the Equalisation Account debited or credited to the Revenue Account should not decrease or increase the net income of the fund but is only an adjustment to the distributable surplus. It should, therefore, be reflected in the Revenue Account only after the net income of the fund is determined.

- j.* In a close-ended scheme ¹⁹¹[launched prior to the commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009] which provide to the unitholders the option for an early redemption or repurchase their own units, the par value of the unit has to be ¹⁹²[debited] to Capital Account and the difference between the purchase price and the par value, if positive, should be ¹⁹³[credited] to reserves and, if negative, should be ¹⁹⁴[debited] to reserves. A proportionate part of the unamortized initial issue expenses should also be transferred to the reserves so that the balance carried forward on that account is proportional to the number of units remaining outstanding.

¹⁹⁰ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2001 w.e.f. 23-1-2001.

¹⁹¹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 8-4-2009.

¹⁹² Substituted for 'credited' by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998

¹⁹³ Substituted for 'debited' by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998

¹⁹⁴ Substituted for 'credited' by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998

- k. The cost of investments acquired or purchased should include brokerage, stamp charges and any charge customarily included in the broker's brought note. In respect of privately placed debt instruments any front-end discount offered should be reduced from the cost of the investment.
- l. Underwriting commission should be recognised as revenue only when there is no devolvement on the scheme. Where there is devolvement on the scheme, the full underwriting commission received and not merely the portion applicable to the devolvement should be reduced from the cost of the investment.
- ¹⁹⁵[m. In case of real estate mutual fund scheme, investments in unlisted equity shares shall be valued as per the norms specified in this regard.

¹⁹⁶**[Part B: For direct investment in real estate asset**

Definitions

1. In this Part, unless the context otherwise requires:-
 - (a) 'fair value' means the amount for which an asset could be exchanged between knowledgeable parties in an arm's length transaction and certified by the real estate valuer;
 - (b) 'knowledgeable' means that both the buyer and the seller are reasonably informed about the nature and characteristics of the real estate asset, its actual and potential uses, and market conditions at the balance sheet date;
2. A real estate asset that is held by a real estate mutual fund scheme shall be valued at fair value.
3. Where a portion of the real estate asset is held to earn rentals or for capital appreciation and if the portions can be sold or leased separately, the real estate mutual fund scheme shall account for the portions separately.

Initial Recognition

4. A real estate mutual fund scheme shall recognise a real estate asset if:
 - (a) it is probable that the future economic benefits that are associated with the real estate asset will flow to the real estate mutual fund scheme; and
 - (b) the cost of the asset can be measured reliably.
5. A real estate mutual fund scheme shall evaluate all its real estate asset costs including those incurred initially to acquire a real estate asset and those incurred subsequently to add to, replace part of, or service a real estate asset, at the time they are incurred:

Provided that a real estate mutual fund scheme shall not recognise in the carrying amount of a real estate asset the costs of the day-to-day servicing of such an asset and such costs shall be recognised in the revenue account as incurred.

6. A real estate mutual fund scheme may acquire parts of real estate assets through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an real estate mutual fund scheme shall recognise in the carrying amount of a real estate asset, the cost of replacing part of an existing real estate

¹⁹⁵ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008.

¹⁹⁶ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008.

asset at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced shall be derecognised in accordance with the derecognition provisions given in later paragraphs.

7. The real estate asset shall be recognized on the date of completion of the process of transfer of ownership i.e. the date on which the real estate mutual fund scheme obtains an enforceable right including all significant risks and rewards of ownership.

Measurement at initial recognition

8. A real estate asset shall be measured initially at cost. Such cost shall comprise purchase price and any other directly attributable expenditure such as professional fees for legal services, registration expenses and asset transfer taxes.

9. If the payment for a real estate asset is deferred, its cost is the cash price equivalent. A real estate mutual fund scheme shall recognise the difference between this amount and the total payments as interest expense over the period of credit.

10. A real estate mutual fund scheme may acquire one or more real estate assets in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such a real estate asset shall be measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired real estate asset shall be measured in this manner even if an real estate mutual fund scheme cannot immediately derecognize the asset given up. If the acquired real estate asset cannot be measured at fair value, its cost shall be measured at the carrying amount of the asset given up.

11. A real estate mutual fund scheme determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction

Explanation: An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred, or
- (b) the real estate mutual fund scheme-specific value of the portion of the real estate mutual fund scheme's operations affected by the transaction changes as a result of the exchange, and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the real estate mutual fund scheme-specific value of the portion of the real estate mutual fund scheme's operations affected by the transaction should reflect post-tax cash flows. The result of these analyses may be clear without an real estate mutual fund scheme having to perform detailed calculations.

12. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the real estate mutual fund scheme is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Subsequent Measurement

13. After initial recognition, a real estate asset held by a real estate mutual fund scheme shall be measured at its fair value.

14. A gain or loss arising from a change in the fair value of the real estate asset shall be recognised in the Revenue Account for the period in which it arises. The gain that arises from the appreciation in the value of real estate asset is an unrealised gain and thus the same cannot be distributed.

Explanations

i. Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale.

ii. The fair value of real estate asset shall reflect market conditions at the balance sheet date

iii. The fair value of real estate asset reflects, among other things, rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions. It also reflects any cash outflows that could be expected in respect of the asset.

iv. The best evidence of fair value is given by current prices in an active market for similar real estate asset in the same location and condition and subject to similar lease and other contracts. Care shall be taken to identify any differences in the nature, location or condition of the asset, or in the contractual terms of the leases and other contracts relating to the asset.

v. In the absence of current prices in an active market, information from a variety of sources shall be considered, including:

(a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

vi. In some cases, the various sources listed in the previous paragraph may suggest different conclusions about the fair value of a real estate asset. The reasons for those differences shall be considered, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates.

vii. (a) Where the fair value of the asset is not reliably determinable on a continuing basis, a real estate mutual fund scheme shall measure that real estate asset at cost as per Accounting Standard (AS) 10, Accounting for Fixed Assets. The residual value of the real estate asset shall be assumed to be zero. The real estate mutual fund scheme shall apply AS 10 until disposal of the investment asset.

(b) The fair value of the asset will be considered to not reliably determinable on a continuing basis if the variability in the range of reasonable fair value estimates is large, and the probabilities of the various outcomes difficult to assess, such that the usefulness of a single estimate of fair value is negated. This may be due to infrequent comparable market transactions and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) being not available.

viii. In determining the fair value of the real estate asset, it shall be ensured that there is no double-counting of assets or liabilities.

Explanation:

(a) equipment such as lifts or air-conditioning is often an integral part of a building and is generally included in the fair value of the real estate asset, rather than recognised separately as asset, plant and equipment.

(b) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental income relates to the furnished office. When furniture is included in the fair value of real estate asset, an real estate mutual fund scheme shall not recognise that furniture as a separate asset.

(c) the fair value of real estate asset shall exclude prepaid or accrued operating lease income, because the real estate mutual fund scheme would recognise it as a separate liability or asset.

(d) The fair value of real estate asset held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for an asset is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, to arrive at the fair value of the real estate asset for accounting purposes.

ix. The fair value of real estate asset does not reflect future capital expenditure that will improve or enhance the asset and does not reflect the related future benefits from this future expenditure.

x. Where a real estate mutual fund scheme expects that the present value of its payments relating to a real estate asset (other than payments relating to recognised liabilities) will exceed the present value of the related cash receipts it shall apply Accounting Standard (AS) 29, Provisions, Contingent Liabilities and Contingent Assets to determine whether to recognise a liability and, if so, how to measure it.

15. To determine the fair value of a real estate asset in accordance with the above-mentioned paragraphs, a real estate mutual fund scheme is required to use the services of two independent and approved valuers having recent experience in category of the real estate asset being valued and use the lower of the two valuations.

16. For accounting for rental income on real estate asset, Accounting Standard (AS) 19, *Leases*, shall be followed. Such income shall be accrued on a daily basis, till the currency of the lease agreements.

17. Where the rental income receivable by a real estate mutual fund scheme in respect of real estate asset, has accrued but has not been received for the period specified by the Board. Further, provision shall be made by debiting to the revenue account the income so accrued in the manner as may be specified by the Board.

Derecognition of Real Estate Asset

18. A real estate mutual fund scheme shall derecognise a real estate asset on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

19. In determining the date of disposal for real estate asset by way of sale, a real estate mutual fund scheme shall apply the criteria in Accounting Standard (AS) 9, Revenue Recognition, for recognising revenue from the sale of goods and considers the related guidance in the Appendix to AS 9.

20. Gains or losses arising from the disposal or retirement of real estate asset shall be determined as the difference between the net disposal proceeds and the carrying amount of the real estate asset and shall be recognised in the Revenue Account in the period of the disposal or retirement.

21. The consideration receivable on disposal of a real estate asset is to be recognised initially at fair value. In particular, if payment for a real estate asset is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent should be recognised as interest revenue over the period of credit.]

TENTH SCHEDULE

Securities and Exchange Board of India
(Mutual Funds) Regulations, 1996

¹⁹⁷[[Regulation 49(3B)(b)]]

¹⁹⁸***[Amortisation of Initial Issue Expenses for close ended schemes]***

Accounting treatment with regard to initial issue expenses :—

- (a) Asset management companies ¹⁹⁹[, trustee company or sponsor] may launch schemes either on a “load” or “no-load basis”, or on a mixed basis with two classes of units in the same scheme - one with load and the other without load, provided that the implications of such load on the NAV for the investors shall be clearly explained through a worked-out example in the offer document. Asset Management Company ²⁰⁰[, trustee company or sponsor] may also launch “partial load” schemes in which a part of the load would be borne by the asset management companies ²⁰¹[, trustee company or sponsor] and the balance by the scheme. However such schemes will not qualify to be “no load” schemes and would be treated in the same manner as “load” schemes. In the case of a no-load scheme, the initial issue expenditure shall be borne by the Asset Management Company ²⁰²[, trustee company or sponsor].

¹⁹⁷ Substituted for “*[Regulation 52(4) (a)]” by the SEBI (Mutual Funds) (Amendment) Regulations, 2008 w.e.f. 16-4-2008.

[*Substituted for ‘Regulation 52(5)’ by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006 w.e.f. 22-5-2006.]

¹⁹⁸ substituted for ‘Initial Expenses’ by the SEBI (Mutual Funds) (Second Amendment) Regulations, 2006 w.e.f. 22-5-2006.

¹⁹⁹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998.

²⁰⁰ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998

²⁰¹ Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998

²⁰² Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998

- (b) ²⁰³[For a close-ended scheme floated on a 'load' basis prior to commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2008, the initial issue expenses shall be amortised on a weekly basis over the period of the scheme:
Provided that in case such schemes provide for partial redemption during the life of the scheme, the amortisation shall take into account the number of outstanding units and the aggregate amount during the relevant periods.]
- (c) ²⁰⁴[***]
- (d) ²⁰⁵[In case of close-ended schemes floated on a 'load' basis prior to commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2008, the unamortised portion of the expenses shall be included in the calculation of the NAV. However, such portion shall not be included in the NAV for the purposes of determining the asset management company's investment management and advisory fees or for determining the limitation of expenses under regulation 52 of these regulations.]
- (e) ²⁰⁶[***]
- (f) All subsequent distribution charges must in the case of load schemes shall be borne by the scheme and in the case of no-load schemes borne by the asset management company.

²⁰⁷[ELEVENTH SCHEDULE

²⁰³ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to substitution, it was read as,

"For a closed-ended scheme floated on a 'load' basis, the initial issue expenses shall be amortised on a weekly basis over the period of the scheme:

Provided that in case the schemes provide for partial redemption during the life of the scheme, the amortisation shall take into account the number of outstanding units and the aggregate amount during the relevant periods."

²⁰⁴ Omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2006 w.e.f. 22-5-2006. prior to its omission it was read as,

"(c) For open ended scheme floated on a 'load' basis, the initial issue expenses may be amortised over a period not exceeding five years. Issue expenses incurred during the life of an open ended schemes shall not be amortised."

²⁰⁵ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to substitution, it was read as,

"In case of closed-ended [#][***] floated on a 'load' basis, the unamortised portion of the expenses shall be included in the calculation of the NAV. However, such portion shall not be included in the NAV for the purposes of determining the asset management company's investment management and advisory fees or for determining the limitation of expenses under regulation 51 of these regulations."

[[#]Words 'and open ended schemes' omitted] by the SEBI (Mutual Funds) (Amendment) Regulations, 2006 w.e.f. 22-5-2006]

²⁰⁶ Omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2010, w.e.f. 29-7-2010. Prior to omission, it was read as,

"For schemes floated on a 'no-load' basis, the asset management company may levy an additional management fee not exceeding 1% of the NAV. The asset management company may be entitled to levy a contingent deferred sales charge for redemption during the first four years after purchase, not exceeding 4% of the redemption proceeds in the first year, 3% in the second year, 2% in the third year and 1% in the fourth year."

²⁰⁷ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2008, w.e.f. 16-4-2008. Prior to substitution, it was read as,

“ELEVENTH SCHEDULE
Securities and Exchange Board of India
(Mutual Funds) Regulations, ²⁰⁷[1996]
[Regulations 54, 56(2)]
ANNUAL REPORT

1. Annual Report

The annual report shall contain—

- (i) Report of the Board of Trustees on the operations of the various schemes of the fund and the fund as a whole during the year and the future outlook of the fund;
- (ii) Balance Sheet and Revenue Account in accordance with paras 2, 3 and 4, respectively of this Schedule;
- (iii) Auditor’s Report in accordance with paragraph 5 of this Schedule;
- (iv) Brief statement of the Board of Trustees on the following aspects, namely :—
 - (a) Liabilities and responsibilities of the Trustees and the Settlor;
 - (b) Investment objective of each scheme;
 - (c) Basis and policy of investment underlying the scheme;
 - (d) If the scheme permits investment partly or wholly in shares, bonds, debentures and other scrips or securities whose value can fluctuate, a statement on the following lines :

“The price and redemption value of the units, and income from them, can go up as well as down with the fluctuations in the market value of its underlying investments;”
 - (e) Comments of the Trustees on the performance of the scheme, with full justification.
 - (v) Statement giving relevant perspective historical ‘per unit’ statistics in accordance with paragraph 6 of this Schedule;
 - (vi) Statement on the following lines :

“On written request, present and prospective unitholder/investors can obtain copy of the trust deed, the annual report ²[at a price] and the text of the relevant scheme.”

2. Following accounting policies shall be followed by Mutual Funds for the preparation of accounts :

i. The realised gains or losses on sale or redemption of investment, as well as unrealised appreciation or depreciation shall be recognised in all financial statements. For the purpose of all financial statements, all investments shall be marked to market and investments shall be carried out in the balance sheet at market value. However, till necessary guidance notes are issued by the Institute of Chartered Accountants of India to their members, in the above matter, investments may be continued to be valued at cost, with the market value shown separately and the reconciliation statement for the changes in investments valued in the two different ways shall be provided.

Where the financial statements are prepared on a marked to market basis, there need not be a separate provision for depreciation. Since unrealised gain arising out of appreciation on investments cannot be distributed, provision has to be made for its exclusion and for calculating distributable income.

ii. Non-traded investments shall be valued in good faith in accordance with the norms specified in Seventh Schedule.

iii. For quoted shares, the dividend income earned by the scheme shall be recognised, not on the date the dividend is declared, but on the date the share is quoted on an ex-dividend basis. For investments in shares which are not quoted on the stock exchanges, the dividend income must be recognised on the date of declaration.

iv. In respect of all interest-bearing investments, income shall be accrued on a day to day basis as it is earned. Therefore when such investments are purchased, interest paid for the period from the last interest due date upto the date of purchase, shall not be treated as a cost of purchase, but shall be treated to Interest Recoverable Account. Similarly, interest received at the time of sale for the period from the last interest due date upto the date of sale must not be treated as an addition to sale value but shall be credited to Interest Recoverable Account.

v. In determining the holding cost of investments and the gains or loss on sale of investments, the “average cost” method shall be followed.

vi. Transactions for purchase or sale of investments shall be recognised as of the trade date and not as of the settlement date, so that the effect of all investments traded during a financial year are recorded and reflected in the financial statements for that year. Where investment transactions take place outside the stock market, for example, acquisitions through private placement or purchases or sales through private treaty, the transaction shall be recorded, in the event of a purchase, as of the date on which the scheme obtains an enforceable obligation to pay the price or, in the event of a sale, when the scheme obtains an enforceable right to collect the proceeds of sale or an enforceable obligation to deliver the instruments sold.

vii. Bonus shares to which the scheme becomes entitled shall be recognised only when the original shares on which the bonus entitlement accrues are traded on the stock exchange on an ex-bonus basis. Similarly, rights entitlements shall be recognised only when the original shares on which the right entitlement accrues are traded on the stock exchange on an ex-rights basis.

viii. Where income receivable on investments has been accrued and has not been received for a period of 12 months beyond the due date, provision shall be made by debit to the revenue account for the income so accrued and no further accrual of income should be made in respect of such investment.

ix. When the units of an open-ended scheme are sold, the difference between the sale price and the face value of the unit, if positive, shall be credited to Reserves and if negative is debited to reserve, the face value being credited to Capital Account. Similarly, when units of an open-ended scheme are repurchased, the difference between the purchase price and face value of the unit, if positive should be debited to reserves and, if negative, should be credited to reserves, the face value being debited to the capital account.

x. (a) In the case of an open-ended scheme, when units are sold an appropriate part of the sale proceeds shall be credited to an Equalisation Account and when units are repurchased an appropriate amount shall be debited to Equalisation Account. The net balance on this Account should be credited or debited to the revenue account. The balance on equalisation account debited or credited to the Revenue Account shall not decrease or increase the net income of the fund but is only an adjustment to the distributable surplus. It shall, therefore, be reflected in the Revenue Account only after the net income of the fund is determined.

(b) The Trustees of the Board of the Trustee Company may, if necessary, transfer a portion of the distributable profits to a dividend equalisation reserve. Such a transfer would be independent of the requirement to operate an Equalisation Account as provided in (x)(a).

xi. In a close-ended scheme which provides to the unitholders the option for an early redemption or repurchase their own units, the par value of the unit shall be ³[debited] to Capital Account and the difference between the purchase price and the par value, if positive, should be debited to reserves and, if negative, should be credited to reserves. A proportionate part of the unamortized initial issue expenses shall also be transferred to the reserves so that the balance carried forward on that account is proportional to the number of units remaining outstanding.

xii. The cost of investments acquired or purchased shall ⁴[*inter alia*] include brokerage, stamp charges and any charge customarily included in the broker's bought note. In respect of privately placed debt instruments any front-end discount offered shall be reduced from the cost of the investment.

xiii. Underwriting commission shall be recognised as revenue only when there is no devolvement on the scheme. Where there is devolvement on the scheme, the full underwriting commission received and not merely the portion applicable to the devolvement shall be reduced from the cost of the investment.

3. Contents of Balance Sheet

(i) The Balance Sheet shall give schemewise particulars of its assets and liabilities. These particulars shall contain information enumerated in Annexures 1A and 1B hereto. It shall also disclose, *inter alia*, accounting policies relating to valuation of investments and other important areas.

(ii) If investments are carried at costs or written down cost, their aggregate market value shall be stated separately in respect of each type of investment, such as equity shares, preference shares, convertible debentures listed on recognised stock exchange, non-convertible debentures or bonds further differentiating between those listed on recognised stock exchange and those privately placed.

⁵[(iii) The balance-sheet shall disclose under each type of investment(s) the aggregate carrying value and market value of non-performing investments. An investment shall be regarded as non-performing

if it has provided no returns in the form of dividend or interest for a period specified in the guidelines issued by the Board.]

(iv) The Balance Sheet shall indicate the extent of provision made in the Revenue Account for the depreciation/loss in the value of non-performing investments. However, if the investments are valued at marked to market, provisions for depreciation shall not be necessary.

(v) The Balance Sheet shall disclose the per-unit net asset value (NAV) as at the end of the accounting year.

(vi) As in case of companies, the Balance Sheet shall give against each item, the corresponding figures as at the end of the preceding accounting year.

(vii) The notes to the balance sheet should disclose the following information regarding investments:—

(a) all investments shall be grouped under the major classification given in the balance sheet;

(b) under each major classification, the total value of investments falling under each major industry group (which constitutes not less than 5% of the total investment in the major classification) shall be disclosed together with the percentage thereof in relation to the total investment within the classification;

(c) ⁶***]

(d) a full list of investments of the scheme shall be made available for inspection with the Asset Management Company;

(e) the basis on which management fees have been paid to the Asset Management Company and the computation thereof;

(f) if brokerage, custodial fees or any other payment for services are paid to or payable to any entity in which the Asset Management Company or its major shareholders have a substantial interest (being not less than 10% of the equity capital), the amounts debited to the revenue account or amounts treated as cost of investments in respect of such services shall be separately disclosed together with details of the interest of the Asset Management Company or its major shareholders;

(g) aggregate value of purchases and sales of investments during the year and expressed as a percentage of average weekly net asset value;

(h) where the non-traded investments which have been valued “in good faith” exceed 5% of the NAV at the end of the year, the aggregate value of such investments; and

(i) movement in unit capital should be stated.

An example of the manner in which the movement in unit capital may be disclosed is given below :

	<i>No. of units</i>	<i>(Rs. in lakhs)</i>
Balance as on 1st April, 1994	12,50,00,000	12,500.00
Units sold during the year	1,27,50,000	1,275.00
Units repurchased during the year	(15,40,000)	(154.00)
	<u>13,62,10,000</u>	<u>13,621.00</u>

⁷[(j) the name of the company including the amount of investment made in each company of the group by each scheme and the aggregate investments made by all schemes in the group companies of the sponsor;]

⁸[(k)] if the investments are marked to market, the total income of the scheme shall include unrealised depreciation or appreciation on investment. There should be disclosure and unrealised appreciation deducted before arriving at the distributable income in the following manner, e.g.

	<i>Rs. in lakh</i>	<i>Rs. in lakh</i>
Net income as per Revenue Account		100
Add : Balance of undistributed income as at 1st April, 1994 brought forward		<u>20</u> 120
Less : Unrealised appreciation on investments As on 31st March, 1995 As on 1st April, 1994	15	<u>30</u> <u>(15)</u> 105

<i>Less : Distributed to unitholders</i>	80	
Transfer to reserve	5	(85)
		<u>20</u>

(viii) Provisions for doubtful deposits, doubtful debts and for doubtful outstandings and accrued income shall not be included under provisions on the liability side of the balance sheet, but shall be shown as a deduction from the aggregate value of its relevant asset.

(ix) Disclosure shall be made of all contingent liabilities showing separately underwriting commitments, uncalled liability on partly paid shares and other commitments with specifying details.

4. Contents of Revenue Account

(i) The Revenue Account shall give schemewise particulars of the income, expenditure and surplus of the mutual fund. These particulars shall contain information enumerated in Annexure 2 of this Schedule.

(ii) If profit on sale of investments shown in the Revenue Account includes profit/loss on inter-scheme transfer of investments within the same mutual fund the aggregate of such profit recognised as realised, shall be disclosed separately without being clubbed with the profit/loss on sale of investments to third parties.

(iii) Unprovided depreciation in value of investments representing the difference between their aggregate market value and their carrying cost shall be disclosed by way of a note forming part of the Revenue Account. Conversely, unrealised profit on investment representing the difference between their aggregate market value and carrying cost, shall be disclosed by way of note to accounts. The Revenue Account shall indicate the appropriation of surplus by way of transfer to reserves and dividend distributed. However, if investments are marked to market, depreciation may not be provided.

(iv) The Revenue Account shall indicate the appropriation of surplus by way of transfer to reserves and dividend distributed.

(v) The following disclosures shall also be made in the revenue accounts:

- (a) provision for aggregate value of doubtful deposits, debts and outstanding and accrued income;
- (b) profit or loss in sale and redemption of investment may be shown on a net basis;
- (c) custodian and registrar fees;
- (d) total income and expenditure expressed as a percentage of average net assets, calculated on a weekly basis.

5. Auditor's Report

(i) All mutual funds shall be required to get their accounts audited in terms of a provision to that effect in their trust deeds. The Auditor's Report shall form a part of the Annual Report. It should accompany the Abridged Balance Sheet and Revenue Account. The auditor shall report to the Board of Trustees and not to the unitholders.

(ii) The auditor shall state whether :

1. he has obtained all information and explanations which, to the best of his knowledge and belief, were necessary for the purpose of his audit,
2. the Balance Sheet and the Revenue Account are in agreement with the books of account of the fund.

(iii) The auditor shall give his opinion as to whether:

1. the Balance Sheet gives a true and fair view of the schemewise state of affairs of the fund as at the balance sheet date, and
2. the Revenue Account gives a true and fair view of the schemewise surplus/deficit of the fund for the year/period ended at the balance sheet date.

6. Perspective historical per unit statistics

1. This statement shall disclose the following schemewise per unit statistics for the past 3 years:

- (a) net assets value, per unit;
- (b) gross income per-unit broken up into the following components:
 - (i) income other than profit on sale of investment, per unit;
 - (ii) income from profit on inter-scheme sales/transfer of investment, per unit;
 - (iii) income from profit on sale of investment to third party, per unit;

-
- (iv) transfer to revenue account from past year's reserve, per unit.
 - (c) aggregate of expenses, write off, amortisation and charges, per unit;
 - (d) net income, per unit;
 - (e) unrealised appreciation/depreciation in value of investments, per unit;
 - (f) if the units are traded or repurchased/resold, the highest and the lowest prices per unit during the year and the price-earning ratio ;
 - (g) per unit, ratio of expenses to average net assets by percentage;
 - (h) per unit, ratio of gross income to average net assets by percentage (excluding transfer to revenue account from past year's reserve but including unrealised appreciation on investments) ;
 - (i) per unit NAV.

ANNEXURE 1A

[Refer para 3]

Contents of schemewise Balance Sheet

ASSETS SIDE OF THE BALANCE SHEET :

- I. The assets of the balance sheet shall be grouped into the following categories :
 - Investment
 - Deposits
 - Other Current Assets
 - Fixed Assets
 - Deferred Revenue Expenditure
- II. INVESTMENTS :

The following types of investment shall be separately disclosed :

 - (i) Equity shares;
 - (ii) Preference shares;
 - (iii) Privately placed debentures/bonds;
 - (iv) Debentures and Bonds listed/awaiting listing on the recognised stock exchange;
 - (v) Calls paid in advance;
 - (vi) Term Loans;
 - (vii) Central and State Government Securities (including treasury bills);
 - (viii) Commercial Paper;
 - (ix) Others.
 - Accounting policy of valuation of investments shall be disclosed.
- III. DEPOSITS

Distinguishing between :

 - Deposits with scheduled banks;
 - Deposits with Companies/Institutions;
 - Others.
- IV. OTHER CURRENT ASSETS

Distinguishing between:

 - Balances with banks in current account;
 - Cash on hand;
 - Sundry Debtors;
 - Contracts for sale of investments;
 - Outstanding and accrued income;
 - Advance, Deposits, etc.;
 - Bridge Finance;
 - Shares/debentures application money, pending allotment;
 - Others.
- V. FIXED ASSETS
 - Depreciated cost of the fixed asset as a whole or net block may be disclosed.
- VI. DEFERRED REVENUE EXPENDITURE
 - Distinguishing between opening balance, amount written-off during the year, amount deferred to subsequent years.

-
- Accounting policy on treatment of expenses as deferred revenue expenditure and their write-off shall be disclosed.

ANNEXURE 1B

[Refer para 3]

Contents of schemewise balance sheet

LIABILITIES SIDE OF THE BALANCE SHEET

- I. Liabilities side of the balance sheet be divided into the following groups :
 - (i) Unit Capital;
 - (ii) Reserves & Surplus;
 - (iii) Loans;
 - (iv) Current Liabilities and Provisions.
- II. Unit Capital:
 - Distinguishing between:
 - Initial capital;
 - Unit capital (including number of units and face value per unit).
- III. Reserves & surplus
 - Distinguishing between:
 - Unit premium reserve; (optional)
 - General reserve;
 - Dividend equalisation reserve; (optional) (Equalisation Account, as per 2(x) of the Schedule);
 - Any other reserve (disclosing its nature);
 - Appropriation account;
 - Opening balance, transfer from/to reserve, closing balance shall be separately disclosed for each above type of reserve.
- IV. Loans
 - Distinguishing between:
 - Loan from Reserve Bank of India;
 - From Settlor;
 - From Other Commercial Banks;
 - From others;
 - If the above loans are secured, the nature and extent of security should be disclosed;
 - Borrowings by the scheme with amount, rate of borrowings, rate of interest, source and other terms shown separately, source-wise.
- V. Current liabilities and provisions
 - Distinguishing between the following current liabilities and provisions
 - Current liabilities:
 - Sundry creditors;
 - Interest payable on loans;
 - Contract for purchase of investments;
 - Bank account overdrawn as per books;
 - Unclaimed distributed income;
 - Others.
 - Provisions :
 - Provisions for loss/depreciation in value of investments (separately with reference to each type of investment) (optional, if marked to market);
 - Provision for doubtful deposits;
 - Provision for outstanding any accrued income considered doubtful;
 - Provision for gratuity;
 - Provision for staff welfare fund;
 - Proposed income distributed on initial capital and unit-capital;
 - Other provisions.
- VI. Contingent liabilities

-
- Disclosure should be made of all contingent liabilities, showing separately :—
 - (i) Underwriting commitments;
 - (ii) Uncalled liability on partly paid shares;
 - (iii) Other commitments; and
 - (iv) Others (specifying details).

ANNEXURE 2

[Refer para 4]

Contents of revenue account

- Dividend;
- Interest;
- Profit on sale/redemption of investments (other than inter-scheme transfer/sale);
- Profit on inter-scheme transfer/sale of investments;
- Other income (indicating nature).

Expenses and losses:

- Provision for depreciation in value of investments;
- Provision for outstanding accrued income considered doubtful;
- Provision for doubtful deposits and current assets;
- Loss on sale/redemption of investments (other than inter-scheme transfer/sale);
- Loss on inter-scheme transfer/sale of investments;
- Management fees;
- Trusteeship fees;
- Staff cost including salaries, allowances, contributions to provident fund, gratuity, etc.;
- Office and administrative expenses;
- Registration and local charges;
- Commission to Agents;
- Publicity expenses;
- Audit fees;
- Other operating expenses;
- Deferred revenue expenses written off;
- Depreciation of fixed assets;
- Custodian fees;
- Registration fees.

Less : Amount recovered on sale of units on account of management expenses.

Note :

- (i) Accounting policy in respect of recognition of revenue and income from investments (including dividend and interest) shall be disclosed by way of a note.
- (ii) Unprovided depreciation and unrealised appreciation in value of investments representing the difference between their aggregate market value and their carrying cost shall be disclosed by way of note.
- (iii) Provision for doubtful deposits, debts and outstanding accrued income need not be separately shown but can be aggregated.
- (iv) Profit on sale/redemption of investments and loss on sale/redemption of investments need not be shown on a gross basis but only the net profit or loss need be shown.
- (v) The total income and expenditure expressed as a percentage of average net assets, calculated on a weekly basis should be indicated.
- (vi) Appropriation of the surplus by way of transfer to reserves and dividends distributed shall be disclosed in the Abridged Revenue Account itself.
- (vii) The Balance Sheet and the Revenue Account shall be signed by the schemewise fund manager/s and the Board of Trustees, and reported upon by the Auditors. The financial statements of the scheme should be approved at a meeting of the Board of Directors of the Asset Management Company and also at a meeting of the trustees or in the case of a trustee company by the Board of Directors of the trustee company.

[1 Substituted for '1993' by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998]

ANNUAL REPORT

1. Annual Report

The annual report shall contain—

- (i) Report of the Board of Trustees on the operations of the various schemes of the fund and the fund as a whole during the year and the future outlook of the fund;
- (ii) Balance Sheet and Revenue Account in accordance with paras 2, 3 and 4, respectively of this Schedule;
- (iii) Auditor's Report in accordance with paragraph 5 of this Schedule;
- (iv) Brief statement of the Board of Trustees on the following aspects, namely:-
 - (a) Liabilities and responsibilities of the Trustees and the Settlor;
 - (b) Investment objective of each scheme;
 - (c) Basis and policy of investment underlying the scheme;
 - (d) If the scheme permits investment partly or wholly in shares, bonds, debentures, real estate asset and other scrips or securities whose value can fluctuate, a statement on the following lines:
"The price and redemption value of the units, and income from them, can go up as well as down with the fluctuations in the market value of its underlying investments in securities or fair value in underlying real estate asset, as the case may be;"
 - (e) Comments of the Trustees on the performance of the scheme, with full justification.
- (v) Statement giving relevant perspective historical 'per unit' statistics in accordance with paragraph 6 of this Schedule;

[2 Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998]

[3 Substituted for 'credited' by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998]

[4 Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998]

[5 Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2001 w.e.f. 23-1-2001, for the words,

"The Balance Sheet shall disclose under each type of investment the aggregate carrying value and market value of non-performing investments. An investment shall be regarded as non-performing if it has provided no returns in the form of dividend or interest for more than 2 years as at the end of the accounting year of the mutual fund. However, disclosure of such non-performing investments shall not be necessary of all investments are valued at marked to market"]

[6 Omitted by the SEBI (Mutual Funds) (Amendment) Regulations, 2000 w.e.f. 14-3-2000.

The original text of this clause was as,

"where an individual investment constitutes more than 2% of the total investments in the major classification, individual disclosure shall be made of such investment"

This was substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998, as, "(c) full schemewise portfolio of investment of a mutual fund

Provided that a mutual fund may publish particulars of its full portfolio in the advertisements of abridged annual report or full annual reports in newspapers."]

[7 Inserted by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998]

[8 Existing sub-item (j) renumbered as sub-item (k) by the SEBI (Mutual Funds) (Amendment) Regulations, 1998 w.e.f. 12-1-1998.]

- (vi) Statement on the following lines:
“On written request, present and prospective unitholder/investors can obtain copy of the trust deed, the annual report at a price and the text of the relevant scheme.”

2. Accounting Policies

(a) For investments in securities- Following accounting policies shall be followed by Mutual Funds for investments in securities for the preparation of accounts:

- i. The realised gains or losses on sale or redemption of investment, as well as unrealised appreciation or depreciation shall be recognised in all financial statements. For the purpose of all financial statements, all investments shall be marked to market and investments shall be carried out in the balance sheet at market value. However, till necessary guidance notes are issued by the Institute of Chartered Accountants of India to their members, in the above matter, investments may be continued to be valued at cost, with the market value shown separately and the reconciliation statement for the changes in investments valued in the two different ways shall be provided.

Where the financial statements are prepared on a marked to market basis, there need not be a separate provision for depreciation. Since unrealised gain arising out of appreciation on investments cannot be distributed, provision has to be made for its exclusion and for calculating distributable income.

- ii. Non-traded investments shall be valued in good faith in accordance with the norms specified in Seventh Schedule.

Provided that in the case of real estate mutual funds schemes, investments in unlisted equity shares shall be valued as per the norms specified by the Board in this regard.

- iii. For quoted shares, the dividend income earned by the scheme shall be recognised, not on the date the dividend is declared, but on the date the share is quoted on an ex-dividend basis. For investments in shares which are not quoted on the stock exchanges, the dividend income must be recognised on the date of declaration.

- iv. In respect of all interest-bearing investments, income shall be accrued on a day to day basis as it is earned. Therefore when such investments are purchased, interest paid for the period from the last interest due date upto the date of purchase, shall not be treated as a cost of purchase, but shall be treated to Interest Recoverable Account. Similarly, interest received at the time of sale for the period from the last interest due date upto the date of sale must not be treated as an addition to sale value but shall be credited to Interest Recoverable Account.

- v. In determining the holding cost of investments and the gains or loss on sale of investments, the “average cost” method shall be followed.

- vi. Transactions for purchase or sale of investments shall be recognised as of the trade date and not as of the settlement date, so that the effect of all investments traded during a financial year are recorded and reflected in the financial statements for that year. Where investment transactions take place outside the stock market, for example, acquisitions through private placement or purchases or sales through private treaty, the transaction shall be recorded, in the event of a purchase, as of the date on which the scheme obtains an enforceable obligation to pay the price or, in the event of a sale, when the scheme obtains an enforceable right to collect the proceeds of sale or an enforceable obligation to deliver the instruments sold.

- vii. Bonus shares to which the scheme becomes entitled shall be recognized only when the original shares on which the bonus entitlement accrues are traded on the stock exchange on an ex-bonus basis. Similarly, rights entitlements shall be recognised only when the original shares on which the right entitlement accrues are traded on the stock exchange on an ex-rights basis.
- viii. Where income receivable on investments has been accrued and has not been received for a period of 12 months beyond the due date, provision shall be made by debit to the revenue account for the income so accrued and no further accrual of income should be made in respect of such investment.
- ix. When the units of an open-ended scheme are sold, the difference between the sale price and the face value of the unit, if positive, shall be credited to Reserves and if negative is debited to reserve, the face value being credited to Capital Account. Similarly, when units of an open-ended scheme are repurchased, the difference between the purchase price and face value of the unit, if positive should be debited to reserves and, if negative, should be credited to reserves, the face value being debited to the capital account.
- x. (a) In the case of an open-ended scheme, when units are sold an appropriate part of the sale proceeds shall be credited to an Equalisation Account and when units are repurchased an appropriate amount shall be debited to Equalisation Account. The net balance on this Account should be credited or debited to the revenue account. The balance on equalization account debited or credited to the Revenue Account shall not decrease or increase the net income of the fund but is only an adjustment to the distributable surplus. It shall, therefore, be reflected in the Revenue Account only after the net income of the fund is determined.
- (b) The Trustees of the Board of the Trustee Company may, if necessary, transfer a portion of the distributable profits to a dividend equalization reserve. Such a transfer would be independent of the requirement to operate an Equalisation Account as provided in (x)(a).
- xi. In a close-ended scheme ²⁰⁸[launched prior to the commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009] which provides to the unitholders the option for an early redemption or repurchase their own units, the par value of the unit shall be debited to Capital Account and the difference between the purchase price and the par value, if positive, should be debited to reserves and, if negative, should be credited to reserves. In case of such schemes launched prior to the commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2008 a proportionate part of the unamortised initial issue expenses shall also be transferred to the reserves so that the balance carried forward on that account is proportional to the number of units remaining outstanding.
- xii. The cost of investments acquired or purchased shall, *inter alia*, include brokerage, stamp charges and any charge customarily included in the broker's bought note. In respect of privately placed debt instruments any front-end discount offered shall be reduced from the cost of the investment.
- xiii. Underwriting commission shall be recognised as revenue only when there is no devolvement on the scheme. Where there is devolvement on the scheme, the full

²⁰⁸ Inserted by SEBI (Mutual Funds) (Amendment) Regulations, 2009, w.e.f. 08-04-09.

underwriting commission received and not merely the portion applicable to the devolvement shall be reduced from the cost of the investment.

(b) For investments in real estate assets- Following accounting policies shall be followed by real estate mutual fund schemes for the preparation of accounts:

- i.* The accounting policies given in paragraph 2(a) in respect of investment in securities;
- ii.* The accounting policies given in Part B of the Ninth Schedule in respect of real estate assets; and
- iii.* In a real estate mutual fund scheme which provides to the unit holders the option for an early redemption or repurchase their own units the par value of the unit shall be debited to Capital Account and the difference between the purchase price and the par value, if positive, should be debited to reserves and, if negative, shall be credited to reserves.

3. Contents of Balance Sheet

- (i)* The Balance Sheet shall give scheme wise particulars of its assets and liabilities. These particulars shall contain information enumerated in Annexures 1A and 1B hereto. It shall also disclose, *inter alia*, accounting policies relating to valuation of investments including real estate investment asset and other important areas.
- (ii)* If investments in securities are carried at costs or written down cost, their aggregate market value shall be stated separately in respect of each type of investment, such as equity shares, preference shares, convertible debentures listed on recognised stock exchange, non-convertible debentures or bonds further differentiating between those listed on recognised stock exchange and those privately placed.
- (iii)(A)* The balance-sheet shall disclose under each type of investment(s) in securities the aggregate carrying value and market value of non-performing investments. An investment shall be regarded as non-performing if it has provided no returns in the form of dividend or interest for a period specified in the guidelines issued by the Board.
- (iii)(B)* The balance-sheet shall disclose under each category of real estate asset the aggregate carrying amount of nonperforming investment properties. A real estate asset shall be regarded as non-performing if it has provided no returns in the form of rental income for a period specified by the Board.
- (iv)* The Balance Sheet shall indicate the extent of provision made in the Revenue Account for the depreciation/loss in the value of non-performing investments in securities. However, if the investments in securities are valued at marked to market, provisions for depreciation shall not be necessary.
- (v)* The Balance Sheet shall disclose the per-unit net asset value (NAV) as at the end of the accounting year.
- (vi)* As in case of companies, the Balance Sheet shall give against each item, the corresponding figures as at the end of the preceding accounting year.
- (vii)(A)* The notes to the balance sheet should disclose the following information regarding investments:—
 - (a)* all investments shall be grouped under the major classification given in the balance sheet;
 - (b)* under each major classification, the total value of investments falling under each major industry group (which constitutes not less than 5% of the total investment in

the major classification) shall be disclosed together with the percentage thereof in relation to the total investment within the classification;

- (c) a full list of investments of the scheme shall be made available for inspection with the Asset Management Company;
- (d) the basis on which management fees have been paid to the Asset Management Company and the computation thereof;
- (e) if brokerage, custodial fees or any other payment for services are paid to or payable to any entity in which the Asset Management Company or its major shareholders have a substantial interest (being not less than 10% of the equity capital), the amounts debited to the revenue account or amounts treated as cost of investments in respect of such services shall be separately disclosed together with details of the interest of the Asset Management Company or its major shareholders;
- (f) aggregate value of purchases and sales of investments during the year and expressed as a percentage of average weekly net asset value;
- (g) where the non-traded investments which have been valued “in good faith” exceed 5% of the NAV at the end of the year, the aggregate value of such investments; and
- (h) movement in unit capital should be stated.

An example of the manner in which the movement in unit capital may be disclosed is given below :

	<i>No. of units</i>	<i>(Rs. in lakhs)</i>
Balance as on 1st April, 1994	12,50,00,000	12,500.00
Units sold during the year	1,27,50,000	1,275.00
Units repurchased during the year	<u>(15,40,000)</u>	<u>(154.00)</u>
	<u>13,62,10,000</u>	<u>13,621.00</u>

- (i) the name of the company including the amount of investment made in each company of the group by each scheme and the aggregate investments made by all schemes in the group companies of the sponsor;
- (j) if the investments are marked to market, the total income of the scheme shall include unrealised depreciation or appreciation on investment. There should be disclosure and unrealised appreciation deducted before arriving at the distributable income in the following manner, *e.g.*

	<i>Rs. in lakh</i>	<i>Rs. in lakh</i>
Net income as per Revenue Account		100
Add : Balance of undistributed income		
as at 1st April, 1994		
brought forward		<u>20</u>
		120
Less : Unrealised appreciation on investments		
As on 31st March, 1995		30
As on 1st April, 1994	15	<u>(15)</u>

		105
<i>Less</i> : Distributed to unitholders	80	
Transfer to reserve	5	(85)
		20

(vii)(B) In respect of real estate asset, the following additional disclosures shall be made in the balance sheet:

(a). a reconciliation between the carrying amounts of real estate investment properties at the beginning and end of the period, showing the following:

1. Additions resulting from purchase during the period;
2. Additions resulting from acquisitions through business combinations;
3. Deletions resulting from sales during the period;
4. Deletions resulting from disposal through business combinations;
5. Net gain or loss from fair value adjustments;
6. Other changes.

(b) the method and significant assumptions applied in determining the fair value of each real estate investment asset including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the real estate mutual fund scheme should disclose) because of the nature of the asset and lack of comparable data.

(c) the use of two approved valuers and the extent to which the fair value determined is based on the lower of the two valuations done by the approved valuers having recent experience in the category of the real estate asset being valued.

(d) the existence and amounts of restrictions on the realisability of real estate asset or the remittance of income and proceeds of disposal.

(e) When the lower valuation obtained from the two approved valuers is adjusted significantly for the purpose of the balance sheet, for example to avoid double-counting of assets or liabilities that are recognised as separate assets or liabilities, the real estate mutual fund scheme should disclose the reconciliation between the so selected lower valuation and the adjusted valuation shown in the balance sheet.

(f) In case where a real estate mutual fund scheme measures a real estate asset using the cost model [as mentioned in paragraph (vii) of Explanation in Part B of the Ninth Schedule], the reconciliation required as per item (a) this paragraph shall disclose amounts relating to that real estate asset separately from the amounts relating to other real estate assets. In addition, an real estate mutual fund scheme shall disclose:

1. a description of the real estate asset;
2. an explanation of why fair value cannot be determined reliably;
3. if possible, the range of estimates within which fair value is highly likely to lie; and
4. on disposal of investment of the real estate asset not carried at fair value:
 - the fact that the real estate mutual fund scheme has disposed of the real estate investment asset not carried at fair value;
 - the carrying amount of that real estate investment asset at the time of sale; and
 - the amount of gain or loss recognised.

(viii) Provisions for doubtful deposits, doubtful debts and for doubtful outstandings and accrued income shall not be included under provisions on the liability side of the balance sheet, but shall be shown as a deduction from the aggregate value of its relevant asset.

(ix) Disclosure shall be made of all contingent liabilities showing separately underwriting commitments, uncalled liability on partly paid shares and other commitments with specifying details.

4. Contents of Revenue Account

- (i) The Revenue Account shall give schemewise particulars of the income, expenditure and surplus of the mutual fund. These particulars shall contain information enumerated in Annexure 2 of this Schedule.
- (ii) If profit on sale of investments including real estate asset shown in the Revenue Account includes profit/loss on inter-scheme transfer of investments including real estate asset within the same mutual fund the aggregate of such profit recognised as realised, shall be disclosed separately without being clubbed with the profit/loss on sale of investments to third parties.
- (iii) Unprovided depreciation in value of investments in securities representing the difference between their aggregate market value and their carrying cost shall be disclosed by way of a note forming part of the Revenue Account. Conversely, unrealised profit on investment representing the difference between their aggregate market value and carrying cost, shall be disclosed by way of note to accounts. However, if investments are marked to market, depreciation may not be provided.
- (iv) The Revenue Account shall indicate the appropriation of surplus by way of transfer to reserves and dividend distributed.
- (v)(A) The following disclosures shall also be made in the revenue account:
 - (a) provision for aggregate value of doubtful deposits, debts and outstanding and accrued income;
 - (b) profit or loss in sale and redemption of investment may be shown on a net basis;
 - (c) custodian and registrar fees;
 - (d) total income and expenditure expressed as a percentage of average net assets, calculated on a weekly basis.
- (v)(B) In respect of real estate asset, the following additional disclosures shall be made:
 - (a) rental income from real estate asset;
 - (b) direct operating expense (including repairs and maintenance) arising from real estate asset that generated rental income during the period; and
 - (c) direct operating expenses (including repairs and maintenance) arising from real estate asset that did not generate rental income during the period.

5. Auditor's Report

- (i) All mutual funds shall be required to get their accounts audited in terms of a provision to that effect in their trust deeds. The Auditor's Report shall form a part of the Annual Report. It should accompany the Abridged Balance Sheet and Revenue Account. The auditor shall report to the Board of Trustees and not to the unitholders.
- (ii) The auditor shall state whether:
 - (1) he has obtained all information and explanations which, to the best of his knowledge and belief, were necessary for the purpose of his audit,
 - (2) the Balance Sheet and the Revenue Account are in agreement with the books of account of the fund.
- (iii) The auditor shall give his opinion as to whether:
 - 1. the Balance Sheet gives a true and fair view of the schemewise state of affairs of the fund as at the balance sheet date, and

2. the Revenue Account gives a true and fair view of the schemewise surplus/deficit of the fund for the year/period ended at the balance sheet date.

6. Perspective historical per unit statistics

(1) This statement shall disclose the following schemewise per unit statistics for the past 3 years:

- (a) net assets value, per unit;
- (b) gross income per-unit broken up into the following components:
 - (i) income other than profit on sale of investment, per unit;
 - (ii) income from profit on inter-scheme sales/transfer of investment, per unit;
 - (iii) income from profit on sale of investment to third party, per unit;
 - (iv) transfer to revenue account from past year's reserve, per unit.
- (c) aggregate of expenses, write off, amortisation and charges, per unit;
- (d) net income, per unit;
- (e) unrealised appreciation/depreciation in value of investments, per unit;
- (f) if the units are traded or repurchased/resold, the highest and the lowest prices per unit during the year and the price-earning ratio ;
- (g) per unit, ratio of expenses to average net assets by percentage;
- (h) per unit, ratio of gross income to average net assets by percentage (excluding transfer to revenue account from past year's reserve but including unrealised appreciation on investments) ;
- (i) per unit NAV.

ANNEXURE IA

[Refer para 3]

Contents of schemewise Balance Sheet

ASSETS SIDE OF THE BALANCE SHEET:

I. The assets of the balance sheet shall be grouped into the following categories:

- Investments
- Deposits
- Other Current Assets
- Fixed Assets

II. INVESTMENTS:

(a) The following types of investment in securities shall be separately disclosed:

- (i) Equity shares;
- (ii) Preference shares;
- (iii) Privately placed debentures/bonds;
- (iv) Debentures and Bonds listed/awaiting listing on the recognised stock exchange;
- (v) Calls paid in advance;
- (vi) Term Loans;
- (vii) Central and State Government Securities (including treasury bills);
- (viii) Commercial Paper;
- (ix) Others.

(b) Real estate assets shall be separately classified into (1) major classes of residential and commercial properties and (2) sub-classified on the basis of developers, location and project. Particulars shall include area, cost, fair value, basis of fair value, and legal disputes, etc.

-Accounting policy of valuation of investments shall be disclosed.

III. DEPOSITS

Distinguishing between :

- Deposits with scheduled banks;
- Deposits with Companies/Institutions;
- Others.

IV. OTHER CURRENT ASSETS

Distinguishing between:

- Balances with banks in current account;
- Cash on hand;
- Sundry Debtors;
- Contracts for sale of investments in securities;
- Outstanding and accrued income;
- Advance, Deposits, etc.;
- Bridge Finance;
- Shares/debentures application money, pending allotment;
- Others.

V. FIXED ASSETS

- Depreciated cost of the fixed assets as a whole or net block may be disclosed.

ANNEXURE 1B

[Refer para 3]

Contents of schemewise balance sheet

LIABILITIES SIDE OF THE BALANCE SHEET

I. Liabilities side of the balance sheet be divided into the following groups :

- (i) Unit Capital;
- (ii) Reserves & Surplus;
- (iii) Loans;
- (iv) Current Liabilities and Provisions.

II. Unit Capital:

Distinguishing between:

- Initial capital;
- Unit capital (including number of units and face value per unit).

III. Reserves & surplus

Distinguishing between:

- Unit premium reserve; (optional)
- General reserve;
- Dividend equalisation reserve; (optional) (Equalisation Account, as per 2(x) of the Schedule);
- Any other reserve (disclosing its nature);
- Appropriation account;
- Opening balance, transfer from/to reserve, closing balance shall be separately disclosed for each above type of reserve.

IV. Loans

Distinguishing between:

- Loan from Reserve Bank of India;
- From Settlor;
- From Other Commercial Banks;

- From others;
- If the above loans are secured, the nature and extent of security should be disclosed;
- Borrowings by the scheme with amount, rate of borrowings, rate of interest, source and other terms shown separately, source-wise.

V. Current liabilities and provisions

Distinguishing between the following current liabilities and provisions

Current liabilities:

- Sundry creditors;
- Interest payable on loans;
- Contract for purchase of investments in securities;
- Bank account overdrawn as per books;
- Unclaimed distributed income;
- Others.

Provisions:

- Provisions for loss/depreciation in value of investments in securities (separately with reference to each type of investment in securities) (optional, if marked to market);
- Provision for doubtful deposits;
- Provision for outstanding any accrued income considered doubtful;
- Provision for gratuity;
- Provision for staff welfare fund;
- Proposed income distributed on initial capital and unit-capital;
- Other provisions.

VI. Contingent liabilities

- Disclosure should be made of all contingent liabilities, showing separately :—
- (i) Underwriting commitments;
- (ii) Uncalled liability on partly paid shares;
- (iii) Other commitments; and
- (iv) Others (specifying details).

ANNEXURE 2

[Refer para 4]

Contents of revenue account

- Dividend;
- Interest;
- Rental (lease) income
- Profit on sale/redemption of investments in securities (other than inter-scheme transfer/sale);
- Profit on sale of real estate assets (other than inter-scheme transfer/sale)
- Profit on inter-scheme transfer/sale of investments;
- Other income (indicating nature).

Expenses and losses:

- Provision for depreciation in value of investments in securities;
- Provision for outstanding accrued income considered doubtful;
- Provision for doubtful deposits and current assets;
- Loss on sale/redemption of investments in securities (other than inter-scheme transfer/sale);

- Loss on sale of real estate investment properties (other than inter-scheme transfer/sale);
- Loss on inter-scheme transfer/sale of investments;
- Management fees;
- Trusteeship fees;
- Staff cost including salaries, allowances, contributions to provident fund, gratuity, etc.;
- Office and administrative expenses;
- Registration and local charges;
- Commission to Agents;
- Publicity expenses;
- Audit fees;
- Legal & Title Search Fee;
- Insurance & security expenses;
- Advisory fee in respect of real estate investment asset;
- Other operating expenses;
- Depreciation of fixed assets;
- Custodian fees;
- Registration fees;
- Repairs and maintenance in case of real estate asset.

Less: Amount recovered on sale of units on account of management expenses.

Note:

- (i) Accounting policy in respect of recognition of revenue and income from investments (including dividend and interest in case of securities and rental income in case of real estate asset) shall be disclosed by way of a note.
- (ii) Unprovided depreciation and unrealised appreciation in value of investments in securities representing the difference between their aggregate market value and their carrying cost shall be disclosed by way of note.
- (iii) Provision for doubtful deposits, debts and outstanding accrued income need not be separately shown but can be aggregated.
- (iv) Profit on sale/redemption of investments and loss on sale/redemption of investments need not be shown on a gross basis but only the net profit or loss need be shown.
- (v) The total income and expenditure expressed as a percentage of average net assets, calculated on a weekly basis should be indicated.
- (vi) Appropriation of the surplus by way of transfer to reserves and dividends distributed shall be disclosed in the Abridged Revenue Account itself.
- (vii) The Balance Sheet and the Revenue Account shall be signed by the schemewise fund manager/s and the Board of Trustees, and reported upon by the Auditors. The financial statements of the scheme should be approved at a meeting of the Board of Directors of the Asset Management Company and also at a meeting of the trustees or in the case of a trustee company by the Board of Directors of the trustee company.]

²⁰⁹[TWELFTH SCHEDULE

²⁰⁹ Substituted by the SEBI (Mutual Funds) (Amendment) Regulations, 2001 w.e.f. 23-1-2001, Prior to this it was read as,