## ABBREVIATIONS

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

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|---|---|
| National Stock Exchange | NSE |
| Net Asset Value | NAV |
| New Fund Offer | NFO |
| Permanent Account Number | PAN |
| Prevention of Money Laundering Act | PMLA |
| Regulation | Reg. |
| SEBI (Mutual Funds) Regulations 1996 | Regulations |
| Securities and Exchange Board of India | the Board |
| Scheme Information Document | SID Offer |
| Statement of Additional Information | SAI Document |
| Systematic Investment Plan | SIP |
| Systematic Transfer Plan | STP |
| Systematic Withdrawal Plan | SWP |
| Trustee(s) | Board of Trustee(s)/ Trustee Company |
| Unique Client Code | UCC |
| Unit Confirmation Receipt | UCR |

## CHAPTER 1: OFFER DOCUMENT FOR SCHEMES

### *1.1 Filing of Offer Document with the Board*[1]

1.1.1. The Offer Document shall have two parts i.e. Scheme Information Document (SID) and Statement of Additional Information (SAI). SID shall incorporate all information pertaining to a particular scheme. SAI shall incorporate all statutory information on Mutual Fund.

1.1.2. The Mutual Funds shall prepare SID and SAI in the prescribed formats[2]. Contents of SID and SAI shall follow the same sequence as prescribed in the format. The Board of the AMC and the Trustee(s) shall exercise necessary due diligence, ensuring that the SID/SAI and the fees paid[3] are in conformity with the Mutual Funds Regulations[4].

1.1.3. All offer documents (ODs) of Mutual Fund schemes shall be filed with SEBI in terms of the Regulations[5].

1.1.3.1. Filing of Draft SID:

a. Draft SID of schemes of Mutual Funds filed with the Board shall also be available on SEBI's website – http://www.sebi.gov.in for 21 working days from the date of filing[6].

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[1] SEBI Circular No. SEBI/IMD/CIR No.5/ 126096/08 dated May 23,2008 and SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009, Refer SEBI email dated November 15, 2011, Refer SEBI letter No. SEBI/HO/OW/IMD-II/DOF3/P/2022/4580/1 dated February 03, 2022

[2] For format of SID & SAI, please refer to format no. 5.A & 5.B. under the section on Formats, Refer SEBI email dated January 07, 2009

[3] The filing fees was revised via gazette notification No. LAD-NRO/GN/2014-15/03/1089 on SEBI (Payment of Fees) (Amendment) Regulations, 2014 dated 23 May, 2014, applicable from May 23, 2014, Refer SEBI email dated April 13, 2015.

[4] SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997, Refer SEBI letter No. SEBI/HO/OW/IMD-II/DOF3/P/25096/2022 dated June 17, 2022

[5] Regulation 28 (1) of SEBI (Mutual Funds) Regulation 1996

[6] SEBI Circular No. IIMARP/MF/CIR/06/793/98 dated March 31, 1998

b. AMC shall submit a soft copy of draft SID to the Board in HTML or PDF format. For this purpose, AMC shall be fully responsible for the contents of soft copies of the SID. AMC shall also submit an undertaking to the Board while filing the soft copy of draft SID certifying that the information contained in the soft copy matches exactly with the contents of the hard copy filed with the Board.

c. In case of any inaccurate filing, the SID will be returned and refiling will be required. 21 working days[7] shall be calculated from the date of refiling;[8]

d. If any changes to the SID are made after filing, the 21 working day(s) period will recommence from the date of submission of the last additional statement(s)[9].

1.1.3.2. Filing of SAI

a. A single SAI (common for all the schemes) can be filed with Board along with first draft of SID or can be filed separately. After incorporating the comments/observations, if any, from the Board, AMC shall file a soft copy of SAI with the Board in PDF format along with printed copy of the same[10], upload the SAI on its website and on AMFI website. The printed copy of SAI shall be made available to the investor on request.

b. Updation of SAI - SAI shall be updated within 3 months from end of financial year and filed with SEBI. Any material changes in the SAI shall be made on an ongoing basis by way of updation on the Mutual Fund and AMFI website. SEBI shall be intimated of the changes made in the SAI within 7 days. The

[7] Regulation 29(3) of SEBI (Mutual Funds) Regulation 1996
[8] SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997.
[9] SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997, SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997.
[10] SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29, 2009

effective date for such changes shall be mentioned in the updated SAI.

1.1.3.3. Filing of Final SID

a. Final SID (after incorporating comments of the Board) must reach the Board before it is issued for circulation. Soft copy of the final SID in PDF format along with a printed copy should be filed with Board seven[11] working days prior to the launch of the scheme. AMC shall also submit an undertaking to the Board while filing the soft copy that information contained in the soft copy of SID to be uploaded on SEBI website is current and relevant and matches exactly with the contents of the hard copy and that the AMC is fully responsible for the contents of the soft copy of SID. The soft copy of SID should also be uploaded on AMFI website two working days prior to launch of the scheme [12]. Failure to submit the printed SID to the Board before it is issued for circulation shall invite penalties under the Mutual Funds Regulations[13].
b. In case of any difference, in nature of material alteration of the suggestions made by the Board[14] between the printed SID and the SID filed with the Board, immediate withdrawal of the SID from circulation will be ordered and such withdrawal shall be publicized by the Board

## *1.2 Updation of SID & KIM[15]*

The procedure for updation of SID and KIM shall be as follows:

[11] SEBI Circular No – SEBI/HO/IMD/DF2/CIR/P/2016/68 dated August 10, 2016
[12] SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009
[13] SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997.
[14] Regulation 29(2) of the SEBI (Mutual Funds) Regulations, 1996
[15] SEBI Circular- SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008 and SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021, Refer SEBI letter No. SEBI/HO/OW/IMD-II/DOF3/P/397002021 dated December 28, 2021 & SEBI email dated March 25, 2022 for Scheme Summary Document

1.2.1 [16]For the open ended and interval schemes, the SID shall be updated within next six months from the end of the 1st half or 2nd half of the financial year in which schemes were launched, based on the relevant data and information as at the end of previous month. Subsequently, SID shall be updated within one month from the end of the half-year, based on the relevant data and information as at the end of September and March respectively. A soft copy of updated SID shall be filed with SEBI in PDF format within 7 days along with a printed copy of the same[17].

1.2.2 [18]The procedure to be followed in case of changes to the open ended and interval scheme shall be as under:

a. In case of change in fundamental attributes in terms of Regulation 18 (15A):
   i. An addendum to the existing SID shall be issued and displayed on AMC website immediately.
   ii. SID shall be revised and updated immediately after completion of duration of the exit option (not less than 30 days from the notice date).
   iii. A public notice shall be given in respect of such changes in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of region where the Head Office of the Mutual Fund is situated.

b. In case of other changes:
   i. The AMC shall be required to issue an addendum and display the same on its website immediately.
   ii. The addendum shall be circulated to all the distributors/brokers/Investor Service Centre (ISC) so that the same can be attached to all KIM and SID already in stock till it is updated.

[16]SEBI Circular- SEBI/HO/IMD/IMD-I DOF2/P/CIR/2021/0560 dated April 30, 2021.
[17] SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009
[18] Refer SEBI letter No. IMD/DF3/OW/P/2021/32220/1 dated November 11, 2021

iii. Latest applicable addendum shall be a part of KIM and SID. (E.g. in case of changes in load structure the addendum carrying the latest applicable load structure shall be attached to all KIM and SID already in stock till it is updated).

iv. Further, the account statements shall continue to include applicable load structure.

1.2.3 A copy of all changes made to the scheme shall be filed with SEBI within 7 days of the change.

1.2.4 [19]KIM shall be updated at least once in half-year, within one month from the end of the respective half-year, based on the relevant data and information as at the end of September and March and shall be filed with SEBI forthwith through electronic mode only.

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

1.3.1 The AMCs shall file their replies to the modifications suggested by SEBI on SID as required under Regulation 29 (2), if any, within six months from the date of the letter. In case of lapse of six-month period, the AMC shall be required to refile the SID along with filing fees.

1.3.2 The scheme shall be launched within six months from the date of the issuance of final observations from SEBI. If the AMC intends to launch the scheme at a date later than six months, it shall refile the SID with SEBI under Regulation 28 (1) along with filing fees.

### *1.4 Undertaking from Trustees for new Scheme[20]*

1.4.1 In the certificate submitted by Trustees with regard to compliance of AMC with Regulations[21], the Trustees are required to certify as follows:

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[19] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF2/P/CIR/2021/0560 dated April 30, 2021
[20] SEBI Cir. No. IMD/CIR No.5/70559/06 dated June 30, 2006
[21] Regulation 18 (4) of SEBI (Mutual Funds) Regulations, 1996

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

1.4.2 This certification shall be disclosed in the SID along with the date of approval of the scheme by the Trustees.

1.4.3 This certification is not applicable to fixed maturity plans and close ended schemes except for those close ended schemes which have the option of conversion into open ended schemes on maturity and also to Interval Schemes.

### *1.5 Standard Observations*

1.5.1 Standard Observations have been prescribed to ensure minimum level of disclosures in the SID and SAI[22].

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

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

### *1.6 KIM*

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

1.6.2 <u>Format of KIM[23]</u>

[22] For Standard Observations, please refer to format no. 6 under the section on Formats
[23] Refer SEBI email dated March 29, 2010

1.6.2.1 Mutual Funds shall prepare KIM in the prescribed format[24]. The contents of KIM shall follow the same sequence as prescribed in the format.

### *1.7 Easy Availability of Offer Document[25]*

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

### *1.8 Selection of Benchmarks[26]*

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

1.8.2 Benchmarks for debt oriented and balanced fund schemes[27] developed by research and rating agencies recommended by the AMFI on a regular basis shall be used by the Mutual Funds.

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

1.8.4 These benchmark indices may be decided by the AMC(s) and Trustees. Any change at a later date in the benchmark index shall be recorded and reasonably justified[28].

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24 For format of KIM, please refer format no. 5.C under the section on Formats
25 SEBI Circular- SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008
26 SEBI Circular No. MFD/CIR/16/400/02 dated March 26, 2002, SEBI Circular No. MFD/CIR/01/071/02 April 15, 2002
27 SEBI Circular No. MFD/CIR/01/071/02 dated April 15, 2002
28 SEBI Circular No. MFD/CIR/16/400/02 dated March 26, 2002. Also please note that for review of scheme performance with benchmark indices please refer to Chapter 6 on governance norms.

1.8.5 Examples of benchmarks are illustrated below:

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

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

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

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

## ***1.9 Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes[29]***

1.9.1 It has been decided that there would be two-tiered structure for benchmarking of schemes for certain categories of schemes. The first tier benchmark shall be reflective of the category of the scheme, and the second tier benchmark should be demonstrative of the investment style / strategy of the Fund Manager within the category. All the benchmarks followed should necessarily be Total Return Indices.

1.9.2 The following are the guiding principles for first tier benchmarks:

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[29]SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010, SEBI circular no. SEBI/HO/IMD/IMD-II DF3/P/CIR/2021/652 dated October 27, 2021.

For Income / Debt Oriented Schemes

First Tier: One Broad Market Index per Index Provider for each category e.g.: NIFTY Ultra Short Duration Debt Index or CRISIL Ultra Short Term Debt Index for Ultra Short Duration Fund Category

Second Tier: Bespoke according to Investment Style/Strategy of the Index e.g.: AAA Bond Index

For Growth / Equity Oriented Schemes

First Tier: One Broad Market Index per Index Provider for each category e.g.: S&P BSE 100 Index or NSE 100 Index for Large Cap Fund Category

Second Tier: Bespoke according to Investment Style/Strategy of the Index e.g.: Nifty 50 Index

For Hybrid and Solution Oriented Schemes:

There would be a single benchmark, i.e., Broad Market Benchmark wherever available or bespoke to be created for schemes, which would then be applicable across industry.

For Thematic / Sectoral schemes:

There would be a single benchmark as characteristics of the schemes are already tapered according to the theme/sector.

For Index Funds and Exchange Traded Funds (ETFs):

There would be a single benchmark as these schemes replicate an underlying index.

For Fund of Funds Schemes (FoFs):

Similar to Index Fund and ETFs, if a FoF scheme is investing in a single fund, then benchmark of the underlying scheme shall be used for corresponding FoF.

However, in case a FoF scheme invests in multiple schemes, then Broad Market Index shall be applied.

For Other Schemes:

Depending on underlying asset allocation, Broad Market benchmark may be arrived at.

1.9.3 AMFI has been advised to publish:

a) Benchmarks intended to be used by AMCs as first tier benchmarks

b) Benchmarks intended to be used as first tier benchmark as per the Potential Risk Class Matrix from April 1, 2022 by AMCs for open ended debt schemes.

1.9.4 The second tier Benchmark is optional and shall be decided by the AMCs according to Investment Style/Strategy of the Index.

### ***1.10 New Fund Offer (NFO) Period[30]***

1.10.1 In case of open ended and close ended schemes (except ELSS schemes), the NFO should be open for 15 days.

1.10.2 The NFO period in case of ELSS schemes shall continue to be governed by guidelines issued by Government of India.

1.10.3 Mutual Funds/AMCs are allowed to deploy the NFO proceeds in triparty repo on Government securities or treasury bills [31] before the

[30] SEBI Circular no MFD/Cir. No 9/120/2000 dated November 24, 2000. SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010.
[31] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016 and SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021.

closure of NFO period. However, AMCs shall not charge any investment management and advisory fees on funds deployed in triparty repo on Government securities or treasury bills during the NFO period. The appreciation received from investment in triparty repo on Government securities or treasury bills shall be passed on to investors. Further, in case the minimum subscription amount is not garnered by the scheme during the NFO period, the interest earned upon investment of NFO proceeds in triparty repo on Government securities or treasury bills shall be returned to investors, in proportion of their investments, along-with the refund of the subscription amount.

1.10.4 The mutual fund should allot units/refund of money and dispatch statements of accounts within five business days from the closure of the NFO and all the schemes (except ELSS) shall be available for ongoing repurchase/sale/trading within five business days of allotment.

### *1.11 Timelines related to processing of scheme related applications filed by AMCs*[32]

1.11.1 The application filed by AMCs for the following matters may be deemed to be taken on record in case no modifications are suggested or no queries are raised by SEBI within 21 working days:

a) Change in the Fundamental Attributes of a scheme

b) Merger/Consolidation of Schemes

c) Rollover of Close-ended schemes

d) Conversion of Close-ended scheme to Open ended schemes.

1.11.2 In respect of applications filed by AMCs under Regulation 24 (b) of SEBI (Mutual Funds) Regulations, 1996, no objection will have been

[32] SEBI Circular No. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/603 dated July 23, 2021

deemed to be communicated in case no modifications are suggested or no queries are raised by SEBI within 21 working days.

1.11.3 The timelines mentioned at Paragraph 1.11.1 and 1.11.2 above shall generally be adhered to -

(a) provided the application is complete in all respects and in compliance with all the relevant Regulations and circulars issued by SEBI.

(b) except in cases where subject matter of approval requires a policy view to be taken or presents a unique situation which requires wider consultation and deliberation.

### *1.12 Restriction on Redemption in Mutual Funds[33]*

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

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

1.12.1.1.1 Liquidity issues - when market at large becomes illiquid affecting almost all securities rather than any issuer specific security. AMCs should have in place sound internal liquidity management tools for schemes. Restriction on redemption cannot be used as an ordinary tool in order to manage the liquidity of a scheme. Further, restriction on redemption due to illiquidity of a specific security in the portfolio of a scheme due to a poor investment decision, shall not be allowed.

1.12.1.1.2 Market Failures, exchange closures - when markets are affected by unexpected events which impact the functioning

[33] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/57 dated May 31, 2016

of exchanges or the regular course of transactions. Such unexpected events could also be related to political, economic, military, monetary or other emergencies.

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

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

1.12.1.3 Any imposition of restriction would require specific approval of Board of AMCs and Trustees and the same should be informed to SEBI immediately.

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

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

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

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

### *1.13 Discontinuation of the nomenclature – 'Liquid Plus Scheme(s)'*[34]

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

### *1.14 Fundamental Attributes*[35]

1.14.1 The words "fundamental attributes"[36] are elaborated below:

1.14.1.1 Type of a scheme

a. Open ended/Close ended/Interval scheme
b. Equity Schemes, Debt Schemes, Hybrid Schemes, Solution Oriented Schemes and Other Schemes[37]

1.14.1.2 Investment Objective(s)

a. Main Objective - Growth/Income/Both.
b. [38]Investment pattern - The tentative portfolio break-up of Equity, Debt, Money Market Instruments, other permitted securities and such other securities as may be permitted by the Board from time to time with minimum and maximum asset allocation, while retaining the option to alter the asset allocation for a short term period on defensive considerations.

1.14.1.3 Terms of Issue

a. Liquidity provisions such as listing, repurchase, redemption.
b. Aggregate fees and expenses charged to the scheme.

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[34] SEBI/IMD/CIR No.13/150975 / 09 dated January 19, 2009
[35] SEBI Circular No- IIMARP/MF/CIR/01/294/98 dated February 4, 1998, Refer SEBI letter No. SEBI/HO/OW/IMD/RAC2/P/2022/511371/1 dated October 04, 2022
[36] Sub-regulation (15A) of Regulation 18 of SEBI (Mutual Funds) Regulations, 1996
[37] SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017
[38] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

c. Any safety net or guarantee provided.

1.14.1.4 [39]Comments from SEBI for change in Fundamental Attributes:

In addition to the conditions specified under Regulation 18 (15A) for bringing change in the fundamental attributes of any scheme, trustees shall take comments of the Board before bringing such change(s).

[39] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

# CHAPTER 2: CONVERSION & CONSOLIDATION OF SCHEMES, LAUNCH OF ADDITIONAL PLAN AND CATEGORIZATION & RATIONALIZATION OF MUTUAL FUND SCHEMES

## PART I - CONVERSION OF SCHEMES

### *2.1 Conversion of Close Ended Scheme(s) to Open Ended Scheme(s)*[40]

2.1.1 Although the procedure for conversion of close ended scheme(s) to open ended scheme(s) has been clearly enumerated in the Mutual Funds Regulations[41], following requirements are clarified again:

2.1.1.1 Since the scheme(s) would reopen for fresh subscriptions, disclosures contained in the SID shall be revised and updated. A copy of the draft SID shall be filed with the Board as required under Regulation 28(1) of the Mutual Funds Regulations along with filing fees prescribed under Regulation 28(2) of the Mutual Funds Regulations. Instructions issued by the Board[42] for filing of the SID shall also be followed.

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

a. Latest portfolio of the scheme(s) in the prescribed format[43]
b. Details of the financial performance of the scheme(s) since inception in the format prescribed in SID[44] along with comparisons with appropriate benchmark(s)[45].
c. The addendum to the SID detailing the modifications (if any) made to the scheme(s).

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[40] SEBI Circular No. MFD/CIR No.22/2311/03 dated January 30, 2003.
[41] Regulation 33(3) of the SEBI (Mutual Funds), Regulations, 1996.
[42] SEBI Circular No. SEBI/IMD/Cir No 5/126096/08 dated May 23, 2008
[43] Refer to format no. 3.C on half yearly portfolio disclosure under section on formats.
[44] Please refer to format no. 5.A. of SID under section on Formats.
[45] For examples of Benchmarks, refer to Chapter 1 – 'Offer Documents for Schemes'

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

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

**PART II – CONSOLIDATION OF SCHEMES**

## 2.2 *Consolidation of Schemes*[46]

2.2.1 Any consolidation or merger of Mutual Fund schemes will be treated as a change in the fundamental attributes of the related schemes and Mutual Funds shall be required to comply with the Mutual Funds Regulations in this regard[47].

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

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

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

2.2.2.2 Disclosures:

a. Subsequent to approval from the Board of the AMC and Trustee(s), Mutual Funds shall file the proposal with the Board, along with the draft SID, requisite fees (if a new scheme emerges after such consolidation or merger) and draft of the letter to be issued to the unit holders of all the concerned schemes.
b. The letter addressed to the unit holders, giving them the option to exit at prevailing NAV without charging exit load, shall

[46] SEBI Circular No. SEBI/MFD/CIR No.5/12031/03 dated June 23, 2003.
[47] Regulation 18(15A) of the Mutual Funds Regulations.

disclose all relevant information enabling them to take well informed decisions. This information will include, *inter alia:*

1. Latest portfolio of the concerned schemes[48].
2. Details of the financial performance of the concerned schemes since inception in the format prescribed in SID[49] along with comparisons with appropriate benchmarks.
3. Information on the investment objective, asset allocation and the main features of the new consolidated scheme.
4. Basis of allocation of new units by way of a numerical illustration
5. Percentage of total exposure to securities classified as below investment grade or default and percentage of total illiquid assets to net assets of each individual scheme(s) as well the consolidated scheme.[50]
6. Tax impact of the consolidation on the unit holders.
7. Any other disclosure as specified by the Trustees.
8. Any other disclosure as directed by the Board.

2.2.2.3 Updation of SID shall be as per the requirements for change in fundamental attribute of the scheme[51].

2.2.2.4 <u>Maintenance of Records</u>:

a. AMC(s) shall maintain records of dispatch of the letters to the unit holders and the responses received from them. A report giving information on total number of unit holders in the schemes and their net assets, number of unit holders who opted to exit and net assets held by them and number of unit holders and net assets in the consolidated scheme shall be filed

[48] Refer format no. 3.C. on half yearly portfolio disclosure under section on Formats
[49] Please refer format no. 5.A. on SID under section on Formats
[50] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019.
[51] Please refer Chapter 1 on 'Offer Documents for Schemes' for further details

with the Board within 21 days from the date of closure of the exit option[52].

2.2.2.5 Merger or consolidation shall not be seen as change in fundamental attribute of the surviving scheme if the following conditions are met[53]:

a. Fundamental attributes[54] of the surviving scheme do not change. The 'surviving scheme' means the scheme which remains in existence after the merger.
b. Mutual Funds are able to demonstrate that the circumstances merit merger or consolidation of schemes and the interest of the unit holders of surviving scheme is not adversely affected.

2.2.2.6 After approval by the Boards of AMCs and Trustees, the mutual funds shall file such proposal with SEBI. SEBI would communicate its observations on the proposal within the time period prescribed[55].

2.2.2.7 The letter to unit holders shall be issued only after the final observations communicated by SEBI have been incorporated and final copies of the same have been filed with SEBI.

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[52] SEBI Circular No- SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009
[53] SEBI Circular No- Cir / IMD / DF / 15/ 2010 dated October 22, 2010
[54] SEBI Circular No-IIMARP/MF/CIR/01/294/98 dated February 4, 1998
[55] Regulation 29(3) of SEBI (Mutual Funds) Regulations, 1996

## PART III – LAUNCH OF ADDITIONAL PLANS[56]

### *2.3 Launch of Additional Plans*

2.3.1 Additional plans sought to be launched under existing open ended schemes which differ substantially from that scheme in terms of portfolio or other characteristics shall be launched as separate schemes in accordance with the regulatory provisions.

2.3.2 However, plan(s) which are consistent with the characteristics of the scheme may be launched as additional plans as part of existing schemes by issuing an addendum. Such proposal should be approved by the Board(s) of AMC and Trustees. In this regard please note that:

2.3.2.1 The addendum shall contain information pertaining to salient features like applicable entry/exit loads, expenses or such other details which in the opinion of the AMC/ Trustees is material. The addendum shall be filed with SEBI 21 days in advance of opening of plan(s).

2.3.2.2 AMC(s) shall publish an advertisement or issue a press release at the time of launch of such additional plan(s).

### *2.4 Single Plan[57]*

2.4.1 Mutual funds/AMCs shall launch schemes under a single plan and ensure that all new investors are subject to single expense structure.

2.4.2 Existing schemes with multiple plans based on the amount of investment (i.e. retail, institutional, super-institutional, etc.) shall accept fresh subscriptions only under one plan.

[56] SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15, 2009
[57] SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

2.4.3 Other plans will continue till the existing investors remain invested in the plan.

### *2.5 Direct Plan*[58]

2.5.1 Mutual funds/AMCs shall provide a separate plan for direct investments, i.e., investments not routed through a distributor, in existing as well as new schemes.

2.5.2 Such separate plan shall have a lower expense ratio excluding distribution expenses, commission, etc., and no commission shall be paid from such plans. The plan shall also have a separate NAV.

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[58] SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012, Refer SEBI Email dated April 28, 2015

## PART IV – CATEGORIZATION AND RATIONALIZATION OF MUTUAL FUND SCHEMES[59]

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

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

### *2.6 Categories of Schemes, Scheme Characteristics and Type of Scheme (Uniform Description of Schemes)[60]:*

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

i. Equity Schemes

ii. Debt Schemes

iii. Hybrid Schemes

iv. Solution Oriented Schemes

v. Other Schemes

The details of the scheme categories under each of the aforesaid groups along with their characteristics and uniform description are as under:

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[59] SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017, Refer SEBI letter No. SEBI/HO/OW/IMD-II/DOF3/P/5249/2022 dated February 08, 2022, Refer SEBI letter No. SEBI/HO/OW/IMD-II/DOF3/P/25379/2022 dated June 21, 2022

[60] Refer SEBI letter No. SEBI/HO/OW/IMD-II/DOF3/P/25096/2022 dated June 17, 2022

**A. Equity Schemes:**

| Sr. No. | Category of Schemes | Scheme Characteristics | Type of scheme (uniform description of scheme) |
|---|---|---|---|
| 1 | Multi Cap Fund | Minimum investment in equity & equity related instruments- 75% of total assets in the following manner:[61]<br><br>a) Minimum investment in equity & equity related instruments of large cap companies - 25% of total assets;<br><br>b) Minimum investment in equity & equity related instruments of mid cap companies - 25% of total assets;<br><br>c) Minimum investment in equity & equity related instruments of small cap companies - 25% of total assets | Multi Cap Fund- An open ended equity scheme investing across large cap, mid cap, small cap stocks |
| 2 | Large Cap Fund | Minimum investment in equity & equity related instruments of large cap companies- 80% of total assets | Large Cap Fund- An open ended equity scheme predominantly investing in large cap stocks |
| 3 | Large & Mid Cap Fund | Minimum investment in equity & equity related instruments of large cap companies- 35% of total assets<br>Minimum investment in equity & equity related instruments of mid cap stocks- 35% of total assets | Large & Mid Cap Fund- An open ended equity scheme investing in both large cap and mid cap stocks. |
| 4 | Mid Cap Fund | Minimum investment in equity & equity related instruments of | Mid Cap Fund- An open ended equity scheme |

[61] SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/172 dated September 11, 2020

| | | | |
|---|---|---|---|
| | | mid cap companies- 65% of total assets | predominantly investing in mid cap stocks |
| 5 | Small cap Fund | Minimum investment in equity & equity related instruments of small cap companies- 65% of total assets | Small Cap Fund- An open ended equity scheme predominantly investing in small cap stocks |
| 6 | Dividend Yield Fund | Scheme should predominantly invest in dividend yielding stocks.<br><br>Minimum investment in equity- 65% of total assets | An open ended equity scheme predominantly investing in dividend yielding stocks |
| 7 | Value Fund* | Scheme should follow a value investment strategy.<br>Minimum investment in equity & equity related instruments - 65% of total assets | An open ended equity scheme following a value investment strategy |
| | Contra Fund* | Scheme should follow a contrarian investment strategy.<br>Minimum investment in equity & equity related instruments - 65% of total assets | An open ended equity scheme following contrarian investment strategy |
| 8 | Focused Fund | A scheme focused on the number of stocks (maximum 30)<br>Minimum investment in equity & equity related instruments - 65% of total assets | An open ended equity scheme investing in maximum 30 stocks (mention where the scheme intends to focus, *viz.,* multi cap, large cap, mid cap, small cap) |
| 9 | Sectoral/ Thematic[62] | Minimum investment in equity & equity related instruments of a particular sector/ particular theme- 80% of total assets | An open ended equity scheme investing in __ sector (mention the sector)/<br>An open ended equity scheme following __ theme (mention the theme) |
| 10 | ELSS[63] | Minimum investment in equity & equity related instruments - 80% of total assets (in | An open ended equity linked saving scheme |

[62] Refer SEBI letter No. SEBI/H0/0W/IMD-II/DOF3/P/24098/2022 dated June 10, 2022
[63] Refer SEBI letter No. SEBI/HO/IMD- POD-2/P/OW/2023/1114/1 dated January 10, 2023

| | | | |
|---|---|---|---|
| | | accordance with Equity Linked Saving Scheme, 2005 notified by Ministry of Finance) | with a statutory lock in of 3 years and tax benefit |
| 11 | Flexi Cap Fund[64] | Minimum Investment in equity & equity related instruments – 65% of total assets | An open ended dynamic equity scheme investing across large cap, mid cap, small cap stocks |

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

**B. Debt Schemes**

| **Sr. No.** | **Category of Schemes** | **Scheme Characteristics** | **Type of scheme (uniform description of scheme)** |
|---|---|---|---|
| 1 | Overnight Fund** | Investment in overnight securities having maturity of 1 day*** | An open ended debt scheme investing in overnight securities |
| 2 | Liquid Fund $ ** | Investment in Debt and money market securities with maturity of upto 91 days only | An open ended liquid scheme |
| 3 ++ | Ultra Short Duration Fund | Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 months to 6 months | An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months to 6 months (please refer to page no.__) #. |
| 4++ | Low Duration Fund | Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months | An open ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months (please refer to page no.__) #. |

[64] SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/228 dated November 06, 2020

| | | | |
|---|---|---|---|
| 5 | Money Market Fund | Investment in Money Market instruments having maturity up to 1 year | An open ended debt scheme investing in money market instruments |
| 6++ | Short Duration Fund | Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 1 year to 3 years | An open ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1 year to 3 years (please refer to page no.__) # . |
| 7++ | Medium Duration Fund ^^ | Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years.<br><br>Portfolio Macaulay duration under anticipated adverse situation is 1 year to 4 years | An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years (please refer to page no.__) #. |
| 8++ | Medium to Long Duration Fund ^^ | Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 4 to 7 years.<br><br>Portfolio Macaulay duration under anticipated adverse situation is 1 year to 7 years | An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 4 years to 7 years (please refer to page no.__) #. |
| 9++ | Long Duration Fund | Investment in Debt & Money Market Instruments such that the Macaulay duration of the portfolio is greater than 7 years | An open ended debt scheme investing in instruments such that the Macaulay duration of the portfolio is greater than 7 years (please refer to page no.__) # . |
| 10 | Dynamic Bond | Investment across duration | An open ended dynamic debt scheme investing across duration |

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

***Provision as mentioned at Paragraph 8.4.5 of this Master Circular shall be followed for Uniform cut-off timings for applicability of Net Asset Value in respect of Liquid Fund and Overnight Fund.*

**** Overnight funds can deploy, not exceeding, 5% of the net assets of the scheme in G-secs and/or T-bills with a residual maturity of upto 30 days for the purpose of placing the same as margin and collateral for certain transactions*[65].

*$ All provisions mentioned at Paragraph 1.13, 8.4.2.1.c, 12.6 of this Master Circular in respect of liquid schemes shall be applicable.*

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

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

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

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

++ It is clarified that Macaulay duration shall be at portfolio level[66].

@ For asset allocation limits considering minimum liquid assets requirement, refer Paragraph 4.6 of this Master Circular.

**C. Hybrid Schemes**

| **Sr. No.** | **Category of Schemes** | **Scheme Characteristics** | **Type of scheme (uniform description of scheme)** |
|---|---|---|---|

[65] SEBI/HO/IMD/DF2/CIR/P/2021/683 dated December 10, 2021
[66] SEBI circular no. SEBI/HO/IMD/DF3/CIR/P/2017/126 dated December 04, 2017

| | | | |
|---|---|---|---|
| 1 | Conservative Hybrid Fund | Investment in equity & equity related instruments- between 10% and 25% of total assets;<br>Investment in Debt instruments- between 75% and 90% of total assets | An open ended hybrid scheme investing predominantly in debt instruments |
| 2 | Balanced Hybrid Fund @ | Equity & Equity related instruments- between 40% and 60% of total assets;<br>Debt instruments- between 40% and 60% of total assets<br>No Arbitrage would be permitted in this scheme | An open ended balanced scheme investing in equity and debt instruments |
| | Aggressive Hybrid Fund @ | Equity & Equity related instruments- between 65% and 80% of total assets;<br>Debt instruments- between 20% 35% of total assets | An open ended hybrid scheme investing predominantly in equity and equity related instruments |
| 3 | Dynamic Asset Allocation or Balanced Advantage | Investment in equity/ debt that is managed dynamically | An open ended dynamic asset allocation fund |
| 4 | Multi Asset Allocation ## | Invests in at least three asset classes with a minimum allocation of at least 10% each in all three asset classes | An open ended scheme investing in _,__,___ (mention the three different asset classes) |
| 5 | Arbitrage Fund | Scheme following arbitrage strategy. Minimum investment in equity & equity related instruments- 65% of total assets | An open ended scheme investing in arbitrage opportunities |
| 6 | Equity Savings | Minimum investment in equity & equity related instruments- 65% of total assets and minimum investment in debt- 10% of total assets<br>Minimum hedged & unhedged to be stated in the SID. | An open ended scheme investing in equity, arbitrage and debt |

| | | | |
|---|---|---|---|
| | | Asset Allocation under defensive considerations may also be stated in the Offer Document | |

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

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

**D. Solution Oriented Schemes:**

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

**E. Other Schemes:**

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

| | | | |
|---|---|---|---|
| | | | fund (mention the underlying fund) |

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

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

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

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

2.6.5 For easy identification by investors and in order to bring uniformity in names of schemes for a particular category across Mutual Funds, the scheme name shall be the same as the scheme category.[67]

### *2.7 Definition of Large Cap, Mid Cap and Small Cap[68]:*

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

i. Large Cap: 1st -100th company in terms of full market capitalization
ii. Mid Cap: 101st -250th company in terms of full market capitalization

[67] SEBI Circular no. SEBI/HO/IMD/DF3/CIR/P/2020/228 dated November 06, 2020
[68] Refer SEBI email dated January 28, 2022

iii. Small Cap: 251st company onwards in terms of full market capitalization

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

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

ii. In case a stock is listed on only one of the recognized stock exchanges, the full market capitalization of that stock on such an exchange will be considered.

iii. This list would be uploaded on the AMFI website and the same would be updated every six months based on the data as on the end of June and December of each year. The data shall be available on the AMFI website within 5 calendar days from the end of the 6 months period.

iv. While preparing the single consolidated list of stocks, average full market capitalization of the previous six month of the stocks shall be considered[69].

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

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

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

i. Index Funds/ ETFs replicating/ tracking different indices;

ii. Fund of Funds having different underlying schemes; and

iii. Sectoral/ thematic funds investing in different sectors/ themes

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[69] SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2017/126 dated December 04, 2017

2.8.2 [70]Further, Mutual Funds can launch either of the following ELSS scheme in open ended Scheme Category, subject to compliance with guidelines on Equity Linked Saving Scheme, 2005 notified by Ministry of Finance:

i. Active ELSS Scheme - In terms of Paragraph 2.6.1.A.10 above under "Equity Schemes" category or;

ii. Passive ELSS Scheme (through Index Fund) - In terms of Paragraph 2.6.1.E.1 under "Other Schemes" category. The passive ELSS scheme shall be based on one of the indices comprising of equity shares from top 250 companies in terms of market capitalization

### *2.9 Timelines for Rebalancing of Portfolios of Mutual Fund Schemes[71]*

In order to bring uniformity across Mutual Funds with respect to timelines for rebalancing of portfolio, the following has been decided:

2.9.1 In the event of deviation from mandated asset allocation mentioned in the Scheme Information Document (SID) due to passive breaches (occurrence of instances not arising out of omission and commission of AMCs), rebalancing period across schemes shall be as follows:

| **SI. No.** | **Category of Scheme** | **Mandated Rebalancing Period** |
|---|---|---|
| i. | Overnight Fund | NA |

[70] SEBI Circular no. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022
[71] SEBI circular no SEBI/HO/IMD/IMD-II DF3/P/CIR/2022/39 dated March 30, 2022, Refer SEBI Letter No. – SEBI/HO/IMD-I DOF-2/P/OW/2022/26571/1 dated June 29, 2022

| | | |
|---|---|---|
| ii. | All schemes other than Index Funds and Exchange Traded Funds | Thirty (30) business days |

2.9.2 In case the portfolio of schemes (all schemes other than Index Funds and Exchange Traded Funds) mentioned at Paragraph above are not rebalanced within the above mandated timelines, justification in writing, including details of efforts taken to rebalance the portfolio shall be placed before Investment Committee. The Investment Committee, if so desires, can extend the timelines up to sixty (60) business days from the date of completion of mandated rebalancing period.

2.9.3 In case the portfolio of schemes is not rebalanced within the aforementioned mandated plus extended timelines, AMCs shall:

a) not be permitted to launch any new scheme till the time the portfolio is rebalanced.

b) not to levy exit load, if any, on the investors exiting such scheme(s).

2.9.4 Reporting and Disclosure Requirements:

a) AMCs to report the deviation to Trustees at each stage.

b) In case the AUM of deviated portfolio is more than 10% of the AUM of main portfolio of scheme:

i. AMCs have to immediately disclose the same to the investors through SMS and email / letter including details of portfolio not rebalanced.

ii. AMCs shall also have to immediately communicate to investors through SMS and email / letter when the portfolio is rebalanced.

iii. Subject line of the aforementioned emails / letters should be uniform across industry and clearly indicate “breach of” / “deviation” from mandated asset allocation.

c) AMCs have to disclose any deviation from the mandated asset allocation to investors along with periodic portfolio disclosures as specified by SEBI from the date of lapse of mandated plus extended rebalancing timelines.

2.9.5 The above mentioned norms shall be applicable to main portfolio only and not to segregated portfolio(s), if any.

## CHAPTER 3: NEW PRODUCTS

### *3.1 Fund of Funds Scheme*[72]

3.1.1 The SID and the advertisements pertaining to Fund of Funds Scheme[73] shall disclose that the investors are bearing the recurring expenses of the scheme, in addition to the expenses of other schemes in which the Fund of Funds Scheme makes investments.

3.1.2 AMCs shall not enter into any revenue sharing arrangement with the underlying funds in any manner and shall not receive any revenue by whatever means/head from the underlying fund. Any commission or brokerage received from the underlying fund shall be credited into concerned scheme's account[74].

3.1.3 Fund of funds mutual fund schemes shall adopt the total expense structures laid out in Regulations[75], which Asset Management Companies shall clearly indicate in the SIDs.

### *3.2 Gold Exchange Traded Fund Scheme*[76]

3.2.1 A Gold Exchange Traded Fund (GETF) Scheme[77] shall invest primarily in:

3.2.1.1 Gold and

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[72] SEBI Circular No. MFD/CIR. No.04/11488/2003 dated June 12, 2003.
[73] Regulation 2(ma) of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O 632(E) dated May 29, 2003.
[74] SEBI Circular No. SEBI/IMD/CIR No 18/198647/2010 dated March 15, 2010
[75] Regulation 52(6)(a) of SEBI (Mutual Funds) Regulations, 1996
[76] SEBI Circular No. SEBI/IMD/CIR. No.4/58422/06 dated January 24, 2006, SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006, SEBI Circular No. SEBI/IMD/CIR No.14/84243/07 dated January 15, 2007.
[77] Regulation 2(mb) of the SEBI (Mutual Funds) Regulations, 1996 introduced vide Gazette Notification No. S.O. 38(E) dated January 12, 2006.

3.2.1.2 Gold related instruments[78]. However investments in gold related instruments shall be done only after such instruments are specified by the Board[79]

3.2.1.3 Gold Deposit Scheme (GDS)[80] of banks had been designated as one such gold related instrument. However, as per RBI notification dated October 22, 2015, the Gold Monetisation Scheme, 2015 (GMS) will replace the Gold Deposit Scheme, 1999. Accordingly, it has been decided that GMS will also be designated as a gold related instrument[81], in line with GDS of Banks.

3.2.1.4 Exchange Traded Commodity Derivatives (ETCDs)[82] having gold as the underlying, shall also be considered as 'gold related instrument' for GETFs.

3.2.1.5 Investment in GDS, GMS and ETCD having gold as the underlying by GETFs of mutual funds will be subject to following conditions:

a. The cumulative exposure to gold related instruments i.e. GDS of banks, GMS and ETCD having gold as the underlying shall not exceed 50% of net asset value of the scheme. However, within the 50% limit, the investment limit for GDS of banks and GMS as part of gold related instrument shall not exceed 20% of net asset value of the scheme. The unutilized portion of the limit for GDS of banks and GMS can be utilized for ETCD having gold as the underlying.

b. Before investing in GDS of Banks, GMS and ETCDs having gold as the underlying, mutual funds shall put in place a written policy with regard to such investments with due approval from the Board of the Asset Management Company and the Trustees. The policy should have provision to make it necessary

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78 Regulations 2(mc) of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O. 38(E) dated January 12, 2006.
79 SEBI Circular No. SEBI/IMD/CIR No. 4/58422/06 dated January 24, 2006.
80 SEBI Circular No. CIR/IMD/DF/04/2013 dated February 15, 2013
81 SEBI Circular No. CIR/IMD/DF/11/2015 dated December 31, 2015
82 SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/65 dated May 21, 2019

for the mutual fund to obtain approval of trustees for investment proposal in GDS of any bank and GMS. The policy shall be reviewed by mutual funds, at least once a year.

c. Certificates issued in respect of investments made by GETFs in GDS of banks and GMS can be held by the mutual funds in dematerialized or physical form[83].

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

3.2.2 Valuation:

3.2.2.1 Gold shall be valued based on the methodology provided in Clause 3A of, Schedule Eight of the Mutual Funds Regulations[84].

3.2.3 Determination of Net Asset Value[85]

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

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

3.2.4 Recurring Expenses[86]

3.2.4.1 The recurring expenses limits as per applicable regulations[87] shall be applicable to GETF Scheme(s).

83 SEBI Circular No. CIR/IMD/DF/16/2013 dated October 18, 2013
84 SEBI Circular No. SEBI/IMD/CIR No.14/84243/07 dated January 15, 2007 read with Gazette Notification F. No. SEBI/LAD/DoP/82534/2006 dated December 20, 2006.
85 SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.
86 SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.
87 Regulation 52(6)(b) of the SEBI (Mutual Funds) Regulations, 1996.

3.2.5 Benchmarks for GETF Scheme[88]

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

3.2.6 Half yearly report by Trustees[89]

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

3.2.6.2 The confirmation on physical verification of gold as above shall also form part of half yearly report[90] by trustees to SEBI.

3.2.7 Additional Norms for Gold ETFs[91]

3.2.7.1 Gold ETFs shall additionally comply with the norms as stated at Paragraphs 3.3.6, 3.3.9, 3.3.10 and 3.3.11 of this Master Circular.

### *3.3 Norms for Silver Exchange Traded Funds (Silver ETFs)*[92]

3.3.1 **Investment Objective:** To generate returns that are in line with the performance of physical silver in domestic prices, subject to tracking error.

3.3.2 A Silver ETF scheme shall invest at least 95% of the net assets of the scheme in:

3.3.2.1 Silver and

3.3.2.2 Silver related instruments. Exchange Traded Commodity Derivatives (ETCDs) having silver as the underlying shall be considered as 'silver related instrument' for Silver ETFs.

[88] SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.
[89] SEBI Circular No. Cir/IMD/DF/20/2010 dated December 06, 2010
[90] Please refer to Format No. 2.C. under the section on Formats for the disclosures in the Half Yearly Trustee Report w.r.t physical verification of Gold. This will be effective from the half yearly report ending April 2011 by Trustees to SEBI.
[91] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/668 dated November 24, 2021
[92] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/668 dated November 24, 2021.

3.3.2.3 Investment in ETCDs having silver as the underlying by Silver ETFs will be subject to following conditions:

a) The exposure to ETCDs having silver as the underlying shall not exceed 10% of net asset value of the scheme. However, the above limit of 10% shall not be applicable to Silver ETFs where the intention is to take delivery of the physical silver and not to roll over its position to next contract cycle.

b) Before investing in ETCDs having silver as the underlying, mutual funds shall put in place a written policy with regard to such investment with due approval from the Board of the AMC and the Trustees. The policy shall be reviewed by the Board of AMC and Trustees at least once a year.

c) The cumulative gross exposure of Silver ETFs shall not exceed 100% of the net assets of the scheme.

3.3.2.4 The physical silver shall be of standard 30 kg bars with fineness of 999 parts per thousand (or 99.9% purity) confirming to London Bullion Market Association (LBMA) Good Delivery Standards.

3.3.3 **Valuation:** Silver shall be valued based on the methodology provided in paragraph 3B of Eighth Schedule to MF Regulations.

3.3.4 **Determination of Net Asset Value**

3.3.4.1 The NAV of units of Silver ETF Scheme shall be calculated up to four decimal points as shown below:

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

3.3.5 **Total Expense Ratio (TER):** The TER applicable for Silver ETF schemes shall be same as the TER applicable for ETFs in terms of Regulation 52 of MF Regulations.

3.3.6 **Disclosure of NAV:** The NAV of Silver ETFs shall be disclosed on every business day on the website of the AMC. Further, the indicative NAVs of Silver ETFs shall be disclosed on Stock Exchange platforms, where the units of these ETFs are listed, on continuous basis during the trading hours.

3.3.7 **Benchmark for Silver ETF Scheme:** Silver ETF Scheme(s) shall be benchmarked against the price of silver (based on LBMA Silver daily spot fixing price).

3.3.8 **Liquidity:**

3.3.8.1 Units of Silver ETFs shall be listed on the recognized Stock Exchange(s).

3.3.8.2 The AMC shall appoint Authorized Participants (APs)/ Market Makers (MMs) to provide liquidity for the units of Silver ETFs in secondary market on an ongoing basis.

3.3.8.3 APs/ MMs and large investors may directly buy/sell units with the Mutual Fund in creation unit size. The AMC shall disclose the details about the creation unit size of Silver ETF in Scheme Information Document (SID).

3.3.9 **Tracking Error & Tracking Difference:**

3.3.9.1 The provisions mentioned at Paragraph 3.6.3 below, shall be followed for tracking error & tracking difference for Silver Exchange Traded Funds.[93]

3.3.10 **Disclosures:** To enable the investors to take an informed decision, the SID of Silver ETFs shall, inter-alia, disclose the following:

3.3.10.1 Tracking error and tracking difference,

3.3.10.2 Market risk due to volatility in silver prices,

[93] SEBI Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022

3.3.10.3 Liquidity risks in physical or derivative markets impairing the ability of the fund to buy and sell silver,

3.3.10.4 Risks associated with handling, storing and safekeeping of physical silver;

3.3.10.5 Applicable tax provisions.

3.3.11 **<u>Dedicated Fund Manager</u>:** For commodity based funds such as Gold ETFs, Silver ETFs and other funds participating in commodities market, a dedicated fund manager with relevant skill and experience in commodities market including commodity derivatives market shall be appointed to manage the fund. However, it is clarified that dedicated fund manager(s) for each Commodity based fund is not mandatory.

3.3.12 **<u>Half Yearly Trustee Report:</u>**

3.3.12.1 Physical verification of silver underlying the Silver ETF units shall be carried out by the statutory auditor of mutual fund and shall report the same to trustees on half yearly basis.

3.3.12.2 The confirmation on physical verification of silver as stated above shall also form part of half yearly report by trustees to SEBI.

### *3.4 Portfolio Concentration Norms for Equity Exchange Traded Funds (ETFs) and Index Funds*[94]

3.4.1 In order to address the risk related to portfolio concentration in ETFs and Index Funds, it has been decided to adopt the following norms:

3.4.1.1 The index shall have a minimum of 10 stocks as its constituents.

3.4.1.2 For a sectoral/ thematic Index, no single stock shall have more than 35% weight in the index. For other than sectoral/ thematic indices, no single stock shall have more than 25% weight in the index.

[94] SEBI Circular No SEBI/HO/IMD/DF3/CIR/P/2019/011 dated January 10, 2019.

3.4.1.3 The weightage of the top three constituents of the index, cumulatively shall not be more than 65% of the Index.

3.4.1.4 The individual constituent of the index shall have a trading frequency greater than or equal to 80% and an average impact cost of 1% or less over previous six months.

Accordingly, any ETF/ Index Fund that seeks to replicate a particular Index shall ensure that such index complies with the aforesaid norms.

3.4.2 Compliance Procedure:

3.4.2.1 The aforesaid norms shall be applicable to all ETFs/ Index Funds tracking equity indices.

3.4.2.2 The ETF/ Index Fund issuer shall evaluate and ensure compliance to the aforesaid norms for all its ETFs/ Index Funds at the end of every calendar quarter.

3.4.2.3 The ETF/Index Fund issuer shall ensure that the updated constituents of the Indices (for all its ETFs/ Index Funds) are available on the website of such ETF/Index Fund issuers at all points of time.

### *3.5 Norms for Debt Exchange Traded Funds (ETFs)/Index Funds*[95]

3.5.1 Debt ETFs/ Index Funds could be based on indices comprising of

3.5.1.1 Corporate Debt Securities (Corporate debt indices); or

3.5.1.2 Government Securities (G-sec), t-bills and/or State Development Loans (SDLs) (G-sec indices); or

3.5.1.3 A combination of Corporate Debt Securities and G-sec/t-bills/SDLs (Hybrid debt indices).

[95] SEBI Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022 & SEBI Circular No SEBI/HO/IMD/DF3/CIR/P/2019/147 dated November 29, 2019, Refer SEBI Letter No. – SEBI/HO/IMD-I DOF-2/P/OW/2022/26571/1 dated June 29, 2022

The detailed provisions in this regard are given below:

3.5.2 Debt ETFs/ Index Funds: Index Constitution

For Debt ETFs/ Index Funds, the AMCs shall ensure the following:

3.5.2.1 Constituents of the index are aggregated at issuer level for the purpose of determining investment limits for single issuer, group, sector, etc.

3.5.2.2 Constituents of the index shall have a defined credit rating and defined maturity and the same shall be specified in the index methodology.

3.5.2.3 Rating of the constituents of the index shall be of investment grade and above.

3.5.2.4 Constituents of the index should have adequate liquidity and diversification (other than for the portion of indices comprising of G-sec and/or SDLs) at issuer level.

3.5.2.5 Constituents of the index shall be periodically reviewed (at least on half-yearly basis).

3.5.2.6 Debt ETFs/ Index Funds shall replicate the underlying debt index. The portfolio of ETF/Index Funds shall be considered to be replicating the index subject to meeting the requirements specified at Paragraph 3.5.3, 3.5.4 & 3.5.5 below.

3.5.2.7 Single issuer limit for debt indices shall be as follows:

a) For an index with at least 80% weight of corporate debt securities, single issuer limit shall be as under:
   i. In respect of AAA rated securities, a single issuer shall not have more than 15% weight in the index.
   ii. In respect of AA rated securities, a single issuer shall not have more than 12.5% weight in the index.
   iii. In respect of A and below rated securities, a single issuer shall not have more than 10% weight in the index.

b) For a hybrid index (comprising both corporate debt securities and G-sec /SDL) with up to 80% weight of corporate debt securities,

   i. In respect of AAA rated securities, a single issuer shall not have more than 10% weight in the index. However, for AAA rated securities of PSU and AAA rated securities of PFI issuers the said limit shall be 15%.
   ii. In respect of AA rated securities, a single issuer shall not have more than 8% weight in the index.
   iii. In respect of A and below rated securities, a single issuer shall not have more than 6% weight in the index.

c) For an index based on G-Sec and SDLs, single issuer limit shall not be applicable.

3.5.2.8 The index shall not have more than 25% weight in a particular group (excluding securities issued by Public Sector Units (PSUs), Public Financial Institutions (PFIs) and Public Sector Banks (PSBs)). For the purpose of this provision, 'group' shall have the same meaning as defined in Paragraph 12.9.3.3 of this Master Circular.

3.5.2.9 The index shall not have more than 25% weight in a particular sector (excluding G-sec, t-bills, SDLs and AAA rated securities issued by PSUs, PFIs and PSBs). However, this provision shall not be applicable for sectoral or thematic debt indices.

3.5.2.10 AMCs shall ensure that the updated constituents of the indices and methodology for all their Debt ETFs/ Index Funds are available on their respective websites at all points of time. Further, the historical data with respect to constituents of the indices since inception of schemes shall also be disclosed on their website.

3.5.2.11 AMFI has issued a list of debt indices for launching of debt ETFs/ Index Funds. The said list is available on AMFI's website.

3.5.3 Corporate Debt ETF/Index Funds: Debt ETFs/ Index Funds based on Index of Corporate Debt Securities

Debt ETFs/ Index Funds based on index comprising of only corporate debt securities shall be considered to be replicating the underlying debt index provided:

3.5.3.1 Investment in securities of issuers accounting for at least 60% of weight in the index, represents at least 80% of net asset value (NAV) of the ETF/ Index Fund.

3.5.3.2 At no point of time the securities of issuers not forming part of the index exceed 20% of NAV of the ETF/ Index Fund.

3.5.3.3 At least 8 issuers from the underlying index form part of the portfolio of the ETF/ Index Fund.

3.5.3.4 The investment in various securities are aggregated at issuer level for the purpose of exposure limits.

3.5.3.5 The exposure limit to a single issuer by the ETF/ Index Fund shall be as under:

a) For AAA rated securities, exposure to a single issuer by the ETF/ Index Fund shall not have more than 15% weight in the portfolio.
b) For AA rated securities, exposure to a single issuer by the ETF/ Index Fund shall not have more than 12.5% weight in the portfolio.
c) For A and below rated securities, exposure to a single issuer by the ETF/ Index Fund shall not have more than 10% weight in the portfolio.

3.5.3.6 Total exposure of the ETF/ Index Fund in a particular group (excluding investments in securities issued by PSUs, PFIs and PSBs) shall not exceed 25% of NAV of the scheme. For the purpose of this provision, 'group' shall have the same meaning as defined in Paragraph 12.9.3.3 of this Master Circular.

3.5.3.7 Total exposure of the ETF/ Index Fund in a particular sector (excluding G-sec, t-Bills, SDLs and AAA rated securities issued by PSUs, PFIs and PSBs) shall not exceed 25% of the NAV of the scheme. However, this provision shall not be applicable for schemes based on sectoral or thematic debt indices.

3.5.3.8 The Macaulay Duration (hereinafter referred as "duration") of the portfolio of the ETF/ Index Fund replicates the duration of the underlying index within a maximum permissible deviation of +/- 10%.

3.5.3.9 In case of Target Maturity (or Target Date) ETFs/ Index Funds, the following norms for permissible deviation in duration shall apply:

a) For portfolio with residual maturity of greater than 5 years: Either +/- 6 months or +/- 10% of duration, whichever is higher.
b) For a portfolio with residual maturity of up to 5 years: Either +/- 3 months or +/- 10% of duration, whichever is higher.
c) However, at no point of time, the residual maturity of any security forming part of the portfolio shall be beyond the target maturity date of the ETF/ Index Fund.

3.5.3.10 The rating wise weightage of debt securities in the portfolio of ETF/ Index Fund replicates the underlying index. However, greater allocation of up to 10% of the portfolio may be made to higher rated debt securities.

3.5.3.11 Rebalancing Period:

For rebalancing the portfolio of the ETF/ Index Fund, the following norms shall apply:

a) In case of change in constituents of the index due to periodic review, the portfolio of ETF/ Index Funds be rebalanced within 7 calendar days.

b) In case the rating of any security is downgraded to below the rating mandated in the index methodology (including downgrade to below investment grade), the portfolio be rebalanced within 30 calendar days.

c) In case the rating of any security is downgraded to below investment grade, the said security may be segregated in accordance with Paragraph 4.4.4 & 4.4.5 of this Master Circular on “Segregated portfolio in mutual fund schemes”.

3.5.4 <u>G-sec ETF/Index Fund: Debt ETFs/ Index Funds based on G-sec, t-bills and SDLs</u>

3.5.4.1 The duration of the portfolio of ETF/ Index Fund replicates the duration of the underlying index within a maximum permissible deviation of +/- 10%.

3.5.4.2 ETFs/Index Funds replicating a Constant Maturity index may invest in securities with residual maturity within +/- 10% of maturity range of the index.

3.5.4.3 In case of Target Maturity (or Target Date) ETFs/ Index Funds, the following norms for permissible deviation in duration shall apply:

a) For portfolio with residual maturity of greater than 5 years: Either +/- 6 months or +/- 10% of duration, whichever is higher.
b) For a portfolio with residual maturity of up to 5 years: Either +/- 3 months or +/- 10% of duration, whichever is higher.

c) However, at no point of time, the residual maturity of any security forming part of the portfolio shall be beyond the target maturity date of the ETF/ Index Fund.

3.5.5 Hybrid Debt ETF/ Index Fund - Debt ETFs/ Index Funds based on a Hybrid Index of Corporate Debt Securities and G-Sec/t-bills/SDLs

Hybrid Debt ETFs/ Index Funds shall be considered to be replicating the underlying index, provided:

3.5.5.1 For ETF/ Index Fund based on an index comprising of more than 80% weight for corporate debt securities, the provisions mentioned at paragraph 3.5.3 above shall be followed.

3.5.5.2 For ETF/ Index Fund based on an index comprising of up to 80% weight of corporate debt securities, the provisions mentioned at Paragraph 3.5.3 above, apart from Paragraph 3.5.3.3 & 3.5.3.5, shall apply on the portion of the portfolio comprising of corporate debt securities. Further, the exposure limit to a single issuer by the ETF/ Index Fund shall be as under:

a) For AAA rated securities, exposure to a single issuer by the ETF/ Index Fund shall not have more than 10% weight in the portfolio. However, for AAA rated securities of PSU and AAA rated securities of PFI issuers the said limit shall be 15%.

b) For AA rated securities, exposure to a single issuer by the ETF/ Index Fund shall not have more than 8% weight in the portfolio.

c) For A and below rated issuances, exposure to a single issuer by the ETF/ Index Fund shall not have more than 6% weight in the portfolio.

3.5.5.3 For the portion of the portfolio of the ETF/ Index Fund comprising of G-sec/tbills/SDLs, the provisions mentioned at Paragraph 3.5.4 above shall apply.

3.5.6 At all points of time, positioning of the ETF/ Index Fund in the Potential Risk Class (PRC) matrix shall be in the same cell as that of positioning of the index in the PRC matrix.

3.5.7 Any transactions undertaken in the scheme portfolio of ETF/ Index Fund in order to meet the redemption and subscription obligations shall be done while ensuring that post such transactions replication of the portfolio with the index is maintained at all points of time.

### *3.6 Development of Passive Funds*[96]

3.6.1 Norms for Market Making Framework for ETFs

3.6.1.1 AMC shall appoint at least two Market Makers (MMs), who are members of the Stock Exchanges, for ETFs to provide continuous liquidity on the stock exchange platform. MM shall transact with AMC only in multiples of creation unit size.

3.6.1.2 The AMC shall have an approved policy regarding market making in ETFs based on the framework for market making as provided at **Annexure 12.**

3.6.1.3 AMCs shall facilitate in-kind creation and redemption of units of ETFs (including Debt ETFs) by MMs on a best effort basis.

3.6.1.4 Incentive for MMs

a) Incentives, if any, to MMs shall be charged to the scheme within the maximum permissible limit of TER.

b) A transparent incentive structure for the MMs shall be put in place, and the incentives shall, *inter alia,* be linked to performance

[96] SEBI Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022, Refer SEBI letter No. SEBI/HO/IMD-I DOF2/P/OW/2022/26517/1 dated June 29, 2022

of the MMs in terms of generating liquidity in units of ETFs. The relevant data regarding trading volume, bid-ask spread in units of ETFs, and such other information as may be required to formalize performance based incentive structure, shall be obtained from the stock exchanges.

c) Stock Exchanges may also incentivize the MMs through Liquidity Enhancement Schemes (LES) as per the applicable provisions.

d) There should be necessary checks and balances and adequate disclosure of the principles of incentive structure on the website of the AMCs and also in the Scheme Information Documents (SIDs) of ETFs.

e) There shall be proper audit trail for scheme wise incentives.

3.6.1.5 Market Making Settlement Process for domestic Equity ETFs

In order to make the market making process less capital intensive, it has been decided that net settlement between cash leg of transactions in units of ETF by the MM and consequent transaction in underlying basket by the ETF shall be implemented. In this regard, the following has been decided:

a) MMs shall be permitted to transact in the basket of securities underlying the ETF against equivalent transactions in units of ETFs and transfer the net obligation of such transactions to the ETF for unit creation or redemption. The AMCs shall be allowed to create or redeem units of ETFs without upfront payment of 100% value of such units or upfront delivery of such units by the MMs, respectively.

b) The above mechanism shall be permitted subject to equivalent transactions in units and underlying basket for the same settlement cycle and confirmation of both the legs by the Custodian.

c) For the above mechanism,

i. ETFs shall be allowed to buy or sell their own units, without the same forming part of the asset allocation of the scheme.

ii. Provisions mentioned at Paragraph 12.29.3.b.III) of this Master Circular shall not be applicable.

iii. The transactions by the MM in the underlying basket shall be excluded for the purpose of computation of aggregate purchase or sale of securities through any broker as required under the Regulations[97].

d) Facilitation of the above mechanism for equity ETFs shall be at the discretion of the AMC.

e) The detailed operational guidelines in this regard, has been issued by AMFI in consultation with Clearing Corporations. The Clearing Corporations shall ensure that the necessary systems are in place to enable the netting mechanism.

f) The AMC shall ensure that at no point of time, the above mechanism shall increase the risk of the ETF.

3.6.2 **Direct transaction in ETFs through AMCs**

3.6.2.1 In order to enhance liquidity in units of ETFs on stock exchange platform, it has been decided that direct transaction with AMCs shall be facilitated for investors only for transactions above a specified threshold.

3.6.2.2 In this regard, to begin with any order placed for redemption or subscription directly with the AMC must be of greater than INR 25 Cr. The aforesaid threshold shall not be applicable for MMs and shall be periodically reviewed. [98]This provision shall be applicable with effect from May 01, 2023.

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[97] Regulation 25(7)(a) and (b) of SEBI (Mutual Funds) Regulations, 1996

[98] SEBI Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/145 dated October 28, 2022 & SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2022/102 July 28, 2022

3.6.2.3 Further, as in terms of Paragraph 8.7 of this Master Circular, all direct transactions in units of ETFs by MMs or other eligible investors (as per Paragraph 3.6.2.1 above) with AMCs shall be at intra-day NAV based on the actual execution price of the underlying portfolio, the following has been decided:

a) The provisions as mentioned at Paragraph 4.10 of this Master Circular on "Swing pricing framework for mutual fund schemes" shall not be applicable to Debt ETFs.

b) The requirement of "cut-off" timing for NAV applicability as prescribed by SEBI from time to time shall not be applicable for direct transaction with AMCs in ETFs by MMs and other eligible investors.

3.6.3 **Tracking Error and Tracking Difference**

3.6.3.1 Tracking Error (TE)

a) The tracking error i.e. the annualized standard deviation of the difference in daily returns between the underlying index or goods and the NAV of the ETF/ Index Fund (other than Debt ETFs/ Index Funds) based on past one year rolling data shall not exceed 2%. In case of unavoidable circumstances in the nature of force majeure, which are beyond the control of the AMCs, the tracking error may exceed 2% and the same shall be brought to the notice of Trustees with corrective actions taken by the AMC, if any.

b) For ETFs/ Index Funds in existence for a period of less than one year, the annualized standard deviation shall be calculated based on available data.

c) All ETFs/ Index Funds (including Debt ETFs/ Index Funds), shall disclose the tracking error based on past one year rolling data, on a daily basis, on the website of respective AMCs and AMFI.

3.6.3.2 Tracking Difference (TD)

a) Along with tracking error, tracking difference i.e. the annualized difference of daily returns between the index or goods and the NAV of the ETF/ Index Fund shall also be disclosed on the website of the AMC and AMFI, on a monthly basis, for tenures 1 year, 3 year, 5 year, 10 year and since the date of allotment of units.

b) For Debt ETFs/ Index Funds the annualized tracking difference averaged over one year period shall not exceed 1.25%. In case the average annualized tracking difference over one year period for Debt ETFs/ Index Funds is higher than 1.25%, the same shall be brought to the notice of trustees with corrective actions taken by the AMC, if any.

### 3.6.4 **Valuation by Fund of Funds (FoFs) investing in ETFs**

3.6.4.1 The closing price of the units of ETFs on Stock Exchange shall be used for valuation by FoFs investing in such ETFs.

### 3.6.5 **Disclosure of indicative Net Asset Value (iNAV)**

3.6.5.1 iNAV of an ETF i.e. the per unit NAV based on the current market value of its portfolio during the trading hours of the ETF, shall be disclosed on a continuous basis on the Stock Exchange(s), where the units of these ETFs are listed and traded and shall be updated in the following manner:

a) For Equity ETFs, within a maximum time lag of 15 seconds from underlying market.

b) For Debt ETFs, at least four times a day i.e. opening and closing iNAV and at least two times during the intervening period with minimum time lag of 90 minutes between the two disclosures.

c) For ETFs on Gold or Silver, based on the latest available data for Gold or Silver. Accordingly, iNAV disclosed for Gold or Silver ETFs may either be static or dynamic depending upon the availability of the underlying price.

d) For ETFs on international indices, based on the latest available data regarding the portfolio of the ETF. Accordingly, iNAV disclosed for international ETFs may either be static or dynamic depending on the intersection in trading hours of domestic and overseas markets.

e) For disclosure of iNAV, AMCs and Stock Exchanges shall develop suitable mechanism for data sharing.

3.6.6 **Liquidity window for Investors of ETFs with AMCs**

3.6.6.1 Investors can directly approach the AMC for redemption of units of ETFs, for transaction of upto INR 25 Cr. without any exit load, in case of the following scenarios:

a) Traded price (closing price) of the ETF units is at discount of more than 1% to the day end NAV for 7 continuous trading days, or

b) No quotes for such ETFs are available on stock exchange(s) for 3 consecutive trading days, or

c) Total bid size on the exchange is less than half of creation units size daily, averaged over a period of 7 consecutive trading days.

3.6.6.2 In case of the above scenarios, applications received from investors for redemption up to 3.00 p.m. on any trading day, shall be processed by the AMC at the closing NAV of the day.

3.6.6.3 The above instances shall be tracked by the AMC on a continuous basis and in case if any of the above mentioned scenario arises, the same shall be disclosed on the website of AMC.

3.6.7 **Rebalancing period for Equity ETFs/ Index Funds**

3.6.7.1 In case of change in constituents of the index due to periodic review, the portfolio of equity ETF/ Index Funds be rebalanced within 7 calendar days.

3.6.7.2 Any transactions undertaken in the scheme portfolio of ETF/ Index Fund in order to meet the redemption and subscription obligations shall be done while ensuring that post such transactions replication of the portfolio with the index is maintained at all points of time.

3.6.8 **Disclosure Norms for ETFs/ Index Funds**

3.6.8.1 The debt and equity ETFs/ Index Funds shall disclose the following on monthly basis:

a) Name and exposure to top 7 issuers and stocks respectively as a percentage of NAV of the scheme

b) Name and exposure to top 7 groups as a percentage of NAV of the scheme.

c) Name and exposure to top 4 sectors as a percentage of NAV of the scheme.

Change in constituents of the index, if any, shall be disclosed on the AMC website on the day of change

3.6.9 **Nomenclature of ETFs/ Index Funds**

3.6.9.1 In order to have proper understanding and clarity for investors, the nomenclature for ETFs/ Index Funds shall include the name of the underlying index or goods.

3.6.9.2 Further, for ETFs, after listing of the units, the scrip code of such ETFs shall also be disclosed in the nomenclature at all places.

### *3.7 Capital Protection Oriented Scheme*[99]

3.7.1 The SID, KIM and advertisements pertaining to Capital Protection Oriented Scheme[100] shall disclose that the scheme is "oriented towards protection of capital" and not "with guaranteed returns." It shall also be indicated that the orientation towards protection of capital originates from the portfolio structure of the scheme and not from any bank guarantee, insurance cover etc.

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

3.7.3 The Trustees shall continuously monitor the portfolio structure of the scheme and report the same in the Half Yearly Trustee Reports[101] to the Board. The AMC(s) shall also report on the same in its quarterly CTR(s)[102] to the Board.

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

### *3.8 Guaranteed Return Schemes*

3.8.1 All Mutual Funds which offer Guaranteed Return Schemes shall clearly indicate in the scheme information document as to who is offering guarantee and that the guarantee is for both, initial capital invested and the return assured[103].

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[99] SEBI Circular No. SEBI/IMD/CIR No.9/74364/06 dated August 14, 2006.

[100] Regulation 2(ea), 33(2A) and 38A of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O. 1254(E) dated August 3, 2006.

[101] For format of Half Yearly Trustee Report, please refer format no. 2.C under the section on Formats

[102] For format of quarterly CTR, please refer format no. 2.B under the section on Formats

[103] SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997

3.8.2 AMC in its report to Trustees and Trustees in their half yearly reports to SEBI shall comment on ability of the AMC/sponsor to honour the guaranteed returns in case of any Scheme guaranteeing returns[104].

### *3.9 Real Estate Mutual Funds[105]:*

3.9.1 A real estate mutual fund scheme[106] can invest in real estate assets in the cities mentioned in:

3.9.1.1 List of Million Plus Urban Agglomerations/Cities; or

3.9.1.2 List of Million Plus Cities

3.9.2 Such list appears in Census Statistics of India (2001) at www.censusindia.gov.in. A printout of cities which appear in the foresaid categories taken from the said website is attached for ready reference at **Annexure 3**.

### *3.10 Infrastructure Debt Schemes[107]*

3.10.1 Placement Memorandum:

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

[104] SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000 and SEBI Circular No. SEBI/HO/IMD/IMD-I DOF2/P/CIR/2021/550 dated April 12, 2021
[105] SEBI Circular No - SEBI/IMD/CIR No.4/124477/08 dated May 2,2008
[106]Regulation 49 A(a)(i) of SEBI (Mutual Fund) Regulations, 1996
[107] SEBI Circular No. CIR/IMD/DF/7/2013 dated April 23, 2013

3.10.1.2 In terms of regulation 49-OA of the SEBI (Mutual Funds) Regulations, 1996, the Placement Memorandum shall be filed with SEBI as per the prescribed format[108].

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

3.10.3 **FPIs which are long term investors**

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

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

a. Foreign Central Banks
b. Governmental Agencies
c. Sovereign Wealth Funds
d. International/Multilateral Organizations/ Agencies
e. Insurance Funds
f. Pension Funds
g. Foreign feeder funds, having at all times, at least 20% of their assets under management held by investors belonging to one of more of the above categories of FPIs[109]

3.10.4 **Investments by the IDF scheme**

[108] Please refer to format no. 5.D under the section on Formats
[109] SEBI Circular No. CIR/IMD/DF/20/2013 dated November 29, 2013

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

## CHAPTER 4: RISK MANAGEMENT FRAMEWORK[110]

### 4.1 Risk Management Framework for Mutual Funds

4.1.1 With the overall objective of management of key risks involved in mutual fund operation, the Risk Management Framework (RMF) shall provide a set of principles or standards, which inter alia comprise the policies, procedures, risk management functions and roles & responsibilities of the management, the Board of AMC and the Board of Trustees.

4.1.2 The detailed RMF for mutual funds are placed at **Annexure 1**.

4.1.3 The elements of RMF, wherever applicable, have been segregated into 'mandatory elements' which should be implemented by the AMCs and 'recommendatory elements' which address other leading industry practices that can be considered for implementation by the AMCs, to the extent relevant to them.

4.1.4 AMCs shall perform a self-assessment of their RMF and practices and submit a report, thereon, to their Board along with the roadmap for implementation of the framework.

4.1.5 Compliance with the RMF should be reviewed annually by the AMC. Reports of such reviews shall be placed before the Board of AMC and Trustees for their consideration and appropriate directions, if any. Trustees may forward the findings and steps taken to mitigate the risk along with their comments to SEBI in the half-yearly trustee reports.

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[110] SEBI Circular No. MFD/CIR/15/19133/2002 dated September 30, 2002 replaced by SEBI Circular No SEBI/HO/IMD/IMD-1 DOF2/P/CIR/2021/630 dated September 27, 2021 with effect from April 1, 2022, Refer SEBI email dated September 13, 2022.

## 4.2 ***Stress Testing of Liquid Fund and Money Market Mutual Fund Schemes*** [111]

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

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

4.2.2.1 As a part of the extant risk management framework, AMCs should have stress testing policy in place which mandates them to conduct stress test on all Liquid Fund and MMMF Schemes.

4.2.2.2 The stress test should be carried out internally at least on a monthly basis, and if the market conditions require so, AMC should conduct more frequent stress test.

4.2.2.3 The concerned schemes shall be tested on the following risk parameters, among others deemed necessary by the AMC:

a) Interest rate risk;
b) Credit risk;
c) Liquidity & Redemption risk.

4.2.2.4 While conducting stress test, it will be required to evaluate impact of the various risk parameters on the scheme and its Net Asset Value (NAV). The parameters used and the methodology adopted

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[111] SEBI Circular No. CIR/IMD/DF/03/2015 dated April 30, 2015

for conducting stress test on such type of scheme, should be detailed in the stress testing policy, which is required to be approved by the Board of AMC.

4.2.2.5 Further, in the event of stress test revealing any vulnerability or early warning signal, it would be required to bring it to the notice of the Trustees and take corrective action as deemed necessary, to reinforce their robustness. Each AMC should also be required to have documented guidelines, to deal with the adverse situation effectively.

4.2.2.6 Such stress-testing policy shall be reviewed by the Board of AMC and Trustees, at least on an annual basis, in light of the evolving market scenarios and should cover the following aspects:

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

4.2.2.7 Further, Trustees shall be required to report compliance with provisions of Paragraph 4.2 above and steps taken to deal with adverse situations faced, if any, in the Half Yearly Trustee Report submitted to SEBI.

4.2.3 [112]From December 01, 2020, all open ended Debt Schemes (except Overnight scheme) are mandated to conduct stress testing and AMC shall stipulate the guidelines to carry out stress testing in line with paragraph 4.2 of this Master Circular.

[112] SEBI Circular No.SEBI/HO/IMD/DF3/CIR/P/2020/229 dated November 06, 2020.

## 4.3 *Internal Credit Risk Assessment*[113]:

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

## 4.4 *Creation of segregated portfolio in mutual fund schemes*[114,115]

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

4.4.2 For this purpose,

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

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

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[113] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/2016/42 dated March 18, 2016 and SEBI Circular No. SEBI/HO/IMD/DF2/CIR/2019/104 dated October 01, 2019.

[114] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018, Refer SEBI letter No. SEBI/HO/IMD/DF2/OW/P/2019/22447/1 dated August 29, 2019, Refer SEBI letter No. SEBI/HO/IMD/DF2/OW/P/2019/28242/1 dated October 24, 2019

[115] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/127 dated November 07, 2019.

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

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

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

a. Downgrade of a debt or money market instrument to 'below investment grade', or
b. Subsequent downgrades of the said instruments from 'below investment grade', or
c. Similar such downgrades of a loan rating.

4.4.3.2 In case of difference in rating by multiple CRAs, the most conservative rating shall be considered. Creation of segregated portfolio shall be based on issuer level credit events as detailed at Paragraph 4.4.3.1 and implemented at the ISIN level.

4.4.3.3 Segregated portfolio of unrated debt or money market instruments may be created only in case of actual default of either the interest or principal amount. Actual default by the issuer of such instruments shall be considered as credit event for creation of segregated portfolio.

4.4.3.4 AMCs shall inform AMFI immediately about the actual default by the issuer. Upon being informed about the default, AMFI shall immediately inform the same to all AMCs. Pursuant to dissemination of information by AMFI about actual default by the issuer, AMCs may segregate the portfolio of debt or money market instruments of the said issuer.

4.4.3.5 Creation of segregated portfolio shall be optional and at the discretion of the AMC. It should be created only if the Scheme

Information Document (SID) of the scheme has provisions for segregated portfolio with adequate disclosures. All new schemes[116] shall have the enabling provisions included in the SID for creation of segregated portfolio.

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

4.4.4 [117]**Provisions for Segregation of Portfolio in SID of scheme having investment in instrument with special features:**

a) Debt schemes which have investment in instruments with special features viz. subordination to equity (absorbs losses before equity capital) and /or convertible to equity upon trigger of a pre-specified event for loss absorption (Additional Tier I bonds and Tier 2 bonds issued under Basel III) or debt schemes that have provision to invest in such instruments shall ensure that the Scheme Information Document (SID) of the scheme has provisions for segregated portfolio. The provision to enable creation of segregated portfolio in the existing schemes shall be subject to compliance with Regulation 18(15A) of SEBI (Mutual Funds) Regulations, 1996.

b) In case, the said instrument is to be written off or converted to equity pursuant to any proposal, the date of said proposal may be treated as the trigger date. However, if the said instruments are written off or converted to equity without proposal, the date of write off or conversion of debt instrument to equity may be treated as the trigger date.

c) On the said trigger date, AMCs may, at their option, create segregated portfolio in a mutual fund scheme subject to

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[116] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/127 dated November 07, 2019.
[117] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021.

compliance with relevant provisions of Paragraph 4.4 of this Master Circular and any other relevant Regulations/Circulars/Guidelines issued from time to time.

d) Further, Asset Management Companies/Valuation Agencies shall ensure that the financial stress of the issuer and the capabilities of issuer to repay the dues/borrowings are reflected in the valuation of the securities from the trigger date onwards.

4.4.5 **Process for creation of segregated portfolio**

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

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

4.4.5.2 Once trustee approval is received by the AMC,

i. Segregated portfolio shall be effective from the day of credit event
ii. AMC shall issue a press release immediately with all relevant information pertaining to the segregated portfolio. The said information shall also be submitted to SEBI.

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

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

4.4.6 **Valuation and processing of subscriptions and redemptions**

4.4.6.1 Notwithstanding the decision to segregate the debt and money market instrument, the valuation should take into account the credit event and the portfolio shall be valued based on the principles of fair valuation (i.e. realizable value of the assets) in terms of the relevant provisions of SEBI (Mutual Funds) Regulations, 1996 and Circular(s) issued thereunder.

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

i. Upon trustees' approval to create a segregated portfolio -

a. Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.
b. Investors subscribing to the scheme will be allotted units only in the main portfolio based on its NAV.

ii. In case trustees do not approve the proposal of segregated portfolio, subscription and redemption applications will be processed based on the NAV of total portfolio.

4.4.7 **Disclosure Requirements**

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

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

4.4.7.2 Adequate disclosure of the segregated portfolio shall appear in all scheme related documents, in monthly and half-yearly portfolio disclosures and in the annual report of the mutual fund and the scheme.

4.4.7.3 The Net Asset Value (NAV) of the segregated portfolio shall be declared on every business day.

4.4.7.4 The information regarding number of segregated portfolios created in a scheme shall appear prominently under the name of the scheme at all relevant places such as SID, KIM-cum-Application Form, advertisement, AMC and AMFI websites, etc.

4.4.7.5 The scheme performance required to be disclosed at various places shall include the impact of creation of segregated portfolio. The scheme performance should clearly reflect the fall in NAV to the extent of the portfolio segregated due to the credit event and the said fall in NAV along with recovery(ies), if any, shall be disclosed as a footnote to the scheme performance.

4.4.7.6 The disclosures at paragraphs 4.4.7.4 and 4.4.7.5 above regarding the segregated portfolio shall be carried out for a period of at least 3 years after the investments in segregated portfolio are fully recovered/ written-off.

4.4.7.7 The investors of the segregated portfolio shall be duly informed of the recovery proceedings of the investments of the segregated portfolio. Status update may be provided to the investors at the time of recovery and also at the time of writing-off of the segregated securities.

4.4.8 **TER for the Segregated Portfolio**

4.4.8.1 AMC shall not charge investment and advisory fees on the segregated portfolio. However, TER (excluding the investment and advisory fees) can be charged, on a pro-rata basis only upon recovery of the investments in segregated portfolio.

4.4.8.2 The TER so levied shall not exceed the simple average of such expenses (excluding the investment and advisory fees) charged on daily basis on the main portfolio (in % terms) during the period for which the segregated portfolio was in existence.

4.4.8.3 The legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio in proportion to the amount of recovery. However, the same shall be within the maximum TER limit as applicable to the main portfolio. The legal charges in excess of the TER limits, if any, shall be borne by the AMC.

4.4.8.4 The costs related to segregated portfolio shall in no case be charged to the main portfolio.

4.4.9 **Monitoring by Trustees**

4.4.9.1 In order to ensure timely recovery of investments of the segregated portfolio, trustees shall ensure that:

i. The AMC puts in sincere efforts to recover the investments of the segregated portfolio.

ii. Upon recovery of money, whether partial or full, it shall be immediately distributed to the investors in proportion to their holding in the segregated portfolio. Any recovery of amount of the security in the segregated portfolio even after the write off shall be distributed to the investors of the segregated portfolio.

iii. An Action Taken Report (ATR) on the efforts made by the AMC to recover the investments of the segregated portfolio is placed in every trustee meeting till the investments are fully recovered/ written-off.

iv. The trustees shall monitor the compliance with the guidelines issued by SEBI regarding segregation of portfolio in mutual fund schemes and disclose in the half-yearly trustee reports filed with SEBI, the compliance in respect of every segregated portfolio created.

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

4.4.10 AMCs desirous of having a provision of segregated portfolio in existing scheme (schemes as on December 28, 2018) shall ensure that all relevant disclosures are made in the SID of such schemes. The provision to enable creation of segregated portfolio in the existing scheme shall be subject to compliance with Regulation 18(15A) of SEBI (Mutual Funds) Regulations, 1996.

4.4.11 The existence of the provisions for segregated portfolio should not encourage the AMCs to take undue credit risk in the scheme portfolio. Any mis-use of the provisions of segregated portfolio, would be considered serious and stringent action may be taken.

## 4.5 Risk management framework for liquid and overnight funds[118]

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

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

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

4.5.2 Liquid Funds and Overnight Funds shall not park funds pending deployment in short term deposits of scheduled commercial banks.

4.5.3 Liquid Funds and Overnight Funds shall not invest in debt securities having structured obligations (SO rating) and/ or credit enhancements (CE rating). However, debt securities with government guarantee shall be excluded from such restriction.

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[118] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/101 dated September 20, 2019.

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

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

## 4.6 Prudential Norms regarding holding of liquid assets in Open ended Debt Schemes[119]:

4.6.1 All open ended debt schemes (except Overnight Fund, Liquid Fund, Gilt Fund and Gilt Fund with 10-year constant duration) shall hold at least 10% of their net assets in liquid assets. For this purpose, 'liquid assets' shall include Cash, Government Securities, T-bills and Repo on Government Securities.

4.6.2 The liquid assets specified above shall not be included for determining the scheme characteristics of the open ended debt schemes as specified under Part IV of Chapter 2 of this Master Circular[120]. In this regards it is clarified that –

4.6.2.1 For all regulatory limit calculations other than Asset Allocation Limits (e.g. for Macaulay Duration, Risk-o-meter, investment restrictions pertaining to issuer, sector and group), the base to be considered is 100% of Net Assets

4.6.2.2 For asset allocation limits (applicable for Banking and PSU Bond Fund, Floater Fund, Credit Risk Fund and Corporate Bond Funds scheme categories in terms of Part IV of Chapter 2 on 'Categorization and Rationalization of Mutual Fund Schemes' of this Master Circular the base shall be considered as Net assets excluding the extent of minimum stipulated liquid assets i.e. 10%. Illustration is given below -

[119] SEBI Circular No.SEBI/HO/IMD/DF3/CIR/P/2020/229 dated November 06, 2020
[120] SEBI Circular No. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/583 dated June 25, 2021

| Name of scheme Current Asset | Name of scheme Current Asset | Name of scheme Current Asset |
|---|---|---|
| Banking and PSU Bond Fund | Minimum investment in debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds – 80% of total assets | Minimum 72%** allocation to Banking & PSU Assets |

**80% of (100% reduced to the extent of minimum stipulated liquid assets i.e. 10%), i.e. 80% of 90% of Net Assets.

4.6.3 In case, the exposure in such liquid assets / securities falls below the threshold mandated at paragraph 4.6.1 above, the AMCs shall ensure compliance with the above requirement before making any further investments.

4.6.4 AMFI has prescribed a suitable framework, in consultation with SEBI, for liquidity risk management for open ended debt schemes (except Overnight Fund, Gilt Fund and Gilt Fund with 10-year constant duration). The said framework has come into effect from December 01, 2021, for all existing open ended debt schemes (except Overnight Fund, Gilt Fund and Gilt Fund with 10-year constant duration) and schemes to be launched on or thereafter.

## 4.7 Cyber Security and Cyber Resilience Framework for Mutual Funds/ AMCs[121]

4.7.1 With rapid technological advancement in securities market, there is greater need for maintaining robust cyber security and to have cyber resilience framework to protect integrity of data and guard against breaches of privacy.

[121] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/12 dated January 10, 2019, Refer SEBI email dated February 17, 2021 & August 04, 2022

4.7.2 As part of the operational risk management, the Mutual Funds / Asset Management Companies (AMCs) need to have robust cyber security and cyber resilience framework in order to provide essential facilities and services and perform critical functions in securities market.

4.7.3 Based on the recommendation of SEBI's High Powered Steering Committee - Cyber Security, it has been decided that the framework prescribed vide SEBI circular CIR/MRD/DP13/2015 dated July 06, 2015 on cyber security and cyber resilience also be made applicable to all Mutual Funds / AMC. Accordingly, all Mutual Funds / AMCs shall comply with the provisions of Cyber Security and Cyber Resilience as placed at **Annexure-6.**

4.7.4 The information/ reports mentioned under **Annexure-6** shall be shared through the dedicated e-mail ids: vapt_reports@sebi.gov.in and cybersecurity_amc@sebi.gov.in[122]

4.7.5 Further, the Mutual Funds/ AMCs are mandated to conduct comprehensive cyber audit at least 2 times in a financial year. Along with the cyber audit reports, henceforth, all Mutual Funds/ AMCs are directed to submit a declaration from the Managing Director (MD)/ Chief Executive Officer (CEO) certifying compliance by the Mutual Funds/ AMCs with all SEBI Circulars and advisories related to cyber security from time to time. [123]

4.7.6 Mutual Funds/ AMCs have been advised to take necessary steps to put in place systems for implementation of aforesaid requirement.

### 4.8 *Technology Committee for Mutual Funds/ AMCs*[124]

4.8.1 With rapid technological advancement in securities market, technology is playing a very important role in asset management

[122] SEBI Circular No. SEBI/HO/IMD/IMD-I/DOF2/P/CIR/2022/81 dated June 09, 2022
[123] SEBI Circular No. SEBI/HO/IMD/IMD-I/DOF2/P/CIR/2022/81 dated June 09, 2022
[124] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/058 dated April 11, 2019

business and have a major impact on the various processes and controls designed and implemented by AMCs. The role of technology related aspects has become even more critical in managing risks related to asset management business.

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

4.8.3 The aforementioned committee shall, inter alia, review the cyber security and cyber resilience framework for Mutual Funds / AMCs in terms of Paragraph 7 of **Annexure-6** and also review the system audit related aspects of AMCs in terms of Paragraph 6.15.3 of this Master Circular on system audit framework for mutual funds / AMCs.

## 4.9 Reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by Mutual Funds[125]

4.9.1 There is increasing usage of AI (Artificial Intelligence) and ML (Machine Learning) as product offerings by market intermediaries and participants (e.g.: “robo advisors”) in investor and consumer facing products.

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

**Scope definition**

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[125] SEBI Circular No. SEBI/HO/IMD/DF5/CIR/P/2019/63 dated May 09, 2019

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

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

OR

b. to disseminate investments strategies and advice,

OR

c. to carry out compliance / operations / activities,

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

4.9.4 Technologies that are considered to be categorized as AI and ML technologies in the scope of this chapter, are explained in **Annexure 7.**

**Regulatory requirements**

4.9.5 All registered Mutual Funds offering or using applications or systems as defined in the **Annexure 7**, should participate in the reporting process by completing the AI / ML reporting format[126].

[126] Please see the formats section (SEBI Circular No. SEBI/HO/IMD/DF5/CIR/P/2019/63 dated May 09, 2019)

4.9.6 All the registered Mutual Funds using AI / ML based application or system as defined in **Annexure 7**, are required to fill in the form as per the format[127] and make submissions on quarterly basis within 15 calendar days of the expiry of the quarter to AMFI.

4.9.7 AMFI shall consolidate the information on AI / ML applications and systems reported by Mutual Funds on quarterly basis and submit to SEBI at email id AIML_MF@sebi.gov.in within 30 calendar days of the expiry of the quarter.

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

**4.10 Swing pricing framework for mutual fund schemes**[128]

4.10.1 Swing pricing framework has been introduced for open ended debt mutual fund schemes (except overnight funds, Gilt funds and Gilt with 10-year maturity funds).

4.10.2 Under this framework, to begin with, the swing pricing framework will be made applicable only for scenarios related to net outflows from the schemes. The framework shall be a hybrid framework with:

4.10.2.1 a partial swing during normal times and

4.10.2.2 a mandatory full swing during market dislocation times for high risk open ended debt schemes.

4.10.3 **Swing pricing for normal times**

4.10.3.1 For normal times, the swing pricing framework is stipulated as under:

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[127] Please see the format no. 9 under the section on formats (SEBI Circular No. SEBI/HO/IMD/DF5/CIR/P/2019/63 dated May 09, 2019)

[128] SEBI Circular No. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/631 dated September 29, 2021 and SEBI Circular No. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2022/24 dated February 25, 2022, Refer SEBI letter No. SEBI/HO/ IMD-II/DOF3/ OW/P/2022/5274/1 dated February 08, 2021

i. AMFI shall prescribe broad parameters for determination of thresholds for triggering swing pricing which shall be followed by the AMCs. AMFI shall also prescribe an indicative range of swing threshold to the industry for normal times.

ii. Additionally, AMC may be allowed to have other parameters, if it desires so, considering the nature and characteristics of the mutual fund scheme.

iii. For normal times, AMCs shall decide on the applicability of swing pricing and the quantum of swing factor depending on scheme specific issues.

iv. All of the above shall be disclosed by the AMC in its Scheme Information Document (SID).

4.10.3.2 AMCs may, if they desire so, implement the swing pricing framework for normal period, after incorporating clauses pertaining to the same in their SIDs and the same shall be considered as a Fundamental Attribute Change of the scheme in terms of regulation 18(15A) of SEBI (Mutual Fund) Regulations, 1996.

4.10.4 **Swing pricing for market dislocation**

4.10.4.1 For the purpose of determining market dislocation, AMFI shall develop a set of guidelines/parameters/model for recommending the same to SEBI. SEBI will determine 'market dislocation' either based on AMFI's recommendation or suo moto. Once market dislocation is declared, it will be notified by SEBI that swing pricing will be applicable for a specified period.

4.10.4.2 Subsequent to the announcement of market dislocation, the swing pricing framework shall be mandated only for open ended debt schemes (except overnight funds, Gilt funds and Gilt with 10-year maturity funds) in terms of Part IV of Chapter 2 on

‘Categorization and Rationalization of Mutual Fund schemes’, which:

i. have High or Very High risk on the risk-o-meter in terms of Paragraph 17.4 of this Master Circular (as of the most recent period at the time of declaration of market dislocation); and

ii. classify themselves in the cells A-III, B-II, B-III, C-I, C-II and C-III of Potential Risk Class (PRC) Matrix in terms of Paragraph 17.5 of this Master Circular as tabulated below.

4.10.4.3 A minimum swing factor as under shall be made applicable to the schemes mentioned at paragraph 4.10.4.2 above and the NAV will be adjusted for swing factor.

| **Table** | | | |
|---|---|---|---|
| **Minimum swing factor for open ended debt schemes*** | | | |
| Max Credit Risk of scheme→<br>Max Interest Rate Risk of the scheme ↓ | **Class A (CRV** >=12)** | **Class B (CRV >=10)** | **Class C (CRV <10)** |
| Class I: (MD<=1 year) | Optional | Optional | 1.5% |
| Class II: (MD<=3 years) | Optional | 1.25% | 1.75% |

| | | | |
|---|---|---|---|
| Class III: Any Macaulay duration | 1% | 1.5% | 2% |
| *: Scheme can levy higher swing factor, based on pre-defined parameters, redemption pressure and current portfolio of the scheme subject to a cap on swing factor to be decided by AMC.<br><br>**CRV: Credit Risk Value | | | |

4.10.4.4 All the open ended debt schemes (except overnight funds, Gilt funds and Gilt with 10-year maturity funds) mentioned at paragraph 4.10.4.2 above were advised to incorporate the provision pertaining to mandatory swing factor as stipulated at Table above in their offer documents within a period of three months starting from September 29, 2021, and the same was not considered as a Fundamental Attribute Change of the scheme in terms of regulation 18(15A) of SEBI (Mutual Fund) Regulations, 1996. However, optional swing factor or higher than as specified in Table above shall be considered as Fundamental Attribute Change of the scheme in terms of regulation 18(15A) of SEBI (Mutual Fund) Regulations, 1996

4.10.5 **Other aspects pertaining to swing pricing**

4.10.5.1 When swing pricing framework is triggered and swing factor is made applicable (for normal time or market dislocation, as the case may be), both the incoming and outgoing investors shall get NAV adjusted for swing factor.

4.10.5.2 All AMCs shall make clear disclosures along with illustrations in the SIDs including information on how the swing pricing framework works, under which circumstances it is triggered and the effect on the NAV for incoming and outgoing investors.

4.10.5.3 Swing pricing shall be made applicable to all unitholders at PAN level with an exemption for redemptions upto Rs. 2 lacs for each mutual fund scheme for both normal times and market dislocation.

4.10.5.4 AMCs shall have laid down policies and procedures pertaining to swing pricing which are approved by board of AMC and Trustee.

4.10.5.5 The scheme performance shall be computed based on unswung NAV.

4.10.5.6 Disclosures pertaining to NAV adjusted for swing factor along with the performance impact shall be made by the AMCs in following format in their SIDs and in scheme wise Annual Reports and Abridged summary and the same may be disclosed on their website prominently only if swing pricing framework has been made applicable for the said mutual fund scheme:

| **Sr No.** | **Period of applicability of swing pricing** | **Scheme name** | **Unswung NAV** | **Swing factor applied** | **Whether optional or Mandatory** |
|---|---|---|---|---|---|
| | | | | | |

## CHAPTER 5: DISCLOSURES & REPORTING NORMS

### PART I – DISCLOSURES

### *5.1 Portfolio Disclosures*[129]

5.1.1. Mutual Funds/ AMCs shall disclose portfolio (along with ISIN) as on the last day of the month / half-year for all their schemes on their respective website and on the website of AMFI within 10 days from the close of each month/ half-year respectively in a user-friendly and downloadable spreadsheet format. For debt schemes, such disclosure shall be done on fortnightly basis within 5 days of every fortnight. In addition to the current portfolio disclosure, yield of the instrument shall also be disclosed.

5.1.2. In case of unit holders whose e-mail addresses are registered, the Mutual Funds/ AMCs shall send via email both the monthly and half-yearly statement of scheme portfolio within 10 days from the close of each month/ half-year respectively.

5.1.3. Mutual Funds/ AMCs shall publish an advertisement every half-year disclosing the hosting of the half-yearly statement of its schemes portfolio on their respective website and on the website of AMFI and the modes such as SMS, telephone, email or written request (letter) through which a unit holder can submit a request for a physical or electronic copy of the statement of scheme portfolio. Such advertisement shall be published in the all India edition of at least two daily newspapers, one each in English and Hindi.

5.1.4. Mutual Funds/ AMCs shall provide a physical copy of the statement of its scheme portfolio, without charging any cost, on specific request received from a unit holder.

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[129] SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012, SEBI/HO/IMD/DF2/CIR/P/2018/92 dated June 05, 2018 and SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/130 dated July 22, 2020, Refer SEBI email dated September 30, 2020, Refer SEBI Email dated November 17, 2022

5.1.5. The format[130] for disclosure of portfolio is placed at format section. The format for monthly portfolio disclosure shall be same as that of half yearly portfolio disclosures.

5.1.6. Mutual funds/AMCs may disclose additional information (such as ratios, etc.) subject to compliance with the Advertisement Code.

### *5.2 Disclosure of derivatives in Half Yearly Portfolios*[131]

5.2.1 A format[132] for the purpose of uniform disclosure of investments in derivative instruments by Mutual Funds in half yearly portfolio disclosure, annual report or in any other disclosures is prescribed.

5.2.2 Further, while listing net assets, the margin amounts paid should be reported separately under cash or bank balances.

### *5.3 Unaudited Half Yearly Financials*[133]

5.3.1 The publication of the unaudited half-yearly results shall be made in line with provisions of the Regulations[134], in the format prescribed in Twelfth Schedule. For the purpose of easy reference by the investors, all mutual funds shall display unaudited half yearly results on the website of AMFI before the expiry of 1 month before the close of each half year.

5.3.2 The half yearly disclosures[135] of the unaudited financial results on respective website should be made in a user-friendly and downloadable format (preferably in a spreadsheet).

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130 For formats on portfolio disclosure, please refer format no. 3.C under the section on formats

131 SEBI Circular Cir/ IMD/ DF/ 11/ 2010 dated August 18, 2010

132 For formats on disclosure of derivatives, please refer to format no. 3.C under the section on Formats

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

134 Regulation 59 of SEBI (Mutual Funds) Regulations, 1996

135 SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

### *5.4 Providing Annual Report or Abridged Summary*[136]

For providing annual report[137] or abridged summary thereof, the following shall be adhered

5.4.1 The scheme wise annual report shall be hosted on the website of the Mutual Funds/ AMCs and on the website of AMFI. The Mutual Funds/ AMCs shall display the link prominently on their websites and make the physical copies available to the unit holders, at their registered offices at all times.

5.4.2 Mutual Funds/ AMCs shall e-mail the scheme annual reports or abridged summary thereof to those unit holders, whose email addresses are registered with the Mutual Fund. [138]AMCs shall provide a feature wherein a link is provided to investors to their registered email to enable the investor to directly view/download only the portfolio of schemes subscribed by the said investor.

5.4.3 In case of unit holders whose email addresses are not registered with the Mutual Fund, the Mutual Funds/ AMCs shall undertake an exercise of communicating to the unit holders, through a letter enclosing self-addressed envelope enabling unit holders to 'opt-in' within 30 days, to continue receiving a physical copy of the scheme-wise annual report or abridged summary thereof.

5.4.4 To ensure that unit holders get sufficient opportunity to communicate their preference of 'opt-in' or 'opt-out' with respect to receiving the annual report or abridged summary thereof in physical copy, Mutual Funds/ AMCs shall conduct one more round of similar exercise for those unit holders who have not responded to the 'opt-in'

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[136] SEBI Circular No. IMD/CIR No.8/132968/2008 dated July 24, 2008, Circular No. Cir/IMD/DF/16/2011 dated September 08, 2011 and SEBI/HO/IMD/DF2/CIR/P/2018/92 dated June 05, 2018, Refer SEBI letter No. SEBI/HO/IMD-II/DoF8/OW/P/05031/2022- dated February 07, 2022

[137] For format of abridged scheme wise report, please refer format no. 3.B under the section on formats

[138] SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/621 dated August 31, 2021

communication as stated at paragraph 5.4.3 above, after a period of not less than 30 days from the date of issuance of the first communication. Further, a period of 15 days from the date of issuances of the second communication may be given to unit holders to exercise their option of 'opt-in' or 'opt-out'.

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

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

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

5.4.8 These websites should also be linked with AMFI website so that the investors and analyst(s) can access the annual reports of all mutual funds at one place[139].

### *5.5 Disclosure of large unit holdings[140]*

5.5.1 The number of investors holding over 25 % of the NAV[141] in a scheme and their total holdings in percentage terms shall be disclosed in the

[139] SEBI Cir No – MFD/CIR/15/041/2002 dated March 14,2002
[140] SEBI Circular No. MFD/CIR No.3/211/2001 dated April 30, 2001.
[141] For further details, refer Part II – Scheme Governance in the Chapter 6 on 'Governance Norms'

Statement of Accounts issued after the NFO and also in the Half Yearly and Annual Results[142].

### *5.6 Asset Under Management (AUM) disclosure[143]*

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

5.6.2 Mutual Funds shall disclose the following on monthly basis on their website and also share the same with Association of Mutual Funds in India (AMFI)[144]:

a. Monthly AAUM[145] from different categories of schemes such as equity schemes, debt schemes, etc.
b. Contribution to Monthly AAUM from B-30[146] cities (i.e. other than top 30 cities as identified by AMFI) and T-30 cities (Top 30 cities).
c. Contribution to Monthly AAUM from sponsor and its associates.
d. Contribution to Monthly AAUM from entities other than sponsor and its associates.
e. Contribution to Monthly AAUM from investors type (retail, corporate, etc.) in different scheme type (equity, debt, ETF, etc.).

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[142] Please refer format no. 3.A & 3.B under the section on Formats
[143] SEBI Circular No. Cir/IMD/DF/13/2011 dated August 22, 2011
[144] SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014
[145] SEBI Circular No. CIR/IMD/DF/07/2014 dated April 2, 2014
[146] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/16 dated February 02, 2018, Refer SEBI letter No. SEBI/HO/IMD/DF2/OW/P/2019/26551/1 dated October 09, 2019.

f. Monthly AAUM garnered through sponsor group/ non-sponsor group distributors.

g. State-wise/Union Territory-wise contribution to Monthly AAUM.

5.6.3 In order to have a holistic picture, Mutual Fund wise and consolidated data on the above parameters shall also be disclosed on AMFI website. The above shall be disclosed as per the format[147].

5.6.4 AMCs shall disclose the above on their website (in spreadsheet format) and forward to AMFI within 7 working days from the end of the month. AMFI in turn shall disclose the consolidated data in this regard on its website (in spreadsheet format).

### *5.7 Commission disclosure[148]*

5.7.1 Mutual Funds / AMCs shall disclose on their respective websites the total commission and expenses paid to distributors who satisfy one or more of the following conditions with respect to non-institutional (retail and HNI) investors: -

5.7.1.1 Multiple point of presence (More than 20 locations)

5.7.1.2 AUM raised over Rs.100 crores across industry in the non-institutional category but including high net worth individuals (HNIs).

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

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

5.7.2 Mutual Fund / AMCs shall, in addition to the total commission and expenses paid to distributors, make additional disclosures[149] regarding distributor-wise gross inflows (indicating whether the

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[147] For formats, please refer to format 3.D under the section on Formats

[148] SEBI Circular No. Cir/IMD/DF/13/2011 dated August 22, 2011

[149] SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

distributor is an associate or group company of the sponsor(s) of the mutual fund), net inflows, average assets under management and ratio of AUM to gross inflows on their respective website on an yearly basis.

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

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

### *5.8 Scheme Related Disclosures*[150]

In order to improve transparency as well as ease of access to Mutual Fund (MF) scheme related information:

5.8.1 Mutual Funds shall provide the following additional disclosures in the offer documents (Scheme Information Document (SID) / Key Information Memorandum (KIM)) of Mutual Fund scheme (for existing scheme / new scheme, as applicable):

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

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

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

[150] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016

5.8.1.4 Scheme's portfolio turnover ratio.

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

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

a) AMC's Board of Directors
b) Concerned scheme's Fund Manager(s) and
c) Other key personnel[151].

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

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

5.8.4 Each MF is required to have a dashboard on their website providing performance and key disclosures pertaining to each scheme managed by AMC. The information should include scheme's AUM, investment objective, expense ratios, portfolio details, scheme's past performance, among others. Such information shall be provided in a comparable, downloadable (spreadsheet) and machine readable format.

### *5.9 Disclosure of scheme performance[152]*

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

5.9.1 In case of all schemes, the scheme returns vis-à-vis the benchmark return (Total Return Index) shall be disclosed in terms of CAGR for

[151] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021
[152] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018

various periods viz. 1 year, 3 year, 5 year, 10 year and since inception. Such disclosure of performance (since inception) shall be made since the date of allotment of the units in the scheme[153].

Provided[154] that all schemes that are in existence for less than one year, other than overnight fund, liquid fund, ultrashort duration fund, low duration fund, and money market fund as defined in Part IV of Chapter 2 on 'Categorization and Rationalization of Mutual Fund Schemes', shall be exempted from the aforesaid disclosure.

5.9.2 In addition to the above, in case of schemes falling in categories such as overnight fund, liquid fund, ultrashort duration fund, low duration fund, and Money Market Fund as defined in Part IV of Chapter 2 on 'Categorization and Rationalization of Mutual Fund Schemes', scheme performance is also to be disclosed for a period of 7 days, 15 days, 1 month, 3 months and 6 months.

5.9.3 The said disclosure should be made for all plans and shall be updated daily based on previous day NAV.

5.9.4 The said disclosure should be in investor friendly format with filtering feature based on scheme-type, plan-type, etc. and sorting feature based on return periods.

5.9.5 [155]The disclosure should include other important fields such as scheme AUM (excluding overnight and liquid scheme) and previous day NAV. In case of AUM of overnight and liquid schemes, the closing AUM and the AAUM of the previous month has to be disclosed on AMFI website on daily basis.

However, the day the AUM movement (both upward and downward) of both overnight and liquid scheme is more than 10% cumulatively

[153] SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021
[154] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019
[155] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

from the previous disclosed AUM, the AUM of that day has to be disclosed. Such disclosed AUM becomes the reference AUM for future disclosure of AUM for the month.

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

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

### *5.10 Annual report of the AMC*[156]

5.10.1 The annual report containing accounts of the AMC should be displayed on the websites of the mutual funds immediately after approval in Annual General Meetings within a period of four months, from the date of closing of the financial year. It should also be mentioned in the annual report of mutual fund schemes that the unitholders, if they so desire, may request for the annual report of the AMC. Further, the annual report of AMCs shall be displayed on their websites in machine readable format.

### *5.11 Submission of bio data of key personnel*[157]

5.11.1 AMCs are required to submit the bio data of all key personnel to Trustees and the Board[158].

5.11.2 [159] The term “Key Personnel” is defined as under:

[156] MFD/CIR/9/120/2000 dated November 24, 2000 and SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021
[157] IIMARP/CIR /08/845/97 dated May 7,1997, IIMARP/MF/CIR/05/788/97 date April 28,1997
[158] For format of bio-data of key personnel, please refer format no. 1 under the section on Formats
[159] SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

*"Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Chief Information Security Officer (CISO), Chief Operation Officer (COO), Fund Manager(s), Compliance Officer, Sales Head, Investor Relation Officer(s) (IRO), heads of other departments, Dealer(s) of the AMC and such other persons as deemed fit and identified as such by the AMC and the Trustees."*

### *5.12 Disclosure Of Executive Remuneration*[160]

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

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

5.12.2 Name, designation and remuneration received by top ten employees in terms of remuneration drawn for that financial year.

5.12.3 Name, designation and remuneration of every employee of MF/AMC whose:

5.12.3.1 Annual remuneration was equal to or above one crore and two lakh rupees for that financial year;

5.12.3.2 Monthly remuneration in the aggregate was not less than eight lakh and fifty thousand rupees per month, if the employee is employed for a part of that financial year.

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[160] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016 and SEBI/HO/IMD/DF2/CIR/P/2017/35 dated April 28, 2017

5.12.4 The ratio of CEO's remuneration to median remuneration of MF/AMC employees.

5.12.5 MF's total AAUM, debt AAUM and equity AAUM and rate of growth over last three years.

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

### *5.13 Disclosure of investor complaints with respect to Mutual Funds[161]*

5.13.1 Mutual Funds shall disclose[162] on their websites, on the AMFI website as well as in their Annual Reports, details of investor complaints received by them from all sources. The said details in the annual report should be vetted and signed off by the Trustees of the concerned Mutual Fund. [163] Mutual Funds shall disclose the details of investor complaints on their respective websites as well as on AMFI website on a monthly basis, as per the format. The information shall be made available within 7th of succeeding month.

5.13.2 The Mutual Funds are advised to:

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

5.13.3 Further, in order to facilitate awareness of investors about various activities which an investor deals with, SEBI has prepared an Investor Charter for Mutual Funds[164], inter-alia, detailing the

[161] SEBI Circular No. Cir /IMD/DF/2/2010 dated May 13, 2010
[162] For disclosure format please refer format no. 7.D under the section on Formats.
[163] SEBI Circular No. SEBI/HO/IMD-II/IMD-II_DOF10/P/CIR/2021/00677 dated December 10,2021
[164] For Investor Charter for Mutual Funds, please refer format no. 12 under the section on formats

services provided to Investors, Rights of Investors, various activities of Mutual Funds with timelines, DOs and DON'Ts for Investors and Grievance Redressal Mechanism.

5.13.4 In this regard, Mutual Funds are advised to bring the Investor Charter for Mutual Funds to the notice of their unit holders (existing as well as new unit holders) through disclosing the Investor Charter on their websites, making them available at prominent places in the office, etc.

5.13.5 Further, Mutual Funds are advised to display link/option to lodge complaint with them directly on their websites and mobile apps. Additionally, link to SCORES website/ link to download mobile app (SEBI SCORES) shall also be provided on their website.

### *5.14 Brokerage and commission paid to associates*[165]

5.14.1 Regulations[166] govern payment of brokerage or commission if any, to the sponsor or any of its associates, employees or their relatives.

5.14.2 Disclosures on brokerage and commission paid to associates/related parties/group companies of sponsor/Asset Management Company in the unaudited half yearly financial results, the abridged scheme wise annual report and the SAI, shall be made in the format as prescribed[167].

[165] SEBI Circular No. SEBI/IMD/CIR No 18/198647/2010 dated March 15, 2010
[166] Regulation 25 (8) of SEBI (Mutual Funds) Regulations, 1996
[167] Please refer format no. 7.B on Brokerage and Commission Paid to Associates under section on Formats

### *5.15 Updating contact details*

5.15.1 Mutual Funds/ AMCs shall make continuous efforts to update email ID and mobile number of all unit holders. The said contact details shall be used for sending e-mails and SMS.[168]

### *5.16 Risk-O-Meter related disclosures*

5.16.1 [169]Mutual Funds/AMCs shall disclose the following in all disclosures, including promotional material or that stipulated by SEBI:

5.16.1.1 risk-o-meter of the scheme wherever the performance of the scheme is disclosed

5.16.1.2 risk-o-meter of the scheme and benchmark wherever the performance of the scheme vis-à-vis that of the benchmark is disclosed.

5.16.2 The disclosure requirement of the risk-o-meter of benchmark is applicable for primary benchmark which is specified in the Scheme Information Document.

5.16.3 For international benchmarks, risk-o-meter score may be assigned in line with risk-o-meter score assigned to foreign securities as specified in Paragraph 16.4 of this Master Circular.

5.16.4 AMCs shall enter into arrangements with their selected Index providers to provide the risk-o-meter for their benchmarks to the AMCs latest by the fifth day subsequent to the end of the month.

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[168] SEBI/HO/IMD/DF2/CIR/P/2018/92 dated June 05, 2018
[169] SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/621 dated August 31, 2021

### *5.17 Details of Portfolio*

5.17.1 Mutual Funds/ AMCs shall send the details of the scheme portfolio while communicating the fortnightly, monthly and half-yearly statement of scheme portfolio via email only for the schemes in which the unitholders are invested. [170]Further the portfolio disclosure shall also include the scheme risk-o-meter, name of benchmark and risk-o-meter of benchmark.

[170] SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/621 dated August 31, 2021

## PART II – REPORTS

### *5.18 Monthly Cumulative Report (MCR)*[171]

5.18.1 Date and Mode of Submission:

5.18.1.1 MCR shall be submitted to the Board by 3rd working day of each month by way of an email (to Email ID: mfdata@sebi.gov.in).

5.18.1.2 In line with Part IV of Chapter 2 on "Categorization and Rationalization of Mutual Fund Schemes", the format of MCR[172] has been revised.

5.18.1.3 As per the existing provision, a Mutual Fund scheme is permitted to invest certain percentage of its AUM in schemes of same Mutual Fund or other Mutual Funds. In order to avoid such investments being considered by both the investee and investing scheme, it is clarified that the investing scheme shall exclude the same while reporting the data on AUM in the MCR[173].

5.18.2 Other Guidelines:

5.18.2.1 Details of the new schemes launched shall be reported in the MCR for the month in which the allotment is done. For example, if an NFO closes in the month of July and the allotment is done in the month of August, then, the details of the new scheme shall be reported in the MCR for the month of August that will reach SEBI by 3rd of September.

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[171] SEBI circular MFD/CIR/07/206/2001 dated July 19, 2001, SEBI circular No IMD/Cir No.15/87045/2007 dated February 22, 2007, SEBI circular SEBI/IMD/CIR No 3/124444/08 dated April 30, 2008, SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016, SEBI/HO/IMD/DF3/CIR/P/2019/020 dated January 22, 2019 and SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

[172] For format of Monthly Cumulative Report, please refer to format no. 2.D under the section on formats

[173] SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2019/020 dated January 22, 2019

5.18.2.2 Further, additional report on overseas investment[174] by Mutual Funds in ADRs/GDRs, foreign securities and overseas exchange traded funds (ETFs) shall also be provided as per the prescribed format[175].

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

### *5.19 New Scheme Report (NSR)[176]*

5.19.1 All Mutual Funds shall submit the NSR to SEBI complete in all respects within 10 working days from the date of allotment in the prescribed format[177]. Mutual funds should confirm compliance with the provisions of Regulation 28(3) of SEBI (Mutual Funds) Regulations, 1996 while filing the New Scheme Report[178].

### *5.20 Quarterly Compliance Test Reports[179]*

5.20.1 The CTRs[180] should be submitted by the AMC to the Board on a quarterly basis, by 21st calendar day of succeeding month for the quarters ending March, June, September and December. As a compliance of SEBI Regulations is a continuous process, AMCs are advised to incorporate the modifications/additions under the

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[174] SEBI Circular No. SEBI/IMD/CIR NO 15/87045/07 dated February 22,2007
[175] Please refer to format no. 2.D under the section on formats
[176] SEBI Circular No. SEBI/IMD/CIR NO 13/118899/08 dated February 29, 2008, SEBI Circular No MFD/CIR/12/16588/2002 dated August 28, 2002, SEBI Circular No. MFD/CIR/09/247/2002 dated July 23, 2002, SEBI Circular No. IIMARP/10772/93 dated July 14,1993,
[177] Please refer to format no. 2.A under the section on formats
[178] SEBI Circular No. SEBI/IMD/CIR No.9/74364/06 dated August 14, 2006
[179] SEBI Circular No. SEBI/IMD/CIR NO 6/98057/07 dated July 5, 2007, SEBI Circular No MFD/CIR/11/36222/2005 dated March 16, 2005, SEBI Circular No IIMARP/MF/CIR/10/1076/97 dated June 05,1997 & SEBI Circular No.MFD/CIR/5/360/2000 dated July 4, 2000, Refer SEBI email dated July 09, 2021
[180] Please refer to format no. 2.B under the section on Formats

relevant sections of the format, based on amendments to the Regulations/guidelines issued in the future from time to time.

### *5.21 Half Yearly Trustee Report by Trustees to SEBI (HYTR)*[181]

5.21.1 The Trustees shall submit HYTR to SEBI, containing the broad coverage of report as prescribed in the format. The Trustees shall submit corrective steps taken with respect to the non-compliance reported in the HYTR. Trustees shall submit the report for Half year ending September and March within two months from the end of the half year.

### *5.22 Quarterly Report by AMC to Trustees (QR)*[182]

5.22.1 The AMC shall submit QR to the trustees, as required in sub-regulation (4) of Regulation 25 of MF Regulations, on its activities and the compliance with MF Regulations and various circulars issued thereunder. The format of QR is prescribed at the format section. The same shall be submitted by AMC to Trustees by 21$^{st}$ calendar day of succeeding month for the quarters ending March, June, September and December.

### *5.23 Annual Statistical Report (ASR)*[183]

5.23.1 AMC should submit the annual statistical report to SEBI in the prescribed format[184] by 30th of April each year. The ASR shall be submitted to the Board through email only (to email ID: mfdata@sebi.gov.in)[185].

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[181] SEBI/HO/IMD/IMD-I DOF2/P/CIR/2021/550 dated April 12, 2021 & For HYTR format, please refer to format no. 2.C under the section on Formats
[182] SEBI/HO/IMD/IMD-I DOF2/P/CIR/2021/550 dated April 12, 2021 & For QR format, please refer to format no. 2.G under the section on Formats
[183] IIMARP/CIR /08/845/97 dated May 7,1997, MFD/CIR/02/110/02 dated April 26,2002
[184] For format of ASR, please refer to format no. 2.E under the section on Formats
[185] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

### *5.24 Daily Transaction Report*[186]

5.24.1 All Mutual Funds shall submit details of transactions in secondary market on daily basis in the prescribed format[187]. Accordingly, Mutual Funds are advised to make necessary arrangements with their custodians for the submission of reports on a daily basis. As it is clear in the format, the information is required of total repurchases/ sales of equity/ debt and not of each scrip. Further, the information on total purchases/sales of sensitive index scrips need not be sent.

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

### *5.25 Responsibilities of AMC(s) and Trustees*[188]

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

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

5.25.3 AMC(s) shall develop a suitable Management Information System for reporting to the Trustees. The report shall contain specific comments on all issues related to the operation of the Mutual Fund as undertaken by the AMC including those provided in the format for reporting by AMC to Trustees[189].

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[186] SEBI Circular No. MFD/CIR/07/384/99 dated December 17, 1999 and MFD/CIR/08/23026/99 dated December 23, 1999

[187] For format of daily transaction report, please refer to format no. 2.F under the section on formats

[188] SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000

[189] Please refer to format no. 2.G under the section on formats

5.25.4 The half-yearly report on the activities of the mutual fund to be submitted by the trustees to the Board under the Mutual Funds Regulations[190] shall cover all issues mentioned in the prescribed format as well as any other issue relevant to the operation of the Mutual Fund[191]. The Trustees may mention in their report, if they so desire, that they have relied on the reports obtained from the independent auditor or internal/ statutory auditors or the Compliance Officer as the case may be. The report shall mention that the Trustees have satisfied themselves about the adequacy of compliance systems in the Mutual Fund.

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

5.25.6 To comply with the requirement of sub-regulation (16) of regulation 18 of the SEBI (Mutual Funds) Regulations, 1996, the trustees shall call for the details of transactions in securities by the key personnel of the asset management company in their own name or on behalf of the AMC on a quarterly basis[192].

### *5.26 Filing of Annual Information Return by Mutual Funds[193]*

5.26.1 Mutual funds are required to submit the Annual Information Return (AIR) under section 285 BA of the Income Tax Act, and various guidelines notified by Central Board of Direct Taxes (CBDT). As per this requirement, Trustees of Mutual Funds or such other person managing the affairs of the Mutual Funds (as may be duly authorized

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190 Regulation 18(23)(a) of SEBI (MF) Regulations, 1996
191 For format of Trustee Report, please refer format no. 2.C under the section on formats.
192 SEBI Circular No- IIMARP/MF/CIR/01/294/98 dated February 4, 1998, SEBI Circular No- SEBI/HO/IMD/IMD-1 DOF2/P/CIR/2021/550 dated April 12, 2021
193 SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

by the trustees in this behalf) have to report specified financial transactions through electronic medium to Income Tax Department giving PAN of the transacting parties in an Annual Information Return (AIR).

### *5.27 Reporting of offsite inspection data to SEBI*[194]

5.27.1 As a part of off-site inspection and surveillance of Mutual Funds and to monitor the compliance of the SEBI (Mutual Funds) Regulations, 1996 and circulars issued therein, SEBI has framed the data structure and all the Mutual Funds along with RTAs associated with them are required to furnish the data to SEBI. The standard format for submission of data by Mutual Funds is given under formats section of this Master Circular.

5.27.2 Mutual Funds shall submit the daily data in monthly file as per the specified formats on quarterly basis within 10 calendar days from end of the quarter. RTAs shall submit the said data on an ongoing basis.

5.27.3 Details of the requirements prescribed under various paragraphs of this Master Circular which are covered through the reporting formats, as mentioned in the paragraph 5.27.1 above, are specified under formats section of this Master Circular[195].

5.27.4 Any change in the prescribed formats shall be communicated by the Board from time to time.

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[194] For formats on reporting of off-site inspection, please refer to Format no. 13 under the section on formats

[195] Refer to section D of Format no. 13 under the section on formats

# CHAPTER 6: GOVERNANCE NORMS

## PART I - FUND GOVERNANCE

### *6.1 Formation of Audit and Valuation Committees by the Trustees and/or AMC*[196]

6.1.1 **Audit Committee of Trustees**

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

6.1.2 **Audit Committee of Asset Management Companies**[197]

AMCs of mutual funds shall be required to constitute an Audit Committee. The role, responsibility, membership and other features of the Audit Committee of AMC are –

6.1.2.1 **Role:** The Audit Committee of the AMC shall be responsible for oversight of financial reporting process, audit process, company's system of internal controls, compliance to laws and regulations and other related process, with specific reference to operation of its Mutual Fund business. In this regard, the Audit Committee shall, inter-alia, have the following mandates:

a) To review the financial reporting processes, the system of internal controls and the audit processes for the Mutual Fund operations of the AMC;
b) To ensure that the rectifications, if any, suggested by internal and external auditors, etc. are acted upon.

[196] SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000.
[197] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF2/P/CIR/2022/17 dated February 09, 2022 which is applicable from August 1, 2022.

6.1.2.2 Membership:

a. The Audit Committee of AMC shall have minimum three directors as members.
b. At least two-third members of the Audit Committee shall be independent directors of AMC. If two-third of the total strength results into fraction, then higher number after rounding up shall be considered.
c. The members of the Audit Committee will be appointed by the Board of Directors of AMC.
d. All members of Audit Committee shall be persons with ability to read and understand the financial statement and at least one member shall have experience and background in finance and accounts.
e. The Chairperson of the Committee shall be an independent director, with adequate experience in the areas of finance and financial services.

6.1.2.3 Meetings:

a. The Chairperson of the Audit Committee shall call the meeting as and when required. However, atleast four meetings shall be called in a financial year and not more than one hundred and twenty days shall elapse between two meetings.
b. The quorum for meeting shall either be two members or one third of the members of the Audit Committee, whichever is greater, with at least two independent directors.

If one-third of the total strength results into fraction, then higher number after rounding up shall be considered for the quorum.

6.1.2.4 Reporting:

a. The internal auditor shall submit its report to the Audit Committees of AMC and the Board of AMC;

   The Audit Committee of AMC shall forward their observations on internal audit report, if any, to the Trustees.

6.1.2.5 Powers and Responsibility:

I. Financial Reporting

a. Oversight of the Mutual Fund Schemes' and AMC's financial reporting process.
b. Considering and recommending for approval of AMC Board, all accounting policy issues for the Schemes and the AMC, including any proposed changes to the accounting policies and practices for transactions with related parties, etc.
c. Review of audit opinion issued by the statutory auditors.
d. Considering and recommending to the AMC Board, adoption of financial statements including half yearly unaudited financial results prepared for the Scheme and the financial statements of the AMC.
e. Any other relevant matters.

II. Audit (Internal and Statutory) and Internal Controls

a. Considering and recommending for approval, the appointment, re-appointment and, if required, the replacement or removal of the Statutory Auditor of the Mutual Fund, Internal Auditor of the Mutual Fund, etc. and the fixation of fees for audit and any other services rendered by the Statutory Auditors with respect to the Mutual Fund.
b. Reviewing the scope of Internal Auditors and recommending for approval of the Board of AMC.
c. Reviewing the Internal Audit Reports of the Schemes of Mutual Fund (Including Internal Audit Report of critical activities outsourced by the AMC such as Custodian, Fund Accounting, the Registrar and Transfer Agent activity, etc.).
d. Discussions with internal and statutory auditors on any significant findings and follow up there on.

e. Reviewing the findings of any internal investigations by the AMC / internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature or issues highlighted or referred through whistle blower complaints, etc.
f. Reviewing Regulatory Inspection Reports.
g. Reviewing implementation status of all outstanding action points arising out of Internal Audit Reports, Statutory Audit Reports, Systems Audit Reports, Inspection Reports etc.
h. Reviewing the adequacy of the internal control systems, including defining metrics for measuring internal controls, seeking comments of the internal auditors about Internal Control Systems, etc. and the steps taken towards improving the effectiveness of internal control system including through automation.
i. Interacting with the statutory and internal auditors of the Mutual Fund, at least once annually without engagement of management of the AMC. Besides the mandatory requirement specified, such interactions may be held whenever felt necessary by the independent directors of the Audit Committee.
j. The Audit Committee of the AMC should interact with the Audit Committee of the Trustees at least once annually.

III. Regulatory Compliance and other Functions

a. Evaluating various internal control measures in terms of applicable SEBI (Mutual Funds) Regulations and various circulars issued thereunder.
b. Reviewing periodic report on compliance with applicable laws and regulations, including the details of non-compliance along with the corrective actions, as applicable.
c. Reviewing the Annual Compliance Report in relation to the "Policy on Prohibition of Insider Trading" of the AMC.

d. Assess that the AMC 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.

IV. In addition to the above responsibilities, AMC Board from time to time may also assign such other responsibilities to the Audit Committee, as deemed fit.

6.1.2.6 The Audit Committee of AMC shall comply with these guidelines in addition to the requirements of The Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as applicable.

6.1.3 **Valuation Committee**

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

## 6.2 *Review and Reporting of Transactions*[198]

6.2.1 **Reporting of transactions**

6.2.1.1 Transaction(s) by directors of the AMC

a. Directors of the AMC shall file with the trustees on a quarterly basis details of transactions in securities exceeding Rs.1 lac[199].

[198] SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000, SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000, SEBI Circular No. SEBI/MFD/CIR/10/039/2001 dated February 9, 2001.
[199] SEBI Circular No. SEBI/MFD/CIR/10/039/2001 dated February 9, 2001.

6.2.1.2 Trustee(s) Directors

a. Trustees are required to report to Mutual Funds only those transactions in securities that exceed [200]INR Five lakhs in value[201]. The same shall be filed by the trustees within one month from the end of respective quarters (March, June, September and December).

6.2.2 **Review of transactions**

6.2.2.1 Trustees shall review all transactions of the Mutual Fund with the associates on a regular basis and ensure that Regulations[202] are complied with.

## *6.3 Role of Independent Director on the Board of the AMC and Independent Trustees*[203]

6.3.1 An Independent Trustee shall not be associated in any manner with the Sponsor(s)[204]. The independent directors on the Board of the AMC shall not be associate of, or associated in any manner with, the sponsor or any of its subsidiaries or the trustees[205].

6.3.2 An 'associate' shall be defined as:

6.3.2.1 Relatives[206] of Sponsor(s) or directors of the Sponsor Company or relatives of Associate Directors of the AMC(s) and Trustee.

6.3.2.2 Persons providing any type of professional service to the Mutual Funds, the AMC and the Trustees and the Sponsor(s). Also, persons having a material pecuniary relationship with the above

[200] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021.

[201] Regulation 18(11) of SEBI (MF) Regulations, 1996 and SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000.

[202] Regulations 18(6) and 18(7) of SEBI (Mutual Funds), Regulations, 1996

[203] SEBI Circular No. MFD/CIR/11/354/2001 dated December 20, 2001, SEBI Circular No. MFD/CIR/13/16799/2002 dated August 29, 2002, SEBI Circular No. MFD/CIR/17/21105/2002 dated October 28, 2002.

[204] Regulation 16(5) of the SEBI (Mutual Funds) Regulations, 1996.

[205] Regulation 21(d) of the SEBI (Mutual Funds) Regulations, 1996

[206] As defined under Section 2(77) of the Companies Act 2013

mentioned entities that may, in the judgment of the Trustees, affect their independence.

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

6.3.3 Cooling off Period

6.3.3.1 An “Associate”[207] as defined above cannot be appointed as Independent Director even after he/she ceases to be an “Associate” unless a cooling off period of three years has elapsed from the date of his disassociation.

6.3.3.2 For the sake of clarity and to avoid any ambiguity, an example is given here. Supposing an employee of the sponsor or their associate companies or AMC or trustee company resigns on December 1, 2021, then he cannot be appointed as an independent director till December 1, 2024. During this intervening period, he can be appointed only as associate director. However, once he is taken as an associate director, say on December 2, 2021, he cannot be considered as "independent" from December 2, 2024. There must be a cooling off period of 3 years from the date he ceases to be an associate director.

6.3.4 The clarifications at Paragraphs 6.3.1, 6.3.2 and 6.3.3.1 shall be followed in case of directors of trustee companies and AMCs.

6.3.5 Mutual Funds are required to have a minimum of 50 per cent and two-third independent directors on the Board of the AMC(s) and Trustees respectively[208]. In case the composition of the directors does not meet these requirements, Mutual Funds are required to inform the Board along with the steps proposed to ensure compliance.

[207] Regulation 2(c) of the SEBI (Mutual Funds) Regulations, 1996
[208] Regulation 21(d) and Regulation 16(5) of the SEBI (Mutual Funds) Regulations, 1996

6.3.6 AMC(s) or Trustees shall appoint Independent Directors in place of the resigning director(s) within a period of 3 months from the date of resignation. Where Mutual Funds are unable to meet this time limit, they shall report to the Board explaining the reasons for non-compliance. Mutual Funds may maintain a panel of eligible persons who can be appointed as Independent Directors[209] as and when required. They may also consider appointing more than the required minimum number of Independent Directors to enhance the standards of corporate governance and also to meet the regulatory requirements in case of resignation of an independent director.

6.3.7 On appointment of new directors of the AMC or Trustee, their bio-data[210] shall be filed with the Board for information or approval respectively.

### *6.4 Tenure of independent trustees and independent directors[211]*

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

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

6.4.1.2 No independent trustee or independent director shall hold office for more than two consecutive terms, however such individuals

[209] For bio data of directors (AMC and Trustee), please refer to format no. 1 under the section on Formats

[210] For bio data of directors (AMC and Trustee), please refer to format no. 1 under the section on Formats

[211] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/125 dated November 30, 2017.

shall be eligible for re-appointment after a cooling-off period of 3 years. During the cooling-off period, such individuals should not be associated with the concerned MF, AMC & its subsidiaries and / or sponsor of AMC in any manner whatsoever.

6.4.1.3 Existing independent trustees and independent directors shall hold office for a maximum of 10 years (including all preceding years for which such individual has held office). In this respect, the following may be noted:

a. Individuals who have held office for less than 9 years (as on November 30, 2017) may continue for the residual period of service.
b. Individuals who have held office for 9 years or more (as on November 30, 2017) to continue in their respective position for a maximum of 2 additional years.[212]
c. Such individuals shall subsequently be eligible for re-appointment after a cooling-off period of 3 years, in terms of Paragraph 6.4.1.1 and Paragraph 6.4.1.2 above.

### *6.5 Auditors of Mutual Funds[213]:*

6.5.1 The auditor of a mutual fund, appointed in terms of Regulation 55 (1) of MF Regulations shall be a firm, including a limited liability partnership, constituted under the LLP Act, 2008[214].

6.5.2 Period of appointment: With respect to appointment of auditors in terms of Regulation 55 (1) of SEBI (MFs) Regulation, 1996, it has been decided that:

6.5.2.1 No MF shall appoint an auditor for more than 2 terms of maximum five consecutive years. Such auditor may be re-appointed after cooling off period of 5 years.

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[212] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/19 dated February 07, 2018.
[213] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/125 dated November 30, 2017.
[214] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

6.5.2.2 Further, during the cooling-off period of five years, the incoming auditor may not include:

a. Any firm that has common partner(s) with the outgoing audit firm

b. Any associate[215] firm(s) of the outgoing audit firm which are under the same network of audit firms wherein the term "same network" includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

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

a. Auditors who have conducted audit of the Mutual Fund for less than 9 years (as on November 30, 2017) may continue for the residual period of service.

b. Auditors who have conducted audit of the Mutual Fund for 9 years or more (as on November 30, 2017) may continue till the end of F.Y. 2018-19[216].

c. Such auditors shall subsequently be eligible for re-appointment after a cooling-off period of 5 years, in terms of Paragraph 6.5.2.1 and Paragraph 6.5.2.2.

## *6.6 Investment and/or for / Trading in Securities by the employees of the AMC(s) and Trustee(s)[217]*

The guidelines enumerated below specify the minimum requirements that have to be followed. The AMC(s) and Trustees are free to set more

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[215] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

[216] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/19 dated February 07, 2018.

[217] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/654 dated October 28, 2021 modified provisions of SEBI Circular No. MFD/CIR No.4/216/2001 dated May 8, 2001, SEBI Cir MFD/CIR/05/432/2002 June 20, 2002, SEBI Circular No. SEBI/IMD/CIR No.7/13391/03 dated July 11, 2003, SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009, SEBI/IMD/DF/10/2014 dated May 22, 2014, SEBI Circular

stringent norms for investment and/or trading in securities by their employees. The Board of the AMC and Trustees shall ensure compliance with these Guidelines on a continuous basis and shall report any violations and remedial action taken by them in the periodical reports submitted to the Board[218].

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

6.6.1.1 **Applicability**

a. These Guidelines shall be applicable to all employees of AMC(s) and Trustees and shall form a part of the Code of Conduct for employees adopted by the AMC(s) and/or Trustees. New employees shall be bound by these Guidelines from the date of joining the AMC(s) and/or Trustees.

b. These Guidelines shall cover transactions for sale or purchase of securities made:

   i. In the name of employees, either individually or jointly,

   ii. In the name of the employees' spouse,

   iii. As a member of HUF,

   iv. In the name of parent, sibling or child of the employee or of the spouse of such employee, any of whom is either dependent financially on such employee or spouse of employee, or consults such employee or spouse of employee in taking decisions relating to trading in securities.

No. SEBI/HO/IMD/DF2/CIR/P/2016/124 dated November 17, 2016 and SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021. SEBI Circular No. SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/654 dated October 28, 2021

[218] Regulation 25(9) of SEBI (Mutual Funds) Regulations, 1996

6.6.1.2 **<u>The objectives and principles of these Guidelines are</u>:**

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

b. To ensure that the employees of AMC(s), Board members of AMC(s) and Board members of Trustees, including Access Persons shall not take undue advantage of any sensitive information that they may have about any company or its securities or about the AMC's schemes or its units.

**Explanation**: Access Person for the purpose of these Guidelines shall mean the Head of the AMC (designated as CEO/Managing Director/President or by any other name), Executive Directors, Chief Investment Officer, Chief Risk Officer, Chief Operation Officer, Chief Information Security Officer, Fund Managers, Dealers, Research Analysts, all employees in the Fund Operations Department, Compliance Officer and Heads of all divisions and/or departments or any other employee as decided by the AMC(s) and/or Trustees. Non-Executive Directors of the AMC/trustee company or trustees who are in possession of / have access to any non-public information which could materially impact the price of the securities, NAV of the schemes or interest of the unitholders shall also be deemed as Access Persons

c. To guide employees of AMC(s) and Trustees in maintaining a high standard of probity that one would expect from an employee in a position of responsibility.

6.6.2 **General**

6.6.2.1 Investments Covered:

a. These Guidelines cover transactions for purchase or sale of any securities such as shares, debentures, bonds, warrants, derivatives and units of schemes floated by Mutual Funds / AMCs where the concerned persons (in terms of the applicability stated at 6.6.1.1.a above) are employed.

b. These Guidelines do not apply to the following investments by the employees:

1. Investments in fixed deposits with banks/financial institutions/companies, life insurance policies, provident funds (including public provident fund) or Investment in savings schemes such as National Savings Certificates, National Savings Schemes, Kisan Vikas Patra, or any other similar investment.

2. Investments of a non-financial nature such as gold etc., where there is no likely conflict between the Mutual Fund’s interest and the employees’ interest.

3. Investments in government securities, overnight schemes and schemes floated by other Mutual Funds.

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

6.6.2.3 Prior approval of personal investment transactions:

a. All access persons except Compliance Officer shall apply in the form prescribed by the AMC(s) and/or Trustees to the Compliance Officer for prior approval of transactions for sale or purchase of securities other than those expressly stated to be exempt under these guidelines. The Compliance Officer shall apply to the Head of the AMC(s). The decision of the Compliance Officer shall be final and binding on the employee.

b. In these Guidelines, in the case of the Compliance Officer's own transactions for purchase or sale of securities or disclosure or any other related matter, the term "Compliance Officer" wherever it appears, shall be read as "Head of the AMC."

c. The Compliance Officer may coordinate with the Fund Management Department of the Mutual Fund, wherever necessary, to clear requests of investment and/or trading in securities by the employees.

d. The approval of Compliance Officer for carrying out a transaction of sale or purchase of a security by the access person shall not be valid for more than 7 trading days from the date of approval.

e. If a transaction approved by Compliance Officer has not been effected within seven trading days from the date of its approval, the access person shall be required to obtain approval once again from Compliance Officer prior to effecting the transaction.

f. All employees shall refrain from profiting from the purchase and sale or sale and purchase of any security within a period of 30 calendar days from the date of their personal transaction. However, in cases where it is done, the employee shall provide a suitable explanation to the Compliance Officer, which shall be reported to the Board of the AMC and the Trustees at the time of review.

This clause shall not be applicable in case of investments and redemptions made in Mutual Fund units as per the provisions Paragraph 6.10 of this Master Circular.

6.6.3 **<u>Investments in Shares and/or Debentures and/or Bonds and/or Warrants and/or Derivatives</u>**

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

6.6.3.1 Investments through the primary markets:

a. An employee including access person is permitted to apply to a public issue of shares and/or debentures and/or bonds and/or warrants of any company, as long as the application is made in the normal course of the public issue. Such an application may be made without seeking the clearance from the Compliance Officer. Employees of AMC(s) and Trustees are prohibited from applying in any reserved quota such as promoters' quota, employees' quota etc. Employees may participate in private placement of equity by any company subject to there being no conflict with the interest of investors of the mutual fund and disclosure of such investments to the Compliance Officer immediately.

b. Notwithstanding anything stated in 6.6.3.1.a above, an employee of an AMC(s) and/or Trustees may apply for shares and/or debentures and/or bonds and/or warrants in a preferential offer, in cases where such a preferential offer is being made by a company that belongs to the same industrial group as the company in which the employee already has an investment, provided that such a preferential offer is made to all shareholders and/or debenture holders of such companies. Details of such applications made shall be intimated to the Compliance Officer.

c. The employees of the AMC(s) and/or Trustees including access person may apply for any rights offer of any company in which they are already shareholders. Applications for additional rights (over and above the normal rights entitlement) shares may be made by the employees including access person without getting the clearance from the Compliance Officer. An employee including access person may also sell and/or renounce his rights entitlement without getting the clearance from the Compliance Officer. However, if an access person wishes to purchase the "Rights renunciations" he shall get the clearance of the Compliance Officer for the same. Such purchases shall be done only at market prices. Details of any applications made in any rights issue, whether in the normal course, or through purchase of rights renunciations, shall be intimated to the Compliance Officer.

d. The employees of AMC and Trustees may avail discretionary Portfolio Management Services (PMS) subject to compliance with all applicable SEBI Regulations and circulars. AMCs and Trustees shall adhere to the guidelines issued by AMFI in this regard.

6.6.3.2 Investments through the secondary markets:

a. An access person who wishes to make a secondary market transaction shall submit a written application to that effect to the Compliance Officer. Such an application shall specify the name of the company whose securities the employee wishes to buy and/or sell, type of security, and the number of shares and/or debentures and/or bonds and/or warrants and/or derivatives that the access person wishes to buy/sell.

b. The Compliance Officer shall clear these requests if the following conditions are met:

1. If the shares and/or debentures and/or bonds and/or warrants of the company or derivatives specified by the access person are not held by any scheme of the Mutual Fund of which the AMC is the investment manager;

2. If the shares and/or debentures and/or bonds and/or warrants of the company or derivatives specified by the employee are held by any Scheme of the Mutual Fund of which the AMC is the investment manager, there should be a "cooling off" period of 15 calendar days. The Compliance Officer shall ensure that the last transaction in that particular security was done by the Mutual Fund at least 15 calendar days prior to the date of the written application by the access person. In other words, an application for a purchase /sale transaction on a personal basis would be cleared only if the Mutual Fund has not transacted in that particular security for at least 15 calendar days.

3. However, trades executed pursuant to a trading plan submitted by the employees in terms of SEBI (PIT) Regulations, 2015, shall be exempt from the requirement of a "cooling off" period, provided that such trading plan:
   i. Is in compliance with the norms prescribed in SEBI (PIT) Regulations, 2015.
   ii. Is publicly disclosed on the website of the concerned Mutual Fund

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

4. Provisions of the “cooling off” period may be relaxed for Access Persons, subject to the following:
    i. Such relaxation shall be given by Compliance Officer for not more than 2 times in a financial year per Access Person.
    ii. Such relaxation shall be applicable only for sale of securities.
    iii. Such relaxation shall be applicable only for securities held by the Access Person for not less than a period of one year.
    iv. Access Person may apply anytime during the financial year for such relaxation to the Compliance Officer. Compliance Officer shall decide on the said application within 5 days of receipt of such application.
    v. Access Person may sell the securities within 10 trading days from the date of clearance by the Compliance Officer.
    vi. Roll over of unexecuted portion, if any, shall not be allowed. However, a second request can be made within the financial year as stated at (i) above.
    vii. The Access Person shall ensure that from the time of making an application under clause (iv) till the conclusion of the sale of the concerned securities, he/she is not in possession of / does not have access to any non-public information which could materially impact the price of the concerned securities. Compliance Officer shall not grant clearance for such transaction, where the Asset Management Company is

in possession of / has access to any non-public information which could materially impact the price of the concerned securities.

viii. The Compliance Officer shall maintain all other regulatory checks and obtain necessary undertakings from the Access Person.

5. In case of pre-existing pledges / encumbered arrangements (i.e., securities pledged prior to becoming an Access Person), the provisions of "cooling off" period shall not be applicable in the event of sale of securities by lenders due to shortfall of margin, subject to the following:

   i. Access person shall, on the date of applicability of these provisions or on the date of joining the AMC or on the date of being designated as such, declare to the Compliance Officer (i) details of all the pre-existing pledges / encumbered arrangements in which the securities held by him/her are pledged or encumbered and (ii) details of ESOPs bought with borrowed funds, along with the agreement with such lender.

   ii. Any instances of sale of securities by lender shall be promptly intimated to the Compliance Officer. The Access Person shall ensure the following and submit a self-declaration to the following effect:

      a. that the Access Person has not engaged directly or indirectly in front-running, self-dealing, trading while in possession of non-public information which could materially impact the price of the concerned securities or any other prohibited activities.

b. that the sale by the lender was due to shortfall of margin as per the terms of agreement with the lender and he had not entered into any other arrangement with the lender in this regard.

iii. Access Person shall also submit the margin notice received for the said shortfall of margin to the compliance officer.

c. The Compliance Officer shall keep a track of the transactions of the employees and transactions of the Mutual Fund to ensure that there is no conflict of interest between them i.e. the Compliance Officer should track whether the Mutual Fund has transacted in the same securities either before or after the employee's transaction(s).

d. The Compliance Officer shall maintain a record of all requests for pre clearance regarding the purchase or sale of a security, including the date of the request, the name of the access person, the details of the proposed transaction and whether the request was approved or denied and waivers given, if any, and its reasons.

e. No employee shall purchase any security (including derivatives) on a "Carry Forward" basis or indulge in "Short Sale" of any security (including derivatives) i.e. employees who effect any purchase transaction(s) shall ensure that they take delivery of the securities purchased, before selling them.

f. Any transaction of Front Running by any employee directly or indirectly is strictly prohibited. For this purpose, "Front Running" means any transaction of purchase and/or sale of a security carried by any employee whether for self or for any other person, knowing fully well that the AMC also intends to purchase and/or sell the same security for its Mutual Fund operations. To ascertain that the employee had no prior knowledge of the Mutual Fund's intended transactions, the Compliance Officer may take a declaration in this regard from the employee. Such declaration may be included in the application form itself.

g. Any transaction of self-dealing by any employee either directly or indirectly, whether alone or in concert with another person is prohibited. For this purpose, “Self Dealing’ means trading in the securities based on price sensitive information to which the employee has access by virtue of his office. Declaration to this effect may be taken from the employee while clearing the proposals for investment.

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

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

6.6.4.1 Access persons as well as other employees do not require prior clearance of the Compliance Officer for purchase or sale of units of Mutual Fund schemes. However, details of each such transaction, excluding transactions in overnight schemes shall be reported by them to the Compliance Officer within 7 calendar days from the date of transaction.

This clause shall not be applicable in case of investments and redemptions made in Mutual Fund units as per provisions of Paragraph 6.10 of this Master Circular.

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

6.6.4.3 Notwithstanding anything mentioned earlier, employees of AMC(s), Board members of AMC(s) and Board members of

Trustees, including Access Persons shall not purchase or sell or repurchase or redeem units of any scheme, including overnight scheme of their Mutual Fund, where any information available to the Mutual Fund is not yet communicated to the unitholders and which could materially impact the NAV or interest of unitholders, including scenarios where there is a likelihood of:

a. a change in the investment objectives of the concerned Mutual Fund Scheme(s);

b. a change in the accounting policy;

c. a material change in the valuation of any asset, or class of assets;

d. conversion of a close ended scheme to an open-ended scheme or an open-ended scheme to a close ended scheme;

e. restrictions on redemptions, winding up of scheme(s);

f. creation of segregated portfolio;

g. material change in the liquidity position of the concerned Mutual Fund Scheme(s);

h. default in the underlying securities which is material to the concerned Mutual Fund Scheme(s) etc.

6.6.5 **<u>Periodic Disclosures</u>**

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

a. Details of transactions effected for purchase and/or sale of securities including transactions in rights entitlements through the secondary market within 7 calendar days from the date of transaction;

b. Details of allotment received against application for public and rights issues within 7 calendar days from the date of receipt of the allotment advice;

c. A statement of holding in securities as on March 31 within 30 calendar days from the end of every financial year ending March 31.

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

a. Details of each of their transactions for purchase or sale of securities including allotment in public and rights issues within 7 calendar days.

b. A statement of holding in securities as on March 31 within 30 calendar days from the end of every financial year ending March 31.

c. A declaration shall also be included in the reporting form on the lines of Paragraph 6.6.3.2.(f) and 6.6.3.2.(g) regarding Front Running and Self-Dealing.

6.6.6 **<u>Review by the Board of Directors of AMC and the Trustee(s)</u>**

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

6.6.7 **Applicability of Insider Trading Regulations**

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

## *6.7 Responsibilities of AMC & Trustees*[219]

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

## *6.8* Resources for Trustees of Mutual Funds: [220]

6.8.1 Trustees shall appoint a dedicated officer having professional qualification and minimum 5 years of experience in finance and financial services related field.

6.8.1.1 The officer so appointed shall be employee of Trustees and directly report to Trustees.

6.8.1.2 The scope of the work of the said officer shall be specified by the Trustee from time to time to support the role and responsibilities

[219] MFD/CIR/09/014/2000 dated January 5, 2000

[220] SEBI Cir. No. SEBI/HO/IMD/DF4/CIR/P/2020/151 dated August 10, 2020, SEBI Circular no. SEBI/HO/IMD/DF4/CIR/P/2020/178 dated September 23, 2020.

of the Trustees. The officer shall accordingly assist the Trustees and discharge the activities assigned to him.

6.8.1.3 The said officer shall be treated as access person in terms of Paragraph 6.6.1.2.b of this Master Circular.

6.8.2 Further, Trustees shall have standing arrangements with independent firms for special purpose audit and/or to seek legal advice in case of any requirement as identified and whenever considered necessary;

6.8.3 The expenditure incurred for the above shall be charged under the clause 52(b)(iv) “fees and expenses of trustees” of SEBI (Mutual Funds) Regulations, 1996.

6.8.4 Notwithstanding the above, the Trustees shall however continue to be liable for discharge of various fiduciary responsibilities as cast upon them in the SEBI (Mutual Funds) Regulations, 1996.

### *6.9 [221] [222]Alignment of interest of Asset Management Companies (AMCs) with the Unitholders of the Mutual Fund Schemes*

6.9.1 In terms of sub-regulation 16(A) in Regulation 25 of SEBI (Mutual Funds) Regulations,1996 (‘MF Regulations’), asset management companies (‘AMCs’) are required to invest such amount in such scheme(s) of the mutual fund, based on the risk associated with the scheme.

6.9.2 Accordingly, based on the risk value assigned to the scheme(s), in terms of Paragraph 17.4 of this Master Circular, AMCs shall invest minimum amount as a percentage of assets under management (‘AUM’) in their scheme(s) as provided below –

[221] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2020/100 Dated June 12, 2020 – provisions stand rescinded in terms of SEBI Circular SEBI/HO/IMD/IMD-IDOF5/P/CIR/2021/624 dated September 2, 2021, Refer SEBI letter No. SEBI/HO/IMD/DF5/OW/P/2021/24745/1 dated September 20, 2021

[222] SEBI Circular SEBI/HO/IMD/IMD-IDOF5/P/CIR/2021/624 dated September 2, 2021.

| **Risk Value** | **Risk Level as Per Risk-O-Meter** | **Minimum percentage of AUM to be invested in scheme** |
|---|---|---|
| ≤ 1 | Low | 0.03 |
| > 1 to ≤ 2 | Low to Moderate | 0.05 |
| > 2 to ≤ 3 | Moderate | 0.07 |
| > 3 to ≤ 4 | Moderately High | 0.09 |
| > 4 to ≤ 5 | High | 0.11 |
| > 5 | Very High | 0.13 |

6.9.3 For the above purpose,

6.9.3.1 The risk value of the scheme as per the risk-o-meter of the immediate preceding month shall be considered.

6.9.3.2 The investment shall be maintained at all points of time till the completion of tenure of the scheme or till the scheme is wound up.

6.9.3.3 AMCs shall, except in case of close ended scheme(s), conduct a quarterly review to ensure compliance with the requirement of investment of minimum amount in the scheme(s) which may change either due to change in value of the AUM or in the risk value assigned to the scheme. Further, based on review of quarterly average AUM, shortfall in value of the investment in scheme(s), if any, shall be made good within 7 days of such review. AMC shall have the option to withdraw any excess investment than what is required pursuant to such review.

6.9.3.4 AMCs may invest from their net worth or the sponsor may fund the AMC to fulfil the aforesaid obligations, if required. However, the AMCs shall be required to make good the shortfall in the minimum networth to comply with the requirement of the MF Regulations in case of sustenance of temporary Mark to Market loss for two consecutive quarters. AMC shall ensure that such temporariness of the Mark to Market loss is certified by the statutory auditor.

6.9.3.5 AMCs shall not be required to invest in ETFs, Index Funds, Overnight Funds, Funds of Funds scheme(s) and in case of close ended funds wherein the subscription period has closed as on date of coming into force of MF Amendment Regulations.

6.9.4 The mandatory contribution already made by the AMCs in compliance with the applicable MF Regulations shall not be withdrawn. However, such contribution can be adjusted against the investment required by the AMC as per Paragraph 6.9 of this Master Circular.

6.9.5 The compliance of the Paragraph 6.9 of this Master Circular shall be ensured by the AMCs and monitored by the Trustees. Any non-compliance in this regard, shall be reported in the Quarterly CTR and half-yearly Trustee Report.

6.9.6 Details of investment by AMCs in each of their mutual fund scheme(s) shall be disclosed on the website of AMCs and AMFI.

### *6.10 [223]Alignment of interest of [224]Designated Employees of Asset Management Companies (AMCs) with the Unitholders of the Mutual Fund Schemes:*

6.10.1 In order to align the interest of the Designated Employees of the AMCs with the unitholders of the mutual fund schemes, it has been decided that, a part of compensation of the Designated employees of the AMCs shall be mandatorily invested in units of the scheme(s), as under:

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[223] SEBI Circular No. SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/553 Dated April 28, 2021, Refer SEBI Letter No. SEBI/HO/IMD/DF5/OW/P/2021/24745/1 dated September 20, 2021, Refer SEBI letter No. SEBI/HO/IMD/DF5/OW/P/2021/30715/1 dated October 29, 2021

[224] SEBI Circular No. SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/629 Dated September 20, 2021 read with SEBI Circular No. SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/582 dated June 25, 2021.

6.10.1.1 A minimum of 20% of the salary/ perks/ bonus/ non-cash compensation (gross annual CTC) net of income tax and any statutory contributions (i.e. PF and NPS) of the Designated Employees of the AMCs shall be mandatorily invested in units of Mutual Fund schemes in which they have a role/oversight. However, for junior employees, the above provision shall be implemented in phased manner, i.e. 10% during October 01, 2021 to September 30, 2022 and 15% during October 01, 2022 to September 30, 2023. Thus from October 01, 2023 all junior employees shall mandatorily invest 20% while other designated employees shall comply with the provision from October 01, 2021. The phased implementation for junior employees shall cease to apply from the date such employee attains the age of 35 years. For this purpose, a designated employee of the AMC below the age of 35 years (excluding CEO, head of any department and Fund Managers), shall be deemed as “junior employee”.

6.10.1.2 The contribution of the Designated Employees in close ended schemes launched on or after October 1, 2021 shall be made in the units of any open ended schemes having (a) risk value equivalent to or higher than and (b) underlying portfolio of similar nature as, the mandated close ended schemes.

6.10.1.3 Similarly, for interval schemes, schemes having restrictions on individual investments or lump-sum investments or having temporary suspensions on subscription or solution oriented schemes (retirement fund, children’s fund etc.) or schemes having lock-in period of more than 3 years, investments required under the relevant provisions of Paragraph 6.10 above shall be made in the units of any open ended schemes having (a) risk value equivalent to or higher than and (b) underlying portfolio of similar nature as, the aforesaid schemes

6.10.1.4 The compensation mandatorily invested in units, as mentioned above, shall be:

a. proportionate to the AUM of the schemes in which the Designated Employee has a role/oversight. For this purpose, Exchange Traded Funds (ETFs), Index Funds, Overnight Funds and existing (i.e. as on September 30, 2021) close ended schemes shall be excluded.

b. paid proportionately over 12 months on the date of payment of such salary/ perks/ bonus/ non-cash compensation. In all cases of deferred compensation including Employee Stock Options, the AMC shall decide whether the deduction of 20% of such deferred compensation (perquisite value less taxes), should be on the date of grant or exercise. However, the policy should be same for all Designated Employees of the AMC, in a given financial year.

c. locked-in for a minimum period of 3 years or tenure of the scheme whichever is less.

d. invested in 'Growth option' of the mutual fund schemes. For schemes where growth option is not available, the investment shall be made in the 'Reinvestment of Income Distribution cum capital withdrawal option'. For schemes where both the above options are not available, investment shall be made in the 'Payout of Income Distribution cum capital withdrawal option'

6.10.1.5 Further, with a view to allow the Designated Employees to diversify their unit holdings, in case of dedicated fund managers managing only a single scheme / single category of schemes, 50% of the aforementioned compensation shall be by way of units of the scheme/category managed by the fund manager and the remaining 50% can, if they so desire, be by way of units of those schemes whose (a) risk value as per the risk-o-meter is equivalent or higher than and (b) whose underlying portfolio is of similar nature as, the scheme managed by the fund manager. This is also applicable to dedicated fund managers of overseas funds.

6.10.1.6 Investment in units of the scheme, shall be made on the day of payment of salary.

6.10.1.7 The previous month's closing AUM shall be taken for apportioning the investment across eligible schemes.

6.10.1.8 All non-cash benefits and perks shall be accounted for in CTC at the perquisite value as per the Form 16 under Income Tax Act, 1961. However, superannuation benefits and Gratuity paid at the time of death/retirement, shall not be included in the CTC.[225]

6.10.1.9 The perquisite value of interest on loan availed by the Designated Employees against the units from the AMC as specified in Paragraph 6.10.2.1 of this Master Circular shall not be included in the CTC.

6.10.1.10 Any unconditional compensation in any form which was granted before April 28, 2021, but is unpaid as on April 28, 2021 shall not be included in the CTC.

6.10.1.11 Designated Employees may set off their existing investments as on July 01, 2021, if any, against the fresh investments as required in the same schemes.

6.10.1.12 Designated Employees may set off their units, for which the required lock-in period of 3 years is expired, against the fresh investments required to be made in the same schemes as per Paragraph 6.10 of this Master Circular. In such cases, AMC shall ensure that such units are locked in for the further period of 3 years or tenure of the scheme, whichever is less.

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[225] Refer SEBI Letter No. SEBI/HO/IMD/DF5/OW/ P/2021/ 30715/1 dated October 29, 2021

6.10.2 Redemption of units:

6.10.2.1 No redemptions of the said units shall be allowed during the lock-in period. However, AMC may decide to have a provision of borrowing from the AMC by Designated Employees against such units in exigencies such as medical emergencies or on humanitarian grounds, as per the policy laid down by the AMC.

6.10.2.2 No redemption of such units shall be allowed within the lock-in period in case of resignation or retirement before attaining the age of superannuation as defined in the AMC service rules. However, in case of retirement on attaining the superannuation age, such units shall be released from the lock-in and the Designated Employee shall be free to redeem the units, except for the units in close ended schemes where the units shall remain locked in till the tenure of the scheme is over.

6.10.2.3 Liquid Schemes: Units of Designated Employee invested in terms of the above would get automatically redeemed on expiry of the mandatory lock-in period.

6.10.2.4 Open Ended Schemes: After the expiry of the mandatory lock-in period, designated employee can redeem their units in open ended schemes twice in a financial year, with the prior approval of the Compliance Officer by following the procedure prescribed below:

a. Any time after the expiry of the mandatory lock-in period, the designated employee may make application to the Compliance Officer for redemption of the units. The Compliance Officer shall decide on the said application within 5 days of receipt of such application;

b. If approved, the designated employee may submit request for redemption of such units within 10 trading days from the date of grant of such approval;

c. The unexecuted portion, if any, shall not be rolled over on the expiry of the period mentioned at (b) above. However, a second application can be made within the year as stated above. The Compliance Officer shall maintain all other regulatory checks and obtain necessary confirmation from the concerned designated employee;

d. Where the concerned Designated Employee is in possession of any material information, which is not yet communicated to investors and which could materially impact the NAV / interest of unitholders, such Designated Employee shall not make application for redemption or submit redemption request during such period; and

e. Where the Asset Management Company is in possession of any material information, which is not yet communicated to investors and which could materially impact the NAV / interest of unitholders, Compliance Officer shall not grant approval for such application.

6.10.2.5 In case of request for redemptions made by the Compliance Officer, the competent person to approve the same shall be "Chief Executive Officer".

6.10.3 In the Fund of Funds schemes, only Fund Managers of such schemes shall be required to invest.

6.10.4 Fund of Funds schemes investing only in a single ETF shall also be covered in the exclusions mentioned in the paragraph 6.10.1.4 (a) of this Master Circular.

6.10.5 Units, allotted in terms of the Paragraph 6.10 of this Master Circular, shall be released from the mandatory lock-in period in case of death of the Designated Employee.

6.10.6 AMC shall ensure that necessary audit trail is maintained to verify compliance with the provisions of Paragraph 6.10 of this Master Circular.

6.10.7 Clawback:

6.10.7.1 Units allotted to the Designated Employees shall be subject to clawback in the event of violation of Code of Conduct, fraud, gross negligence by them, as determined by SEBI. Upon clawback, the units shall be redeemed and amount shall be credited to the scheme.

6.10.8 Oversight:

6.10.8.1 The compliance with Paragraph 6.10 of this Master Circular shall be ensured by the AMCs and monitored by the Trustees. Any non-compliance in this regard, shall be reported in the quarterly CTR and half yearly trustee report.

6.10.8.2 For the purpose of Paragraphs 6.10.1.2, 6.10.1.3 and 6.10.1.5, the risk value based on the risk-o-meter of the immediate preceding month shall be considered. Further, AMCs and Trustees shall have a policy in place to ensure that such open ended schemes are similar to the mandated scheme in terms of the nature of the underlying portfolio

6.10.8.3 Every scheme shall disclose the ‘compensation, in aggregate, mandatorily invested in units to the Designated Employees’, under the provisions of this Master Circular, on the website of the AMC. The disclosure shall be at monthly aggregate level showing the total investment across all relevant employees in that specific scheme.

6.10.9 Designated employees

Designated Employees of the AMCs shall include:

6.10.9.1 Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Chief Information Security Officer (CISO), Chief Operation Officer (COO), Fund Manager(s), Compliance Officer, Sales Head, Investor Relation Officer(s) (IRO), heads of other departments, Dealer(s) of the AMC;

6.10.9.2 Direct reportees to the CEO (excluding Personal Assistant/Secretary);

6.10.9.3 Fund Management Team and Research team;

6.10.9.4 Other employees as identified & included by AMCs and Trustees

6.10.10 These provisions shall not be applicable to Designated Employees having role/ oversight only over ETFs, Index Funds, Fund of Funds schemes investing only in a single ETF, Overnight Funds and existing (i.e. as on September 30, 2021) close ended schemes.

**PART II -SCHEME GOVERNANCE**

## *6.11 Minimum Number of investors*[226]

6.11.1 <u>Applicability for an open-ended scheme</u>

6.11.1.1 The Scheme/Plan shall have:

a. a minimum of 20 investors and

b. no single investor shall account for more than 25% of the corpus of the Scheme/Plan(s).

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

6.11.1.3 In case the Scheme / Plan(s) does not have a minimum of 20 investors in the stipulated period, the provisions of Regulation[227] would become applicable automatically without any reference from SEBI and accordingly the Scheme / Plan(s) shall be wound up and the units would be redeemed at applicable NAV.

6.11.1.4 The average net assets of the scheme would be calculated daily and any breach of the 25 % holding limit by an investor would be determined. At the end of the quarter, the average of daily holding by each such investor is computed to determine whether that investor has breached the 25 % limit over the quarter. If there is a breach of the 25% limit by any investor over the quarter, a rebalancing period of one month would be allowed and thereafter the investor who is in breach of the rule shall be given 15 days' notice to redeem his exposure over the 25 % limit. Failure on the part of the said investor to redeem his exposure over the 25 %

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[226] SEBI Circular No. SEBI/IMD/CIR No.10/22701/03 dated December 12, 2003, SEBI Circular No. SEBI/IMD/CIR No.1/42529/05 dated June 14, 2005.

[227] Regulation 39(2)(c) of the SEBI (MF) Regulations, 1996

limit within the aforesaid 15 days would lead to automatic redemption by the Mutual Fund on the applicable Net Asset Value on the 15th day of the notice period.

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

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

6.11.2 <u>Applicability for a Close ended scheme/Interval scheme</u>

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

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

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

6.11.2.3 In case of non-fulfillment with the condition of minimum 20 investors, the Scheme(s)/Plan(s) shall be wound up in accordance with Regulation[228] automatically without any reference from SEBI.

6.11.2.4 In case of non-fulfillment with the condition of 25% holding by a single investor on the date of allotment, the application to the extent of exposure in excess of the stipulated 25% limit would be liable to be rejected and the allotment would be effective only to the extent of 25% of the corpus collected. Consequently, such exposure over 25% limits will lead to refund within 6 weeks of the date of closure of the New Fund Offer.

[228] Reg. 39 (2) (c) of SEBI (MF) Regulations, 1996

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

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

6.11.3 Determination of breach:

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

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

6.11.4 Applicability

6.11.4.1 These Guidelines are applicable at the Portfolio level.

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

6.11.5 Redemptions

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

6.11.6 Reporting to the Board

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

### *6.12 Minimum Assets under Management (AUM) of Debt Oriented Schemes* [229]

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

6.12.2 In this regard, it has been decided that:

6.12.2.1 The minimum subscription amount of debt oriented and balanced schemes at the time of new fund offer shall be at least 20 crore and that of other schemes shall be at least 10 crore, except for following:

i. Minimum subscription amount at the time of New Fund Offer (NFO) for Debt ETFs/ Index Funds and other ETFs/ Index Funds shall be INR 10 Cr. and INR 5 Cr. respectively.[230]

6.12.2.2 An average AUM of 20 crore on half yearly rolling basis shall be maintained for open ended debt oriented schemes.

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

6.12.2.4 Alternative to launch of NFO for ETFs, the AMC may contribute the initial fund for unit creation. Subsequently, the AMC can transfer the units of such ETFs to Market Makers or other investors, subject to compliance with all applicable provisions for launch of ETFs. [231]

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[229] SEBI Circular No. Cir/IMD/DF/15/2014 dated June 20, 2014
[230] SEBI Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022
[231] SEBI Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022

### *6.13 Scheme Performance Review*

6.13.1 AMCs and Trustees shall review the performance of their schemes on periodic basis[232]. Such review can take place by comparing the performance of the schemes with benchmark indices as well as in light of the performance of the entire Mutual Funds industry by relying on data published from time to time by independent research agencies and financial newspapers and journals. Corrective action if required may be taken in case of unsatisfactory performance. Its compliance should be reported in the quarterly[233] CTRs of AMCs and half-yearly reports of the Trustees to SEBI (while reporting compliance of Regulation 25(2) on exercise of due diligence in investment decisions).

### *6.14 Benchmarking of Scheme's performance to Total Return Index[234]*

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

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

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

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[232] SEBI Circular No. dated July 27, 2000 & SEBI Cir 16/400/02 dated March 26, 2002.
[233] SEBI Circular SEBI/HO/IMD/DF3/CIR/P/2018/04 dated January 04, 2018. Also refer Paragraph 1.9 of this Master Circular
[234] SEBI circular no. HO/IMD/IMD-I DOF2/P/CIR/2021/550 dated April 12, 2021

6.14.2.2 The performance of the schemes of a mutual fund shall be benchmarked to the Total Return variant of the Index chosen as a benchmark as stated in paragraph 6.14.2.1 above.

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

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

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

$$\left[\frac{\text{Benchmark PRI value as on date of introduction of TRI value}}{\text{Benchmark PRI value as on date of inception of the scheme}} \; X \; \frac{\text{Benchmark TRI value as on last day of the month preceding the date of advertisement}}{\text{Benchmark TRI value as on date of introduction of TRI value}}\right]^{\frac{1}{\text{(Time period from the last day of the month preceding the date of advertisement – date of inception of the scheme)}}} -1$$

The aforesaid is explained with an example:

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

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

CAGR= [(1187.70/1007.57)*(13966.58/1256.38) ^ (1/22.3452)]-1

[1 year= 365 days]

CAGR= 12.20%

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

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

## PART III -SYSTEMS AUDIT FRAMEWORK FOR MUTUAL FUNDS / AMCs[235]

### *6.15 Systems audit framework for Mutual Funds/ AMCs*

6.15.1 Considering the importance of systems audit in technology driven asset management activity and to enhance and standardize the systems audit, guidelines in this regard are placed at **Annexure 8**. These guidelines are indicative and not exhaustive in nature.

6.15.2 The aforementioned audit should be encompassing audit of systems and processes, inter alia, related to examination of integration of front office system with the back office system, fund accounting system for calculation of net asset values, financial accounting and reporting system for the AMC, Unit-holder administration and servicing systems for customer service, funds flow process, system processes for meeting regulatory requirements, prudential investment limits and access rights to systems interface.

6.15.3 Mutual Funds / AMCs are advised to conduct systems audit on an annual basis by an independent CISA / CISM qualified or equivalent auditor to check compliance of provisions of Paragraph 6.15 of this Master Circular.

6.15.4 Mutual Funds / AMCs are further advised to take necessary steps to put in place systems for implementation of these provisions. The exception report as per the format[236] provided should be placed before the Technology Committee for review. The Technology Committee after review shall place the same before the AMC & Trustee Board. Thereafter, exception observation report along with trustee comments starting from the financial year April 2019 – March 2020 should be communicated to SEBI within six months of

[235] SEBI Circular No SEBI/HO/IMD/DF2/CIR/P/2019/57dated April 11, 2019
[236] For format, please refer to format no. 10 under the section on formats

the respective financial year. Further, System Audit Reports shall be made available for inspection.

## PART IV – ROLE OF MUTUAL FUNDS IN CORPORATE GOVERNANCE OF PUBLIC LISTED COMPANIES[237]

### *6.16 Role of Mutual Funds in Corporate Governance of Public Listed Companies:*

6.16.1 MFs should play an active role in ensuring better corporate governance of listed companies.

6.16.2 AMCs shall disclose their general policies and procedures for exercising the voting rights in respect of shares held by them on the website of the respective AMC as well as in the annual report distributed to the unit holders from the financial year 2010-11[238].

6.16.3 AMCs are required to disclose on the website of the respective AMC as well as in the annual report distributed to the unit holders from the financial year 2010-11, the actual exercise of their proxy votes in the AGMs/EGMs of the investee companies in respect of the following matters.

- Corporate governance matters, including changes in the state of incorporation, merger and other corporate restructuring, and anti-takeover provisions
- Changes to capital structure, including increases and decreases of capital and preferred stock issuances.
- Stock option plans and other management compensation issues;
- Social and corporate responsibility issues.
- Appointment and Removal of Directors.

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[237] SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010, Refer SEBI Letter No. SEBI/HO/IMD-II/IMD-II_DOF11/P/OW/2022/52316/1 dated October 14, 2022

[238] Refer SEBI emails dated June 23, 2011

- Any other issue that may affect the interest of the shareholders in general and interest of the unit-holders in particular.

6.16.4 AMCs shall be required to record and disclose specific rationale supporting their voting decision (for, against or abstain) with respect to each vote proposal[239].

6.16.5 AMCs shall additionally be required to publish summary of the votes cast across all its investee company and its break-up in terms of total number of votes cast in favor, against or abstained from.

6.16.6 [240]AMCs shall be required to make disclosure of votes cast on their website (in machine readable spreadsheet format) on a quarterly basis, within 10 working days from the end of the quarter as per the format enclosed[241]. A detailed report in this regard along with summary thereof shall also be disclosed on their website. The format for disclosure of vote cast by Mutual Funds in respect of resolutions passed in general meetings of the investee companies and the format for presenting summary of votes cast by Mutual Funds is as per format enclosed[242]. Further, AMCs shall provide the web link in their annual reports regarding the disclosure of voting details.

6.16.7 Further, on an annual basis, AMCs shall be required to obtain certification on the voting reports being disclosed by them. Such certification shall be obtained from a "scrutinizer" in terms of Rule 20 (3) (ix) of Companies (Management and Administration) Rules, 2014 and any future amendment/s to the said Rules thereof. The same shall be submitted to the trustees and also disclosed in the relevant portion of the Mutual Funds' annual report & website. [243]

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[239] SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014
[240] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2021/024 dated March 04, 2021
[241] Refer format no. 7.C under the section on Formats.
[242] Refer format no. 7.C under the section on Formats.
[243] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/68 dated August 10, 2016

6.16.8 Board of AMCs and Trustees of Mutual Funds shall be required to review and ensure that AMCs have voted on important decisions that may affect the interest of investors and the rationale recorded for vote decision is prudent and adequate. The confirmation to the same, along with any adverse comments made by auditors, shall have to be reported to SEBI in the half yearly trustee reports.

6.16.9 The format[244] for disclosure of voting by mutual funds in general meetings of listed companies is provided.

6.16.10 [245]Mutual Funds including their passive investment schemes like Index Funds, Exchange Traded Funds etc. shall be required to cast votes compulsorily in respect of the following resolutions with effect from April 1, 2021:

i. Matters mentioned at Paragraph 6.16.3 of this Master Circular i.e.:
   a) Corporate governance matters, including changes in the state of incorporation. merger and other corporate restructuring, and anti-takeover provisions.
   b) Changes to capital structure, including increases and decreases of capital and preferred stock issuances.
   c) Stock option plans and other management compensation issues.
   d) Social and corporate responsibility issues.
   e) Appointment and Removal of Directors.
   f) Any other issue that may affect the interest of the shareholders in general and interest of the unit-holders in particular.

ii. Related party transactions of the investee companies (excluding own group companies). For this purpose, "Related Party

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[244] For disclosure of voting by mutual funds in general meetings of listed companies, please refer to the section on formats

[245] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2021/29 dated March 05, 2021

Transactions” shall have same meaning as assigned to them in clause (zc) of Sub-Regulation (1) of Regulation (2) of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015.

6.16.11 Further, for all remaining resolutions which are not covered above, Mutual Funds shall also compulsorily be required to cast their votes with effect from April 01, 2022.

6.16.12 In case of the Mutual Funds having no economic interest on the day of voting, it may be exempted from compulsorily casting of votes.

6.16.13 The vote shall be cast at Mutual Fund Level. However, in case Fund Manager/(s) of any specific scheme has strong view against the views of Fund Manager/(s) of the other schemes, the voting at scheme level shall be allowed subject to recording of detailed rationale for the same.

6.16.14 Fund Managers/Decision makers shall submit a declaration on quarterly basis to the Trustees that the votes cast by them have not been influenced by any factor other than the best interest of the unit holders. Further, Trustees in their Half Yearly Trustee Report to SEBI, shall confirm the same.

6.16.15 All Mutual Funds shall mandatorily follow the Stewardship Code as placed at **Annexure 10**, in relation to their investment in listed equities. [246]

[246] SEBI Circular No. CIR/CFD/CMD1/ 168 /2019 dated December 24, 2019 and SEBI Circular No. SEBI/HO/CFD/CMD1/CIR/P/2020/55 dated March 30, 2020.

## CHAPTER 7: SECONDARY MARKET ISSUES

### *7.1 Non Applicability of Listing Deposit*[247]

7.1.1 The requirement of collecting listing deposit as specified under Circular No. SE/2936 dated April 6, 1992 shall not be applicable to Mutual Funds in respect of the schemes floated by them for public subscription which are sought to be listed on the stock exchanges.

### *7.2 Listing of Mutual Fund Schemes under process of winding up*[248]*:*

7.2.1 As per MF Regulations, there are several steps envisaged with respect to winding up of Mutual Fund schemes before the scheme ceases to exist. During this process, such units can be listed and traded on a recognized stock exchange, which may provide an exit to investors;

7.2.2 The units of Mutual Fund schemes which are in the process of winding-up in terms of Regulation 39(2)(a) of MF Regulations, shall be listed on recognized stock exchange, subject to compliance with listing formalities as stipulated by the stock exchange;

7.2.3 Trading on stock exchange mechanism will not be mandatory for investors, rather, if they so desire, may avail an optional channel to exit provided to them.

7.2.4 Initially, trading in units of such a listed scheme that is under the process of winding up, shall be in dematerialised form;

7.2.5 AMCs shall enable transfer of such units which are held in form of Statement of Account (SoA) / unit certificates.

7.2.6 The AMC, its sponsor, employees of AMC and Trustee shall not be permitted to transact (buy or sell) in the units of such schemes that

[247] SEBI Circular No. SMD-II(N)/2113/94 dated April 12, 1994. Further, in this regard, circulars issued by SEBI from time to time may be considered.
[248] SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/086 dated May 20, 2020

are under the process of being wound up. The compliance of the same shall be monitored both by the Board of AMC and Trustee.

7.2.7 Detailed operational modalities for trading and settlement of units of MF schemes that are under the process of winding up, shall be finalized by the stock exchanges where units of such schemes are being listed, in consultation with SEBI. The operational modalities shall include the following:

a) Mechanism for order placement, execution, payment and settlement;
b) Enabling bulk orders to be placed for trading in units;
c) Issue related to suspension of trading, declaration of date for determining the eligibility of unitholders etc. in respect of payments to be made by the AMC as part of the winding up process;
d) Disclosures to be made by AMCs including disclosure of NAV on daily basis and scheme portfolio periodically etc.

7.2.8 The stock exchange shall develop a mechanism along with RTA for trading and settlement of such units held in the form of SoA/ Unit Certificate.

## *7.3 Payment of Margins*[249]

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

[249] SEBI Circular No. MFD/CIR/9/230/2001 dated August 14, 2001

## 7.4 Unique Client Codes[250]

7.4.1 Mutual Funds are not permitted to operate in the securities market without furnishing a valid Unique Client Code (UCC).[251] Mutual Funds are required to obtain UCC from the Bombay Stock Exchange Ltd. (BSE) or The National Stock Exchange Ltd. (NSE) whenever a new scheme(s) or plan(s) (wherever the portfolio of the plans is different) is launched[252]. Such UCC should be obtained before commencing the trading on behalf of the scheme(s)/plan(s). At the time of entering an order, the UCC pertaining to the parent Mutual Fund shall be provided and the allocation to individual schemes shall be done in the post closing session.[253] The UCC can be shared with the unit holders to facilitate tax benefits linked to payment of Securities Transaction Tax (STT).

## 7.5 Trading in Exchange Traded Derivatives Contracts[254]

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

7.5.1.1 Mutual Fund schemes can participate in derivatives market as per the guidelines issued by SEBI in this regard from time to time.

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

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

[251] SEBI Circular No. SMDRP/Policy/Cir-39/2001 dated July 18, 2001.

[252] SEBI Circular No. SEBI/IMD/CIR No.01/1756/04 dated January 27, 2004.

[253] SEBI Circular No. MRD/DoP/SE/Cir-35/2004 dated October 26, 2004.

[254] SEBI Circular No. DNPD/Cir-29/2005 dated September 14, 2005; SEBI Circular No. DNPD/Cir-30/2006 dated January 20, 2006, SEBI Circular No. SEBI/DNPD/Cir-31/2006 dated September 22, 2006.

schemes of Mutual Funds will be treated as clients like sub-accounts of FIIs[255].

7.5.1.3 Appropriate disclosures shall be made in the offer document regarding the extent and manner of participation of the schemes of the Mutual Funds in derivatives and the risk factors, which should be explained by suitable numerical examples.

7.5.1.4 The combined futures and options position limit of Mutual Funds for stock derivatives contracts shall be 20% of the applicable Market Wide Position Limit (MWPL). [256]

7.5.1.5 Existing schemes of Mutual Funds, whose SIDs do not envisage investments in derivatives, may participate in derivatives market subject to the following conditions[257]:

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

7.5.1.6 Positions limits as specified by SEBI for Mutual Funds and its schemes from time to time shall be applicable[258].

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[255] SEBI Circular No. DNPD/Cir-29/2005 dated September 14, 2005.
[256] SEBI Circular No. SEBI/HO/MRD/DP/CIR/P/2016/143 dated December 27, 2016.
[257] Please refer SEBI Circular No SEBI/HO/IMD/DF2/CIR/P/2017/13 dated February 20, 2017 'Participation in derivatives market by Mutual Funds.'
[258] Please refer SEBI Circular No DNPD/Cir – 29/2005 Dated September 14, 2005 for position limits and subsequent circulars issued in this regard from time to time.

### 7.6 *Trading in Interest Rate Derivatives*[259]

7.6.1 Mutual Fund schemes are permitted to undertake transactions in Forward Rate Agreements and Interest Rate Swaps with banks, PDs & FIs as per applicable RBI Guidelines[260], mutual funds can also trade in interest rate derivatives through the Stock Exchanges subject to requisite disclosures in the SID[261].

7.6.2 The following position limits[262] in IRF shall be applicable for Mutual Fund level and scheme level:

a. Mutual Funds shall have position limits as applicable to trading members presently.

b. Schemes of Mutual Funds shall have position limits as applicable to clients presently.

### 7.7 *Transactions of mutual funds in Government Securities in dematerialised form*[263]

7.7.1 According to Regulation[264], the Mutual Funds having an aggregate of securities worth Rs.10 crore or more are required to settle their transactions only through dematerialised securities. All Mutual Funds should enter into transactions relating to government securities only in dematerialised form.

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[259] SEBI Circular No. SEBI/MFD/CIR No.03/158/03 dated June 10, 2003.
[260] RBI Circular dated November 1, 1999.
[261] SEBI Circular No. SEBI/MFD/CIR No.03/158/03 dated June 10, 2003.
[262] SEBI Circular No. CIR/MRD/DRMNP/26/2014 dated September 15, 2014
[263] SEBI Circular No. MFD/CIR/05/432/2002 dated June 20, 2002
[264] Regulation 44(1A) of SEBI (Mutual Funds) Regulations, 1996

# CHAPTER 8: NET ASSET VALUE[265]

## *8.1 Disclosure of Net Asset Value[266]*

8.1.1 Mutual Funds/ AMCs shall prominently disclose the NAVs of all schemes under a separate head on their respective website and on the website of Association of Mutual Funds in India (AMFI). Further, Mutual Funds/ AMCs shall extend facility of sending latest available NAVs to unit holders through SMS, upon receiving a specific request in this regard.

8.1.2 NAV of all Mutual Fund schemes except for Fund of Fund Schemes shall be updated on AMFI's website and the Mutual Funds' websites by 11:00 p.m. of the same day[267].

8.1.3 Fund of Fund Schemes shall have an extended time up to 10 a.m. the following business day in this regard[268].

8.1.4 Delay beyond 10 a.m. of the following business day in case of Fund of Fund schemes and 11:00 p.m. on the same day for all other schemes shall be explained in writing to AMFI. Mutual Funds shall report in the quarterly Compliance Test Reports (CTRs)[269] the number of days when mutual funds were not able to adhere to the above mentioned time limit for uploading their NAVs on the AMFI website with reasons thereof and the corrective action taken by the AMC to reduce the number of such occurrences[270].

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[265] Regulation 48 of SEBI (Mutual Funds) Regulations, 1996

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

[267] SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019.

[268] SEBI Circular No. SEBI/IMD/CIR No.5/96576/2007 dated June 25, 2007.

[269] For format of CTR, please refer to format no. 2.B. under the section on formats

[270] SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006.

8.1.5 [271] Mutual Funds/ AMCs shall explain the methodology of calculating the sale and repurchase price of unit with the help of a simple numerical example at all relevant places such as on their respective website, AMFI website and Scheme Information Documents, etc.

8.1.6 In case the NAVs are not available before the commencement of business hours on the following day due to any reason, Mutual Funds shall issue a press release giving reasons for the delay and explain when they would be able to publish the NAVs[272].

### *8.2 Review of time limit for disclosure of NAV of Mutual Fund schemes investing overseas[273]*

8.2.1 To address the difficulties being faced in calculation of NAV for schemes investing overseas due to differences in time zones and market hours, partial modification with regard to timelines for declaration of NAV is prescribed depending on investment objective and asset allocation of schemes, which is tabulated below:

*(Timelines in Business days)*

<table>
<tr><th>SR</th><th>Scheme type</th><th>Existing timeline</th><th>New timeline</th></tr>
<tr><td>1</td><td>All schemes other than those mentioned below</td><td colspan="2">11 PM on T day</td></tr>
<tr><td>2</td><td>For schemes having exposure to ETCDs</td><td colspan="2">9 AM on T+1 day</td></tr>
<tr><td>3</td><td>Fund of Funds (FoFs) schemes</td><td colspan="2">10 AM on T+1 day</td></tr>
<tr><td>4</td><td>Schemes investing atleast 80% of total assets in permissible overseas investments</td><td rowspan="2">11 PM on T day</td><td rowspan="2">10 AM on T+1 day</td></tr>
<tr><td>5</td><td>Index funds and ETFs investing atleast 80% of</td></tr>
</table>

[271] SEBI/HO/IMD/DF2/CIR/P/2018/92 dated June 05, 2018
[272] SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006.
[273] SEBI Circular No. SEBI/HO/IMD/IMD-I POD2/P/CIR/2023/48 dated March 29, 2023

| | | | |
|---|---|---|---|
| | total assets in permissible overseas investments | | |
| 6 | Schemes unable to disclose NAV as per timeline mentioned above due to inability in capturing same day valuation of underlying investments | 11 PM on T day<br>Or<br>10 AM on T+1 day | Such time as per disclosure made in SID along with reasons for such delayed disclosure |

8.2.2 While complying with the new timelines for declaration of NAV, AMCs as a principle shall ensure that NAV of schemes is disclosed based on the value of underlying securities/ Funds as on the T day (i.e. date of investment in MF units in India).

8.2.3 Provisions regarding revised timelines for disclosure of NAV as mentioned at Paragraph 8.2.1 & Paragraph 8.2.2 above shall come into force with effect from July 01, 2023. Pursuant to applicability of revised timelines for disclosure of NAV (i.e. from July 01, 2023), relevant provisions regarding disclosure of NAV as mentioned in this Master Circular shall stand modified to that extent.

### *8.3 Rounding of NAVs[274]*

8.3.1 To ensure uniformity, Mutual Funds shall round off NAV up to four decimal places for index funds and all types of debt oriented schemes.

8.3.2 For all equity oriented and balanced fund schemes, Mutual Funds shall round off NAVs up to two decimal places. However, Mutual Funds can round off the NAVs up to more than two decimal places in case of equity oriented and balanced fund schemes also, if they so

[274] SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002, SEBI Circular No. MFD/CIR/11/16159/2002 dated August 22, 2002

desire[275]. Relevant disclosure in this regard shall be made in the SID/SAI[276].

### *8.4 Uniform Cut off Timings for applicability of Net Asset Value of Mutual Fund scheme(s) and/ or plan(s)[277]*

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

8.4.2 Definitions:

8.4.2.1 In these Guidelines, unless the context otherwise requires:

a. 'Cut-off Timing', in relation to an investor making an application to a Mutual Fund for purchase or sale of units, shall mean, the outer limit of timing within a particular day which is relevant for determination of the NAV applicable for his transaction;

b. 'International scheme' means a Mutual Fund scheme having substantial investments in foreign securities valued as per time zones other than Indian Standard Time zone;

c. 'Liquid fund & Overnight fund schemes and plans' shall mean the schemes and plans of a Mutual Fund as specified in the guidelines issued by SEBI in this regard[278].

8.4.3 Applicability

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

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[275] SEBI Circular No. MFD/CIR/11/16159/2002 dated August 22, 2002.
[276] SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002.
[277] SEBI Circular No. SEBI/IMD/CIR No. 11/78450/06 dated October 11, 2006.
[278] SEBI Circular No.SEBI/IMD/CIR No.13/150975/09 dated January 19, 2009 & SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017

a. International schemes and

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

8.4.4 Fixation of uniform Cut-off Timings

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

8.4.4.2 Mutual Funds shall ensure that each payment instrument for subscription or purchase of units is deposited in a bank expeditiously by utilization of the appropriate banking facility, so as to comply with the requirement in Paragraph 8.4.4.1 above.

8.4.4.3 AMCs shall compensate any loss occasioned to any investor or to the scheme and/or plan on account of non-compliance with Paragraph 8.4.4.2 above.

8.4.5 Cut-off Timings for liquid fund & overnight fund schemes and plans For determining the applicable NAV[279]:

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

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

[279] SEBI Circular No SEBI/IMD/DF/19/2010 dated November 26, 2010, SEBI Circular No SEBI/HO/IMD/DF2/CIR/P/2019/101 dated September 20, 2019

b. where the application is received after 1.30 p.m. on a day and funds are available for utilization on the same day without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the next business day; and

c. irrespective of the time of receipt of application, where the funds are not available for utilization before the cut-off time without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the day on which the funds are available for utilization.

8.4.5.2 For allotment of units in respect of purchase in liquid fund & overnight fund schemes, it shall be ensured that:

a. Application is received before the applicable cut-off time.

b. Funds for the entire amount of subscription/purchase as per the application are credited to the bank account of the respective liquid & overnight schemes before the cut-off time.

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

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

a. Application for switch-in is received before the applicable cut-off time.

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

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

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

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

b. Where the application is received after 3.00 pm – the closing NAV of the next business day.

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

8.4.5.5 [280]Mutual Funds shall calculate NAV for each calendar day for their liquid fund & overnight fund schemes and plans.

8.4.6 Cut-off Timings for schemes and plans other than liquid fund & overnight fund schemes and plans

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

8.4.6.2 In respect of purchase of units of mutual fund schemes (except liquid and overnight schemes), closing NAV of the day on which the funds are available for utilization shall be applicable irrespective of the size and time of receipt of such application[281].

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[280] SEBI Circular No. SEBI/IMD/CIR No. 11/78450/06 dated October 11, 2006

[281] SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012 and SEBI Circular No. SEBI/HO/IMD/DF2/CIR/2020/175 dated September 17, 2020

8.4.6.3 For allotment of units in respect of purchase in income/debt oriented mutual fund schemes/plans other than liquid & overnight schemes, it shall be ensured that[282]:

8.4.6.3.1 Application is received before the applicable cut-off time (i.e. 3.00 pm).

8.4.6.3.2 Funds for the entire amount of subscription/purchase as per the application are credited to the bank account of the respective schemes before the cut-off time (i.e. 3.00 pm).

8.4.6.3.3 The funds are available for utilization before the cut-off time (i.e. 3.00 pm) without availing any credit facility whether intra-day or otherwise, by the respective scheme.

8.4.6.4 For allotment of units in respect of switch-in to income/debt oriented mutual fund schemes/plans other than liquid fund and overnight fund schemes from other schemes, it shall be ensured that:

8.4.6.4.1 Application for switch-in is received before the applicable cut-off time.

8.4.6.4.2 Funds for the entire amount of subscription/purchase as per the switch-in request are credited to the bank account of the respective switch-in income/debt oriented mutual fund schemes/plans before the cut-off time.

8.4.6.4.3 The funds are available for utilization before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective switch-in income/debt oriented mutual fund schemes/plans.

8.4.6.5 The following Cut-off Timings shall be observed by Mutual Funds in respect of repurchase of units in its other schemes and their

[282] SEBI Circular No. SEBI/IMD/DF/19/2010 dated November 26, 2010

plans, and the following NAVs shall be applied for such repurchase:

8.4.6.5.1 Where the application is received up to 3.00 pm – closing NAV of the day on which the application is received; and

8.4.6.5.2 An application received after 3.00 pm – closing NAV of the next business day.

8.4.7 Switch and Sweep Transactions

8.4.7.1 Paragraphs 8.4.5 and 8.4.6 of this Master Circular shall apply to 'switch in' transactions as if they were purchase transactions and to 'switch out' transactions as if they were repurchase transactions.

8.4.7.2 Paragraphs 8.4.5 and 8.4.6 of this Master Circular shall apply to 'sweep' transactions as if they were purchase transactions and to 'reverse sweep' transactions as if they were repurchase transactions.

8.4.7.3 In case of 'switch' transactions from one scheme to another, the allocation shall be in line with redemption payouts.

8.4.8 Time Stamping

8.4.8.1 Application from investors shall be received by Mutual Funds only at official points of acceptance, addresses of which shall be disclosed in the SID and on Mutual Funds' websites.

8.4.8.2 Cut off timings as prescribed under Paragraphs 8.4.5 and 8.4.6 of this Master Circular shall apply with reference to the point of time at which the applications are received at such official points of acceptance.

8.4.8.3 Time stamping machines at all official points of acceptance shall be in compliance with the requirements mentioned in Paragraph 8.5 of this Master Circular.

8.4.9 <u>Compliance Reporting</u>

8.4.9.1 Status of compliance with these Guidelines shall be reported to the Board in the CTR(s)[283] of the AMC(s) and the Half Yearly Trustee Reports[284].

8.4.9.2 The Half Yearly Trustee Reports shall contain a declaration on whether the Trustees are satisfied with the systems and procedures of the Mutual Fund designed for the purpose of compliance with these Guidelines.

8.4.9.3 Further, the substance of these Guidelines shall be disclosed to investors in the SID or in any addendum thereto.

8.4.9.4 **Encumbrance of the scheme property[285]**

Regulations[286] provides that the AMC shall not acquire any of the assets out of the scheme property which involves the assumption of any liability which is unlimited or which may result in encumbrance of the scheme property in any way. AMC's are advised to strictly adhere to the said provision.

### *8.5 Requirements with respect to time stamping machines [pursuant to Paragraph 8(4)][287]*

8.5.1 For every machine, running serial number shall be stamped from the first number to the last number as per its capacity before repetition of the cycle.

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283 For CTR format, please refer format no. 2.B. under the section on formats
284 For Trustee report, please refer format no. 2.C under the section on formats
285 SEBI Circular No. SEBI/IMD/DF/19/2010 dated November 26, 2010
286 Fourth Schedule of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996
287 SEBI Circular No. SEBI/IMD/CIR No.11/78450/06 dated October 11, 2006

8.5.2 Every application for purchase shall be stamped on the face and the corresponding payment instrument shall be stamped on the back indicating the date and time of receipt and running serial number. The application and the payment instrument shall contain the same serial number.

8.5.3 Every application for redemption shall be stamped on the face thereof and on the investor's acknowledgment copy (or twice on the application if no acknowledgment is issued) indicating the date and time of receipt and running serial number.

8.5.4 Different applications shall not be bunched together with the same serial number.

8.5.5 Blank papers shall not be time stamped. Genuine errors, if any, shall be recorded with reasons and the corresponding applications requests shall also be preserved.

8.5.6 The time stamping machine shall have a tamper proof seal and the ability to open the seal for maintenance or repairs must be limited to vendors or nominated persons of the mutual fund, to be entered in a proper record.

8.5.7 Breakage of seal and/or breakdown of the time stamping process shall be duly recorded and reported to the Trustees.

8.5.8 Every effort should be made to ensure uninterrupted functioning of the time stamping machine. In case of breakdown, the Mutual Funds shall take prompt action to rectify the situation. During the breakdown period, Mutual Funds shall adopt an alternative time stamping method that has already been approved by the Board of the AMC and the Trustee(s). An audit trail shall be available to check and ensure the accuracy of the time stamping process during the said period.

8.5.9 Any alternate mode of application that does not have any physical or electronic trail shall be converted into a physical piece of information and time stamped in accordance with these Guidelines.

8.5.10 Mutual Funds shall maintain and preserve all applications/ requests, duly time stamped as aforesaid, at least for a period of eight years[288] to be able to produce them as and when required by the Board or auditors appointed by the Board.

### *8.6 Uniformity in calculation of sale and repurchase price[289]*

8.6.1 The following method is being prescribed

8.6.1.1 To streamline the calculation of sale and repurchase price of mutual fund units[290],

8.6.1.2 To avoid variation in the amounts payable to investors and/or number of units allotted to them, and

8.6.1.3 To make the calculations more comprehensible to the investors.

8.6.2 [291]Exit loads shall be charged as a percentage of the NAV i.e. applicable load as a percentage of NAV will be subtracted from the NAV to calculate the repurchase price. [292]The provisions of Regulation 49(3) of MF Regulations applies on all open ended mutual fund schemes wherever exit load is applicable.

8.6.3 The formula for the same is as follows:

8.6.3.1 Sale Price = Applicable NAV

8.6.3.2 Repurchase Price = Applicable NAV *(1 – Exit Load, if any)

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[288] Regulation 50(2) of SEBI (Mutual Funds) Regulations, 1996

[289] SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002 & SEBI Circular No. SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009

[290] Regulation 49(3) of the SEBI (Mutual Funds) Regulations, 1996.

[291] Refer SEBI email dated July 07, 2010

[292] SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021.

## 8.7 *Intra-day NAV for transacting in units of Exchange Traded Funds directly with AMCs* [293]

8.7.1 For transactions in units of Exchange Traded Funds (ETFs) by Authorized Participants / large investors directly with the AMCs intra-day NAV, based on the executed price at which the securities representing the underlying index or underlying commodity(ies) are purchased / sold, shall be applicable.

8.7.2 Appropriate disclosure in this regard shall be provided in the Scheme Information Document, Key Information Memorandum and Common application form.

[293] SEBI Circular No. SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/0606 dated July 30, 2021

# CHAPTER 9: VALUATION[294]

## 9.1 Definitions[295]

### 9.1.1 Non Traded Securities[296]

9.1.1.1 When a security (other than Government Securities, money market and debt securities) is not traded on any Stock Exchange for a period of thirty days prior to the valuation date, the scrip shall be treated as a non-traded security.

9.1.1.2 A money market or debt security shall be considered as non-traded when, on the date of valuation, there are no trades (in marketable lots) in such security on any recognized Stock Exchange or no trades (in marketable lots) have been reported on trade reporting platform of recognized stock exchanges or the Clearing Corporation of India Ltd. (CCIL).

### 9.1.2 Thinly Traded Securities

9.1.2.1 Thinly traded equity/ equity related securities:[297]

a. When trading in an equity and/or equity related security (such as convertible debentures, equity warrants etc.) in a month is both less than Rs.5 lacs and the total volume is less than 50,000 shares, the security shall be considered as thinly traded security and valued accordingly.

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[294] Refer SEBI letter No. SEBI/HO/OW/IMD-II/DOF3/P/2020/12151/1 dated July 31, 2020 read with Email dated August 12, 2020

[295] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000, SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001, SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019.

[296] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000 & SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019.

[297] SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001.

b. In order to determine whether a security is thinly traded or not, the volumes traded in all recognized Stock Exchanges in India may be taken into account.

c. For example, if the volume of trade is 1,00,000 and value is Rs.4,00,000, the shares do not qualify as thinly traded. Also if the volume traded is 40,000, but the value of trades is Rs.6,00,000, the shares do not qualify as thinly traded.

d. Where a Stock Exchange identifies the thinly traded securities by applying the above parameters for the preceding calendar month and publishes or provides the required information along with the daily quotations, the same can be used by the Mutual Funds.

e. If the shares are not listed on the Stock Exchanges which provide such information, then Mutual Funds shall make their own analysis in line with the above criteria to check whether such securities are thinly traded or not and then value them accordingly.

9.1.3 Traded money market / debt security[298]:

9.1.3.1 A money market or debt security shall be considered as traded when, on the date of valuation, there are trades (in marketable lots) in that security on any recognized Stock Exchange or there are trades reported (in marketable lots) on the trade reporting platform of recognized stock exchanges or The Clearing Corporation of India Ltd. (CCIL). In this regard, the marketable lots shall be defined by AMFI, in consultation with SEBI.

[298] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

9.1.4 Below investment grade and default[299]:

9.1.4.1 A money market or debt security shall be classified as "below investment grade" if the long term rating of the security issued by a SEBI registered Credit Rating Agency (CRA) is below BBB- or if the short term rating of the security is below A3.

9.1.4.2 A money market or debt security shall be classified as "Default" if the interest and / or principal amount has not been received, on the day such amount was due or when such security has been downgraded to "Default" grade by a CRA. In this respect, Mutual Funds shall promptly inform to the valuation agencies and the CRAs, any instance of non-receipt of payment of interest and / or principal amount (part or full) in any security.

### *9.2 Valuation of Securities*

9.2.1 Traded Securities (other than money market and debt securities):[300]

9.2.1.1 When a security (other than Government security, money market and debt securities) is not traded on any Stock Exchange on a particular valuation day, the value at which it was traded on the selected Stock Exchange, as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to valuation date.

9.2.2 Non-Traded /and/or Thinly Traded Equity Securities:[301]

9.2.2.1 AMCs shall value non traded and/or thinly traded securities "in good faith" based on the Valuation norms prescribed below:

[299] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019
[300] SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019
[301] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

9.2.2.2 Based on the latest available Balance Sheet, Net Worth shall be calculated as follows:

a. Net Worth per share = [Share Capital+ Reserves (excluding Revaluation Reserves) – Miscellaneous expenditure and Debit Balance in Profit and Loss Account] / Number of Paid up Shares.

b. Average Capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent i.e. only 25 per cent. Of the industry average P/E shall be taken as Capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts shall be considered for this purpose.

c. The value as per the Net Worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 10 per cent for illiquidity so as to arrive at the fair value per share.

d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.

e. In case where the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.

f. In case an individual security accounts for more than 5 per cent of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent. of the total assets of the scheme, it shall be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs will be compared on the date of valuation[302].

g. In case trading in an equity security is suspended up to thirty days, then the last traded price shall be considered for valuation of that security. If an equity security is suspended for more than thirty days, then the AMC(s) or Trustees shall decide the valuation norms to be followed and such norms shall be documented and recorded.

9.2.3 Debt and Money Market Securities[303]

a. Valuation of money market and debt securities with residual maturity of upto 30[304] days:

1. Amortization based valuation is permitted for money market and debt securities including floating rate securities, with residual maturity of upto 30 days. Further, the amortized price shall be compared with the reference price which shall be the average of the security level price of such security as provided by the agency(ies) appointed by AMFI for said purpose (hereinafter referred to as "valuation agencies"). The amortized price shall be used for valuation only if it is within a threshold of ±0.025% of the reference price. In case of deviation beyond this threshold, the price shall be adjusted to bring it within the threshold of ±0.025% of the reference price.

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[302] SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001
[303] Refer SEBI letter No. SEBI/HO/IMD/DF4/OW/P/2019/24760 dated September 20, 2019
[304] SEBI Circular No. SEBI/IMD/CIR No.16/ 193388/2010 dated February 02, 2010 Cir/IMD/DF/4/2010 dated June 21, 2010, SEBI Circular No. Cir/IMD/DF/6/2012 dated February 28, 2012, SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

2. It is further clarified that in case of floating rate securities with floor and caps on coupon rate and residual maturity of upto 30 days then those shall be valued on amortization basis taking the coupon rate as floor.

3. In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued on amortization basis on the date of allotment / purchase.

4. Further, with effect from April 01, 2020 onwards, amortization based valuation shall be dispensed with and irrespective of residual maturity, all money market and debt securities shall be valued in terms of paragraph b below.

b. Valuation of money market and debt securities with residual maturity of over 30[305] days:

1. All money market and debt securities including floating rate securities, with residual maturity of over 30 days shall be valued at average of security level prices obtained from valuation agencies.

2. In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued at purchase yield on the date of allotment / purchase.

[305] SEBI Circular No. SEBI/IMD/CIR No.16/ 193388/2010 dated February 02, 2010, Cir/IMD/DF/4/2010 dated June 21, 2010, SEBI Circular No. Cir/IMD/DF/6/2012 dated February 28, 2012, SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

c. Methodology: [306]

For arriving at security level pricing, a waterfall approach shall be followed for the valuation of money market and debt securities.

1. AMFI shall ensure that valuation agencies have a documented waterfall approach for valuation of money market and debt securities. The said waterfall approach shall be documented in consultation with SEBI.

2. The following broad principles should be adopted as part of the aforesaid waterfall approach, for arriving at the security level prices:

   i. All traded securities shall be valued on the basis of traded yields, subject to identification of outlier trades by the valuation agencies.

   ii. Volume Weighted Average Yield (VWAY) for trades in the last one hour of trading shall be used as the basis for valuation of Government Securities (including T-bills). Valuation of all other money market and debt securities (including Government securities not traded in last one hour) shall be done on the basis of VWAY of all trades during the day.

   iii. An indicative list of exceptional events shall form part of the documented waterfall approach mentioned above. In case of any exceptional events on a day, only VWAY of trades post such event may be considered for valuation. Further, all exceptional events along-with

[306] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019, Refer SEBI letter No. SEBI/HO/IMD/DF4/OW/P/2019/29520 dated November 07, 2019

valuation carried out on such dates shall be documented with adequate justification.

iv. All trades on stock exchanges and trades reported on trade reporting platforms till end of the trade reporting time (excluding Inter-scheme transfers), should be considered for valuation on that day. Towards this end, the timing for disclosure of Net Asset Value (NAV) on website of respective AMCs and AMFI, stands extended as per paragraph 8.1.2 (paragraph 8.2 from July 01, 2023) of this Master Circular.

v. Considering the importance of polling in the valuation process[307], guidelines shall be issued by AMFI on polling by valuation agencies and on the responsibilities of Mutual Funds in the polling process, as part of the aforesaid waterfall approach. These guidelines shall inter-alia include the following:

    (a) Valuation agencies shall identify the Mutual Funds who shall participate in the polling process on a particular day, taking into account factors such as diversification of poll submitters and portfolio holding of the Mutual Funds. Mutual Funds who are identified by the valuation agencies shall necessarily participate in the polling process. However, in case any Mutual Fund does not participate in the polling process, detailed reason for the same shall be recorded and made available during SEBI inspections.

[307] Refer SEBI letter No. SEBI/HO/IMD/IMD-I PoD-1/P/ON/2022 dated September 27, 2022

(b) The minimum number of polls to be considered for valuation along-with the operational modalities of polling, shall be specified.

(c) AMCs shall have a written policy, approved by the Board of AMC and Trustees, on governance of the polling process. The aforesaid policy shall include measures for mitigation of potential conflicts of interest in the polling process and shall identify senior officials responsible for polling.

(d) AMCs shall ensure that participation in the polling process is not mis-used to inappropriately influence the valuation of securities. The officials of the AMC who are responsible for polling in terms of paragraph (c) above, shall also be personally liable for any mis-use of the polling process.

(e) AMCs shall maintain an audit trail for all polls submitted to valuation agencies.

3. The aforesaid waterfall approach shall form part of the valuation policy of individual AMCs which is uploaded on their respective websites. AMFI shall ensure that the said waterfall approach is also available on the website of the valuation agencies.

**d. Deviation from valuation guidelines:**[308]

1. As per the Principles of Fair Valuation specified in Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, AMCs are responsible for true and fairness of valuation and correct

[308] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

NAV. Considering the same, in case an AMC decides to deviate from the valuation price given by the valuation agencies, the detailed rationale for each instance of deviation shall be recorded by the AMC.

2. The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price as per the valuation agencies and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.

3. The rationale for deviation along-with details as mentioned under paragraph 9.2.3.d.2 above shall be disclosed immediately and prominently, under a separate head on the website of AMC.

4. Further, while disclosing the total number of instances of deviation in the monthly and half-yearly portfolio statements, AMCs shall also provide the exact link to their website for accessing the information mentioned at paragraph 9.2.3.d.3 above.

e. Valuation of money market and debt securities which are rated below investment grade[309]:

1. In order to have uniformity and consistency across the Mutual Fund industry on valuation of money market and debt securities rated below investment grade, the following has been decided:

[309] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

i. All money market and debt securities which are rated below investment grade shall be valued at the price provided by valuation agencies.

ii. Till such time the valuation agencies compute the valuation of money market and debt securities classified as below investment grade, such securities shall be valued on the basis of indicative haircuts provided by these agencies. These indicative haircuts shall be applied on the date of credit event i.e. migration of the security to sub-investment grade and shall continue till the valuation agencies compute the valuation price of such securities. Further, these haircuts shall be updated and refined, as and when there is availability of material information which impacts the haircuts.

iii. Consideration of traded price for valuation:

(a) In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, AMCs shall consider such traded price for valuation if it is lower than the price post standard haircut. The said traded price shall be considered for valuation till the valuation price is determined by the valuation agencies.

(b) In case of trades after the valuation price is computed by the valuation agencies as referred above and where the traded price is lower than such computed price, such traded price shall be considered for the purpose of valuation and the valuation price may be revised accordingly.

(c) The trades referred above shall be of a minimum size as determined by valuation agencies.

iv. AMCs may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies subject to the following:

(a) The detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded by the AMC.

(b) The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price post haircuts or the average of the price provided by the valuation agencies (as applicable) and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.

(c) The rationale for deviation along-with details as mentioned at Paragraph (b) above shall also be disclosed to investors. In this regard, all AMCs shall immediately disclose instances of deviations under a separate head on their website. Further, the total number of such instances shall also be disclosed in the monthly and half-yearly portfolio statements for the relevant period along-with an exact link to the website wherein the details of all such instances of deviation are available.

v. Treatment of accrued interest, future interest accrual and future recovery[310]:

(a) The treatment of accrued interest and future accrual of interest, in case of money market and debt securities classified as below investment grade or default, is detailed below:

1. The indicative haircut that has been applied to the principal should be applied to any accrued interest.

2. In case of securities classified as below investment grade but not default, interest accrual may continue with the same haircut applied to the principal. In case of securities classified as default, no further interest accrual shall be made.

(b) The following shall be the treatment of how any future recovery should be accounted for in terms of principal or interest:

1. Any recovery shall first be adjusted against the outstanding interest recognized in the NAV and any balance shall be adjusted against the value of principal recognized in the NAV.

2. Any recovery in excess of the carried value (i.e. the value recognized in NAV) should then be applied first towards amount of interest written off and then towards amount of principal written off.

[310] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019. Further, the Guidelines for Identification and Provisioning for Non-Performing Assets (Debt Securities) have been deleted vide SEBI Circular No. SEBI/HO/IMD/DF4/ CIR/P/2019/102 dated September 24, 2019.

### *9.3 Valuation of securities with Put/Call Options:*[311]

9.3.1 The option embedded securities would be valued as follows:

9.3.1.1 Securities with call option

a. The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option. In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

9.3.1.2 Securities with Put option

a. The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option. In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instruments.

9.3.1.3 Securities with both Put and Call option on the same day

a. Only securities with put / call options on the same day and having the same put and call option price, shall be deemed to mature on such put / call date and shall be valued accordingly. In all other cases, the cash flow of each put / call option shall be evaluated and the security shall be valued on the following basis:

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[311] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

1. Identify a 'Put Trigger Date', a date on which 'price to put option' is the highest when compared with price to other put options and maturity price.

2. Identify a 'Call Trigger Date', a date on which 'price to call option' is the lowest when compared with price to other call options and maturity price.

3. In case no Put Trigger Date or Call Trigger Date ('Trigger Date") is available, then valuation would be done to maturity price. In case one Trigger Date is available, then valuation would be done as to the said Trigger Date. In case both Trigger Dates are available, then valuation would be done to the earliest date.

9.3.2 If a put option is not exercised by a Mutual Fund when exercising such put option would have been in favour of the scheme, in such cases the justification for not exercising the put option shall be provided to the Board of AMC and Trustees.

9.3.3 [312]In respect of valuation of securities with multiple put options present ab-initio wherein put option is factored into valuation of the security by the valuation agency, If the put option is not exercised by a Mutual Fund, while exercising the put option would have been in favour of the scheme;

1. A justification for not exercising the put option shall be provided by the Mutual Fund to the Valuation Agencies, Board of AMC and Trustees on or before the last date of the notice period.

[312] SEBI Circular No. SEBI/HO/IMD/DF4/P/CIR/2021/593 dated July 9, 2021 effective from October 1, 2021

2. The Valuation Agencies shall not take into account the remaining put options for the purpose of valuation of the security.

9.3.4 The put option shall be considered as 'in favour of the scheme' if the yield of the valuation price ignoring the put option under evaluation is more than the contractual yield/coupon rate by 30 basis points.

### *9.4 Valuation of Perpetual Bonds:* [313]

9.4.1 Valuation of bonds with call and/or put options shall be in line with Paragraph 9.3. above irrespective of the nature of issuer.

9.4.2 The maturity of all perpetual bonds shall be treated as 100 years from the date of issuance of the bond for the purpose of valuation.

9.4.3 The deemed residual maturity for the purpose of valuation of existing as well as new bonds issued under Basel III framework shall be as below:

| **Time Period** | **Deemed Residual Maturity of Basel III AT-1 bonds (Years)** | **Deemed Residual Maturity of Basel III Tier 2 Bonds (Years)** |
|---|---|---|
| Till March 31, 2022 | 10 | 10 years or Contractual Maturity whichever is earlier |
| April 01, 2022 – September 30, 2022 | 20 | Contractual Maturity |
| October 01, 2022 – March 31, 2023 | 30 | Contractual Maturity |

[313] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2021/034 dated March 22, 2021, Refer SEBI letter No. IMD/DoF4/OW/P/6697/1 dated March 22, 2021

| | | |
|---|---|---|
| April 01, 2023 onwards | 100* | Contractual Maturity |

*100 years from the date of issuance of the bond.

9.4.4 Macaulay Duration for bonds issued under Basel III framework shall be calculated based on the deemed residual maturity as mentioned in the above table.

9.4.5 If the issuer does not exercise call option for any ISIN then the valuation and calculation of Macaulay Duration shall be done considering maturity of 100 years from the date of issuance for AT-1 Bonds and Contractual Maturity for Tier 2 bonds, for all ISINs of the issuer. In addition to the above, if the non-exercise of call option is due to the financial stress of the issuer or if there is any adverse news, the same shall be reflected in the valuation.

9.4.6 AMFI to issue detailed guidelines with respect to valuation of bonds issued under Basel III framework.

### ***9.5 Valuation of Government Securities***[314]

9.5.1 Irrespective of the residual maturity, Government Securities (including T-bills) shall be valued on the basis of security level prices obtained from valuation agencies.

### ***9.6 Valuation of other money market / debt securities, short-term deposits with banks (pending deployment) and OTC derivatives:***[315]

9.6.1 The valuation of bills purchased under rediscounting scheme shall be as per the guidelines mentioned for valuation of money market instruments, at paragraphs 9.2.3.a and 9.2.3.b, as the case may be.

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[314] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated February 20, 2002, SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019
[315] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

9.6.2 Investments in short-term deposits with banks (pending deployment) and repurchase (repo) transactions (including tri-party repo i.e. TREPS) with tenor of upto 30 days, shall be valued on cost plus accrual basis.

9.6.3 In order to have uniformity in valuation methodology, prices for all OTC derivatives and market linked debentures shall be obtained from valuation agencies.

### *9.7 Illiquid Securities*[316]

9.7.1 Aggregate value of "illiquid securities" under a scheme, which are defined as non-traded, thinly traded and unlisted equity shares, shall not exceed 15 per cent of the total assets of the scheme and any illiquid securities held above 15 per cent of the total assets shall be assigned zero value.

9.7.2 All Mutual Funds shall disclose as on March 31 and September 30 the scheme wise total illiquid securities in value and percentage of the net assets while disclosing Half Yearly Portfolios to the unit holders. In the list of investments, an asterisk mark shall be given against all such investments which are recognised as illiquid securities.

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[316] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.
Provided that in case any scheme has illiquid securities in excess of 15% of total assets as on September 30, 2000 then such a scheme shall within a period of two years bring down the ratio of illiquid securities within the prescribed limit of 15 per cent. in the following time frame:
All the illiquid securities above 20 per cent. of total assets of the scheme shall be assigned zero value on September 30, 2001.
All the illiquid securities above 15 per cent. of total assets of the scheme shall be assigned zero value on September 30, 2002.
In respect of closed ended funds, for the purposes of valuation of illiquid securities, the limits of 15 per cent. and 20 per cent. applicable to open ended funds should be increased to 20 per cent. and 25 per cent respectively.
Where a scheme has illiquid securities as at September 30, 2001 not exceeding 15% in the case of an open-ended fund and 20% in the case of closed fund, the concessions of giving time period for reducing the illiquid security to the prescribed limits would not be applicable and at all time the excess over 15% or 20% shall be assigned nil value

9.7.3 Mutual Funds shall not be allowed to transfer illiquid securities among their schemes.

## 9.8 Investment in Unlisted Equity Shares[317]

9.8.1 To ensure uniformity in calculation of NAV the following guidelines are issued:

9.8.1.1 Methodology for Valuation **-** unlisted equity shares of a company shall be valued "in good faith" as below:

a. Based on the latest available audited balance sheet, Net Worth shall be calculated as the lower of item (1) and (2) below:

1. Net Worth per share = [Share Capital + Free Reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares.

2. After taking into account the outstanding warrants and options, Net Worth per share shall again be calculated and shall be = [Share Capital + consideration on exercise of Option and/or Warrants received/receivable by the Company + Free Reserves (excluding Revaluation Reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares plus Number of Shares that would be obtained on conversion and/or exercise of Outstanding Warrants and Options.

[317] SEBI Circular No. MFD/CIR/03/526/2002 dated May 9, 2002

3. The lower of (1) and (2) above shall be used for calculation of Net Worth per share and for further calculation in (c) below.

b. Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent. i.e. only 25 per cent of the industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose.

c. The value as per the Net Worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 15 per cent for illiquidity so as to arrive at the fair value per share.

9.8.1.2 The above valuation methodology shall be subject to the following conditions:

a. All calculations shall be based on audited accounts.

b. If the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.

c. If the Net Worth of the company is negative, the share would be marked down to zero.

d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.

e. In case an individual security accounts for more than 5 per cent of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent of the total assets of the scheme, it shall be valued in accordance with the procedure as mentioned above on the date of valuation.

9.8.2 At the discretion of the AMCs and with the approval of the Trustees, unlisted equity shares may be valued at a price lower than the value derived using the aforesaid methodology.

9.8.3 Due Diligence

9.8.3.1 Mutual Funds shall not make Investment in unlisted equity shares at a price higher than the price obtained by using the aforesaid methodology. However, this restriction is not applicable for investment made in the Initial Public Offers (IPOs) of the companies or firm allotment in public issues where all the regulatory requirements and formalities pertaining to public issues have been complied with by the companies and where the Mutual Funds are required to pay just before the date of public issue.

9.8.3.2 The Board of the AMC and Board of Trustees shall lay down the parameters for investing in unlisted equity shares. They shall pay specific attention as to whether due diligence was exercised while making such investments and shall review the performance of such investments in their periodical meetings[318].

9.8.4 Reporting of Compliance

9.8.4.1 Comments on compliance of these Guidelines shall be indicated by the AMCs and Trustees in their CTRs[319] and Half Yearly Reports[320] filed with the Board.

[318] SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.
[319] For CTR format please refer to format no. 2.B under the section on formats
[320] For Half Yearly Reports, please refer to format no. 2.C under the section on formats

## 9.9 Valuation of securities not covered under the current valuation policy[321]:

9.9.1 In case of securities purchased by mutual funds do not fall within the current framework of the valuation of securities then such mutual fund shall report immediately to AMFI regarding the same. Further, at the time of investment AMCs shall ensure that the total exposure in such securities does not exceed 5% of the total AUM of the scheme.

9.9.2 AMFI has been advised that the valuation agencies should ensure that the valuation of such securities gets covered in the valuation framework within six weeks from the date of receipt of such intimation from mutual fund.

9.9.3 In the interim period, till AMFI makes provisions to cover such securities in the valuation of securities framework, the mutual funds shall value such securities using their proprietary model which has been approved by their independent trustees and the statutory auditors.

## 9.10 Use of own trade for valuation[322]

9.10.1 Various instances have come to notice wherein Mutual Funds have used their own trades of relatively small quantity in order to value the entire holding of such security. In order to address possible mis-use as mentioned above, Mutual Funds shall not use their own trades for valuation of debt and money market securities and for Inter-scheme transfers.

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[321] SEBI/IMD/CIR No.16/193388/2010 dated February 02, 2010 and Cir/IMD/DF/4/2010 dated June 21, 2010

[322] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

## 9.11 Inter-scheme transfers (IST) [323]:

With respect to Inter-scheme transfers, it has been decided that:

9.11.1 AMCs shall seek prices for IST of any money market or debt security (irrespective of maturity), from the valuation agencies.

9.11.2 AMFI, in consultation with valuation agencies shall decide a turn-around-time (TAT), within which IST prices shall be provided by the agencies.

9.11.3 If prices from the valuation agencies are received within the pre-agreed TAT, an average of the prices so received shall be used for IST pricing.

9.11.4 If price from only one valuation agency is received within the agreed TAT, that price may be used for IST pricing.

9.11.5 If prices are not received from any of the valuation agencies within the agreed TAT, AMCs may determine the price for the IST, in accordance with Clause 3 (a) of Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996.

## 9.12 Changes in Terms of Investment [324]

While making any change to terms of an investment, Mutual Funds shall adhere to the following conditions:

9.12.1 Any changes to the terms of investment, including extension in the maturity of a money market or debt security, shall be reported to valuation agencies and SEBI registered Credit Rating Agencies (CRAs) immediately, along-with reasons for such changes. [325]

[323] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019
[324] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019
[325] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/126 dated November 06, 2019

9.12.2 Any extension in the maturity of a money market or debt security shall result in the security being treated as “Default”, for the purpose of valuation.

9.12.3 If the maturity date of a money market or debt security is shortened and then subsequently extended, the security shall be treated as “Default” for the purpose of valuation.

9.12.4 Any put option inserted subsequent to the issuance of the security shall not be considered for the purpose of valuation and original terms of the issue will be considered for valuation.

**9.13 Dissemination of information:**

9.13.1 All mutual funds shall provide transaction details, including inter scheme transfers, of money market and debt securities on daily basis to the agency entrusted for providing the benchmark yield/ matrix of spread over risk free benchmark yield. Submission of data[326] would help in daily matrix generation and would improve uniformity and accuracy of valuation in the mutual funds industry.

9.13.2 The AMCs shall also disclose all details of debt and money market securities transacted (including inter scheme transfers) in its schemes portfolio on its website and the same shall be forwarded to AMFI for consolidation and dissemination as per format[327]. These disclosures shall be made settlement date wise on daily basis with a time lag of 15 days. The above disclosure shall be in a comparable, downloadable (spreadsheet) and machine readable format[328].

[326] SEBI Circular No.MFD/CIR/23 /066 / 2003 dated March 7, 2003 & SEBI Circular No. SEBI/IMD/CIR No.16/ 193388/2010 dated February 02, 2010. For disclosure of transaction details, please refer to the section on Formats
[327] Please refer to Format no. 8 under the section on formats
[328] SEBI Circular No. Cir/IMD/DF/6/2012 dated February 28, 2012 and SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2020/163 dated September 01, 2020

9.13.3 All Mutual Funds shall provide transaction details of various types of debt securities like NCDs, Mibor linked floaters and CPs on daily basis in the prescribed format enclosed at **Annexure 2** to the agency recommended by AMFI.[329].

## 9.14 Valuation and disclosure of upfront fees[330]:

9.14.1 Guidelines for valuation of any upfront fee (or any other consideration, by whatever name called) received in a Mutual Fund scheme, shall be issued by AMFI, in consultation with SEBI.

## 9.15 Guidelines for investments in partly paid debentures[331]

9.15.1 Guidelines for investment by Mutual Funds in partly paid debentures shall be issued by AMFI, in consultation with SEBI.

## 9.16 Guidelines to be issued by AMFI[332]:

9.16.1 The guidelines to be issued by AMFI, in consultation with SEBI under paragraphs 9.1.3.1, 9.2.3.c.1, 9.4.5, 9.14 and 9.15 above shall necessarily be followed by all Mutual Funds / AMCs. Any future changes to these guidelines shall be made by AMFI in consultation with SEBI, prior to implementation.

## 9.17 Consistency

9.17.1 All AMC's shall ensure that similar securities held under its various schemes shall be valued consistently.

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[329] SEBI Circular No. MFD/CIR.No 23 / 066 /2003 dated March 7,2003

[330] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019, Refer SEBI letter No. SEBI/HO/IMD/DF4/OW/P/2019/29520 dated November 07, 2019

[331] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019, Refer SEBI letter No. SEBI/HO/IMD/DF4/OW/P/2019/29520 dated November 07, 2019

[332] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

## CHAPTER 10: LOADS, FEES, CHARGES AND EXPENSES

### *10.1 Limits on fees and expenses charged to schemes*[333]

10.1.1 Mutual Funds may charge certain expenses to a scheme, as specified under Regulations.[334] Apart from the these expenses, any other expense as may be approved by SEBI under clause (xiii) of Sub Regulation 52(4) can also be charged to the Mutual Fund schemes. Other expenses directly attributable to a scheme may be charged with the approval of trustees within the overall limits as provided in the Regulation 52(6).[335]

10.1.2 Trustees and Asset Management Companies are advised to take proper care and exercise due diligence to ensure that all expenses charged to the scheme are clearly identified and disclosed in the offer document and they are strictly in conformity with the Regulation.[336]

10.1.3 Additional TER[337] can be charged up to 30 basis points on daily net assets of the scheme as per Regulation 52[338], if the new inflows from retail investors[339] from beyond top 30 cities[340] are at least (a) 30% of gross new inflows in the scheme or (b) 15% of the average assets under management (year to date) of the scheme, whichever is higher.

Inflows of amount upto Rs.2,00,000/-[341] per transaction, by individual investors shall be considered as inflows from "retail investor".

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[333] SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997, SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998, SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000, Refer SEBI letter No. SEBI/IMD/DF2/OW/P/2020/11099/1 dated June 29, 2020

[334] Regulation 52(4) of the Mutual Funds Regulations,1996

[335] SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

[336] SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997

[337] SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012, Refer SEBI letter No. SEBI/HO/IMD/IMD-SEC-3/P/OW/2023/5823/1 dated February 24, 2023

[338] Regulation 52(6A)(b) of the Mutual Funds Regulations,1996

[339] SEBI Circular no. SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018, SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

[340] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/16 dated February 02, 2018.

[341] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

In case inflows from beyond top 30 cities from retail investors is less than the higher of (a) or (b) above, additional TER on daily net assets of the scheme shall be charged as follows:

$$\frac{\text{Daily net assets X 30 basis points X New inflows from retails investors from beyond top 30 cities}}{\text{365* X Higher of (a) or (b) above}}$$

* 366, wherever applicable.

The top 30 cities shall mean top 30 cities based on Association of Mutual Funds in India (AMFI) data on 'AUM by Geography – Consolidated Data for Mutual Fund Industry' as at the end of the previous financial year.

10.1.4 The additional TER on account of inflows from beyond top 30 cities so charged shall be clawed back in case the same is redeemed within a period of 1 year from the date of investment.

Accordingly, format no. 3.D. on 'Disclosure of Monthly Average Assets Under Management' under the section on formats has been suitably revised.

10.1.5 The additional commission for B 30 cities shall be paid as trail only. [342]

10.1.6 Trustees and AMCs shall ensure compliance of the provisions mentioned above at Paragraphs 10.1.3 and 10.1.5 of this Master Circular and trustees shall confirm the same to SEBI in the half yearly trustee report.

10.1.7 [343]Regulation 52 (6A) (c) of SEBI (Mutual Funds) Regulations, 1996, allows an AMC to charge additional expenses, incurred towards different heads mentioned under Regulation 52 (2) and

[342] SEBI Circular no. SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018
[343] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/15 dated February 02, 2018

Regulation 52 (4), not exceeding 0.05[344] per cent of daily net assets of the scheme.

In this respect, Mutual Fund schemes including close ended schemes, wherein exit load is not levied / not applicable, the AMCs shall not be eligible to charge the above mentioned additional expenses for such schemes.

Further, existing Mutual Fund schemes including close ended schemes (schemes as on February 02, 2018), wherein exit load is not levied / not applicable, shall discontinue, with effect from February 02, 2018, the levy of above mentioned additional expenses, if any.

10.1.8 **Total Expense Ratio – Change and Disclosure[345]**

(a) AMCs shall prominently disclose on a daily basis, the TER (scheme-wise, date-wise) of all schemes except infrastructure debt fund (IDF) schemes under a separate head –"Total Expense Ratio of Mutual Fund Schemes" on their website and on the website of AMFI in a downloadable spreadsheet format.[346]

(b) Any change in the base TER (i.e. TER excluding additional expenses provided in Regulation 52(6A)(b), 52(6A)(c) of SEBI (Mutual Funds) Regulations, 1996 and Goods and Services Tax on investment and advisory fees) in comparison to previous base TER charged to any scheme/plan shall be communicated to investors of the scheme/plan through notice via email or SMS at least three working days prior to effecting such change. (For

[344] Regulation 52(6A)(c) of the SEBI (Mutual Funds) Regulations, 1996 and SEBI circular SEBI/HO/IMD/DF2/CIR/P/2018/91 dated June 05, 2018, Refer SEBI Letter No. SEBI/HO/IMD/DF2/OW/P/2019/4263/1 dated February 21, 2019 and email dated February 23, 2023

[345] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/18 dated February 5, 2018, SEBI/HO/IMD/DF2/CIR/P/2018/91 dated June 05, 2018 and SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019, Refer SEBI letter No. SEBI/HO/IMD/DF2/OW/P/2018/13813/1 dated May 09, 2018, Refer SEBI letter No. SEBI/HO/IMD/DF2/OW/P/2018/22825/1 dated August 13, 2018

[346] Please refer to format no. 7.E under the section on Formats.

example, if changed TER is to be effective from January 8, 2018, then notice shall be given latest by January 2, 2018, considering at least three working days prior to effective date). Further, the notice of change in base TER shall be updated in the aforesaid section of website at least three working days prior to effecting such change.

[347]Provided that any increase or decrease in TER in a mutual fund scheme due to change in AUM and any decrease in TER in a mutual fund scheme due to various other regulatory requirements would not require issuance of any prior notice to the investors.

10.1.9 [348] The above change in the base TER in comparison to previous base TER charged to the scheme shall be intimated to the Board of Directors of AMC along with the rationale recorded in writing.

10.1.10 The changes in TER shall also be placed before the Trustees on quarterly basis along with rationale for such changes.

10.1.11 Mutual funds/AMCs shall make complete disclosures in the half yearly report of Trustees to SEBI regarding the efforts undertaken by them to increase geographical penetration of mutual funds and the details of opening of new branches, especially at locations beyond top 30 cities.

10.1.12 **Transparency in TER[349]**

In order to bring transparency in expenses, reduce portfolio churning and mis-selling in mutual fund (MF) schemes, the following shall be adhered to:

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[347] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019
[348] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/18 dated February 05, 2018
[349] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018

(a) In terms of Regulation 52(1) of SEBI (Mutual Funds) Regulations, 1996, all scheme related expenses including commission paid to distributors, by whatever name it may be called and in whatever manner it may be paid, shall necessarily be paid from the scheme only within the regulatory limits and not from the books of the Asset Management Companies (AMC), its associate, sponsor, trustee or any other entity through any route.

Provided[350] that the expenses that are very small in value but high in volume may be paid out of AMC's books. Such expenses can be paid out of AMC's books at actuals or not exceeding 2 bps of respective scheme AUM, whichever is lower. A list of such miscellaneous expenses may be provided by AMFI in consultation with SEBI. Such expenses incurred by AMC should be properly recorded and audited in the books of account of AMC at year end.

(b) MFs/ AMCs shall adopt full trail model of commission in all schemes, without payment of any upfront commission or upfronting of any trail commission, directly or indirectly, in cash or kind, through sponsorships, or any other route. However, upfronting of trail commission will be allowed only in case of inflows through Systematic Investment Plans (SIPs).

(c) In respect of inflows through SIPs into MF schemes, a carve out has been considered only for new investors to the MF industry (to be identified based on PAN). The upfronting of trail commissions, based on SIP inflows, shall be up to 1% payable yearly in advance, for a maximum period of three years.

[350] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

(d) The payment of upfront trail commission would be subject to the following [351]:

i. The upfronting of trail commission may be for SIP of upto Rs. 3,000 per month, per scheme, for an investor who is investing for the first time in Mutual Fund schemes.

ii. For a new investor, as identified above, only the first SIP(s) purchased by the investor shall be eligible for up-fronting. In this regard, if multiple SIP(s) are purchased on different dates, the SIP(s) in respect of which the instalment starts on the earliest date shall be considered for upfronting.

iii. The upfront trail commission shall be paid from AMC's books.

iv. The said commission shall be amortized on daily basis to the scheme over the period for which the payment has been made. A complete audit trail of upfronting of trail commissions from the AMC's books and amortization of the same to scheme(s) thereafter shall be made available for inspection.

v. The said commission should be charged to the scheme as 'commissions' and should also account for computing the TER differential between regular and direct plans in each scheme.

vi. The commission paid shall be recovered on pro-rata basis from the distributors, if the SIP is not continued for the period for which the commission is paid.'

(e) In case of misuse of the carve out for SIPs, the same would be discontinued and appropriate action would be taken

[351] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

against the errant participants. Further, the need of this carve out would be reviewed by SEBI as and when required.

(f) All fees and expenses charged in a direct plan (in percentage terms) under various heads including the investment and advisory fee shall not exceed the fees and expenses charged under such heads in a regular plan.

(g) No pass back, either directly or indirectly, shall be given by MFs/ AMCs/Distributors to the investors.

(h) Training sessions and programmes conducted for distributors should continue and should not be misused for providing any reward or non-cash incentive to the distributors.

10.1.13 Trustees and AMCs shall ensure compliance of the provisions mentioned at Paragraph 10.1.12 above and trustees shall confirm the same to SEBI in the half yearly trustee report.

10.1.14 [352]Brokerage and transaction cost[353] incurred for the purpose of execution of trade shall be charged to the schemes as provided under Regulation 52 (6A) (a) upto 12 bps and 5 bps for cash market transactions and derivatives transactions respectively. Any payment towards brokerage and transaction costs, over and above the said 12 bps and 5 bps for cash market transactions and derivatives transactions respectively may be charged to the scheme within the maximum limit of Total Expense Ratio (TER) as prescribed under regulation 52[354].

[352] Refer SEBI letter No. IMD/DF2/HB/18172/2016 dated June 27, 2016
[353] SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012 & SEBI Circular No. CIR/IMD/DF/24/2012 dated November 19, 2012 stands replaced by SEBI SEBI/HO/IMD-II/DOF8/P/CIR/2022/12 dated February 4, 2022.
[354] Regulation 52 of the SEBI (Mutual Funds) Regulations, 1996

10.1.15 Soft-dollar arrangement refers to an arrangement between AMCs and brokers in which the AMC executes trades through a particular broker and in turn the broker may provide benefits such as free research, hardware, software or even non-research-related services, etc., to the AMC. It may be noted that such arrangements between AMCs and brokers should be limited to only benefits (like free research report, etc.) that are in the interest of investors and the same should be suitably disclosed[355].

10.1.16 Investor Education and Awareness[356]:

(a) Mutual Funds/AMCs shall annually set apart at least 2 basis points on daily net assets within the maximum limit of TER as per regulation 52 of the Regulations for investor education and awareness initiatives, except the following[357]:

i. The charges applicable for investor education and awareness initiatives from ETFs/ Index Funds shall be 1bps of daily net assets of the scheme.

ii. Fund of Funds (FoFs) investing more than 80% of its NAV in the underlying domestic funds shall not be required to set aside 2bps of the daily net assets towards investor education and awareness initiatives.

(b) AMCs and AMFI shall carry out focused investor education and awareness initiatives for passive funds.

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355 SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016

356 SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012, Refer SEBI letter No. IMD/DF2/RS/813/2016 dated January 08, 2016, Refer SEBI letter No. IMD/DF2/RS/201712507/1 dated May 31, 2017, Refer SEBI letter No. SEBI/HO/IMD/DoF4/0W/P/2019/9576/1 dated April 12, 2019, Refer SEBI letter No. SEBI/HO/IMD2/OW/P/27647/2019 dated October 29, 2019, Refer SEBI letter No. SEBI/HO/OW/IMD-II/DOF3/P/2019/34582/1 dated December 24, 2019, Refer SEBI Letter No. SEBI/HO/IMD-II/IMD-II_DOF11/P/OW/2022/60035/1 dated November 30, 2022, Refer SEBI Letter No. SEBI/HO/IMD/IMD-SEC-1/P/OW/2023/9455/1 dated March 03, 2023

357 SEBI Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022

(c) Mutual Funds shall make complete disclosures in the half yearly trustee report to SEBI regarding the investor education and awareness initiatives undertaken.

(d) [358]Certain portion of the 2 basis points of daily net assets is being set aside by Mutual Funds/AMCs for investor education and awareness initiatives at industry level.

(e) In this respect, for the purpose of increasing awareness of Mutual Funds as a financial product category it has been decided to permit celebrity endorsements[359] at industry level, subject to the following conditions:

i. Celebrity endorsement shall be allowed only at industry level, for the purpose of increasing awareness of Mutual Funds as a financial product category. Such celebrity endorsements should not promote a scheme of a particular Mutual Fund or be used as a branding exercise of a Mutual Fund house/ AMC.

ii. Expenses towards such celebrity endorsements for increasing awareness of Mutual Funds shall be limited to the amounts that are aggregated by Mutual Funds at industry level for the purpose of conducting investor education and awareness initiatives, in terms of Paragraph 10.1.16.(a) of this Master Circular.

iii. Prior approval of SEBI shall be required for issuance of any endorsement of Mutual Funds as a financial product,

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[358] SEBI Circular No. CIR/IMD/DF/23/2017 dated March 15, 2017

[359] Refer SEBI letter No. SEBI/HO/IMD/IMD-PoD-2/P/OW/2022/59612/1 dated November 28, 2022

which features a celebrity for the purpose of increasing awareness of Mutual Funds.

10.1.17 [360]The following expenses cannot be charged to the schemes of Mutual Funds:

a. Penalties and fines for infraction of laws.
b. Interest on delayed payment to the unit holders.
c. Legal, marketing, publication and other general expenses not attributable to any scheme(s).
d. Fund Accounting Fees.
e. Expenses on investment management/general management.
f. Expenses on general administration, corporate advertising and infrastructure costs.
g. Depreciation on fixed assets and software development expenses.
h. Such other costs as may be prohibited by the Board.

10.1.18 The expenditure and/or fee payable by Mutual Funds to the Depositories may either be capitalized or included as part of recurring expenditure within the limits prescribed under Regulation 52(6) of the Mutual Funds Regulations[361].

10.1.19 Further, each item of expenditure accounting for more than 10% of total expenditure shall be disclosed in the accounts or the notes thereto of the schemes[362].

10.1.20 Provision of charging of additional management fees by the Asset Management Companies in case of schemes launched on no load basis[363].

[360] SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000
[361] SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998.
[362] SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.
[363] SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

a. AMC shall not collect any additional management fees referred to in Regulation[364].
b. Mutual Fund Schemes to be launched including those for which observation letter have been issued under Regulation[365] would be required to carry out the changes in SID and file the same with SEBI before the launch.

### *10.2 Restriction on paying brokerage or commission[366]*

10.2.1 In case of investments made by the Sponsor(s), no brokerage or commission shall be paid.

### *10.3 Restriction on charging Goods & Service Tax [367]*

10.3.1 AMC(s) can charge Goods & Service Tax, as per applicable Taxation Laws, to the scheme(s) within the limits prescribed under Regulations[368]

10.3.2 Mutual funds /AMCs may charge Goods & Service Tax on investment and advisory fees to the scheme in addition to the maximum limit of TER as prescribed in Regulation 52[369].

10.3.3 Goods & Service Tax on other than investment and advisory fees, if any, shall be borne by the scheme within the maximum limit of TER as per Regulation 52[370].

10.3.4 Goods & Service Tax on exit load, if any, shall be paid out of the exit load proceeds and exit load net of Goods & Service Tax, if any, shall be credited to the scheme.

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[364] Regulation 52(3) of SEBI Mutual Funds Regulation, 1996
[365] Regulation 29 of SEBI (Mutual Funds) Regulations, 1996
[366] SEBI Circular No. MFD/CIR No.3/211/2001 dated April 30, 2001, SEBI Circular No. MFD/CIR No.5/153/2001 dated May 24, 2001.
[367] SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012, SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021.
[368] Reg.52(6) of the SEBI (Mutual Funds) Regulations, 1996.
[369] Regulation 52 of SEBI (Mutual Funds) Regulations, 1996
[370] Regulation 52 of SEBI (Mutual Funds) Regulations, 1996

10.3.5 Goods & Service Tax on brokerage and transaction cost[371] paid for execution of trade, if any, shall be within the limit prescribed under regulation 52 of the Regulations.

### ***10.4 Empowering investors through transparency in payment of commission and load structure[372]***

10.4.1 In order to empower investors in deciding the commission paid to distributors in accordance with the level of service received, it has been mandated that:

a. There shall be no entry load[373] for all Mutual Fund schemes.

b. The scheme application forms shall carry a suitable disclosure to the effect that the upfront commission to distributors will be paid by the investor directly to the distributor, based on his assessment of various factors including the service rendered by the distributor.

c. The load balances are maintained as 'liabilities' in the books of the scheme and are not included in the net asset value (NAV). The usage[374] of the load account shall be subject to the following:

i. The load balance shall be segregated into two accounts in the books of accounts of the scheme - one to reflect the balance as on July 31, 2009 and the other to reflect accretions since August 01, 2009.

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371 SEBI Circular No. CIR/ IMD/ DF/ 24/2012 dated November 19, 2012, Refer SEBI letter No. IMD/DF2/HB/18172/2016 dated June 27, 2016

372 SEBI Circular No SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009

373 Waiver of load for direct applications - Vide SEBI Circular No. SEBI/IMD/CIR No.10/112153/07 dated December 31, 2007, SEBI mandated w.e.f January 4,2009 no entry load shall be charged for applications received directly by the AMC(s) through internet or submitted directly to the AMC(s) or Collection Center/Investor Service Centre and not routed through any distributor or agent or broker. This waiver was applicable to both additional purchases under the same folio and 'switch in' to a scheme from other schemes also done directly by the investor. AMCs shall follow the provisions pertaining to informing the unitholders upon a change in load structure as per clause 3(d) of standard observations.

374 SEBI Circular No. CIR/IMD/DF/4/2011 dated March 9, 2011

ii. However, not more than one-third of load balance as on July 31, 2009 shall be used in any financial year. It is clarified though the unutilized balances can be carried forward, yet in no financial year the total spending can be more than one third of the load balances on July 31, 2009.

The accretions after July 31, 2009 can be used by mutual funds for marketing and selling expenses including distributor's/agent's commissions without any restrictions mentioned in Paragraph (ii) above.

d. The exit load charged[375], if any, after the commencement of SEBI (Mutual Funds) (Second Amendment) Regulations, 2012, shall be credited to the scheme.

e. The distributors should disclose all the commissions (in the form of trail commission or any other mode) payable to them for the different competing schemes of various Mutual Funds from amongst which the scheme is being recommended to the investor.

10.4.2 The above guidelines became applicable for:

a. Investments in mutual fund schemes (including additional purchases and switch-in to a scheme from other schemes) w.e.f August 1, 2009
b. Redemptions from mutual fund schemes (including switch-out from other schemes) w.e.f August 1, 2009
c. New mutual fund schemes launched on or after August 1, 2009
d. All Systematic Investment Plans (SIP) including SIPs registered prior to August 1, 2009[376].

[375] Regulation 51A of SEBI (Mutual Funds) Regulations, 1996.
[376]SEBI Circular No. CIR/IMD/df/21/2012 dated September 13, 2012, SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

### *10.5 Transaction Charges*[377]

10.5.1 A transaction charge per subscription of Rs. 10,000/- and above be allowed to be paid to the distributors of the Mutual Fund products. However, there shall be no transaction charges on direct investments. The transaction charge shall be subject to the following:

a. For existing investors in a Mutual Fund, the distributor may be paid Rs.100/- as transaction charge per subscription of Rs. 10,000/- and above.

b. As an incentive to attract new investors, the distributor may be paid Rs.150/- as transaction charge for a first time investor in Mutual Funds.

c. The terms and conditions relating to transaction charge shall be part of the application form in bold print.

d. The transaction charge, if any, shall be deducted by the AMC from the subscription amount and paid to the distributor; and the balance shall be invested.

e. The statement of account shall clearly state that the net investment as gross subscription less transaction charge and give the number of units allotted against the net investment.

f. Distributors shall be able to choose to opt out of charging the transaction charge. However, the 'opt-out' shall be at distributor level and not investor level i.e. a distributor shall not charge one investor and choose not to charge another investor. Further, Distributors shall have also the option to either opt in or opt out of levying transaction charge based on type of the product[378].

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[377] SEBI Circular no. CIR/IMD/DF/13/2011 dated August 22, 2011
[378] SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

g. The AMCs shall be responsible for any malpractice/mis-selling by the distributor while charging transaction costs.

h. There shall be no transaction charge on subscription below Rs. 10,000/-

i. In case of SIPs, the transaction charge shall be applicable only if the total commitment through SIPs amounts to Rs. 10,000/- and above. In such cases the transaction charge shall be recovered in 3-4 installments.

j. There shall be no transaction charge on transactions other than purchases/ subscriptions relating to new inflows.

10.5.2 Mutual Funds shall institute systems to detect if a distributor is splitting investments in order to enhance the amount of transaction charges and take stringent action including recommendations to AMFI to take appropriate action.

10.5.3 Mutual Funds/ AMCs shall carry out an exercise of de-duplication of folios across all Mutual Funds within a period of 6 months from August 22, 2011[379].

### *10.6 No Load on Bonus Units and Units allotted on Reinvestment of Dividend[380]*

10.6.1 AMC(s) shall not charge entry and/or exit load on bonus units and units allotted on reinvestment of dividend. Necessary disclosures in this regard shall be made in the SID filed with the Board

[379] Refer SEBI letter No. IMD/DF2/DS/24539/2017 dated October 10, 2017
[380] SEBI Circular No. SEBI/IMD/CIR No. 14/120784/08 dated March 18, 2008

### *10.7 Filing fees*[381]

10.7.1 Filing fees[382] as per the Second Schedule of SEBI (Mutual Funds) Regulations, 1996 shall be applicable for offer documents and placement memoranda.

### *10.8 Exit load parity*[383]

10.8.1 While charging exit loads, no distinction among unit holders should be made based on the amount of subscription[384]. While complying with the same, Mutual Funds should ensure that "any imposition or enhancement in the load shall be applicable on prospective investments only.[385]

10.8.2 Further, the parity among all classes of unit holders in terms of charging exit load shall be made applicable at the portfolio level.[386]

### **10.9** *Borrowing Costs*[387]

10.9.1 With regard to the cost of borrowings in terms of Regulation 44(2) of SEBI (Mutual Funds) Regulations, 1996, it has been decided that for a given scheme, the same shall be adjusted against the portfolio yield of the scheme and borrowing costs in excess of portfolio yield, if any, shall be borne by the AMC.

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[381] SEBI Circular No. SEBI Cir No. SEBI / IMD/ CIR No. 5 / 169030 / 2009 dated July 8, 2009, Refer SEBI Letter No. IMD/SG/8668/06 dated October 13, 2006

[382] Gazette Notification No. LAD-NRO/GN/20014-15/03/1089on SEBI (Payment of Fees) (Amendment) Regulations, 2014 dated 23 May, 2014, Second Schedule of SEBI (Mutual Funds) Regulations, 1996

[383] Refer SEBI email dated July 07, 2010, Refer SEBI letter No. SEBI/HO/IMD/DF2/OW/P/2019/271771/1 dated October 15, 2019

[384] SEBI Circular No. SEBI / IMD / CIR No. 6 /172445/ 2009 dated August 7,2009 All Mutual Funds shall ensure compliance with this circular on or before August 24, 2009

[385] SEBI Circular No - SEBI / IMD / CIR No. 7 /173650 / 2009 dated August 17,2009 and SEBI circular No. SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008

[386] SEBI Circular No - SEBI / IMD / CIR No. 7 /173650 / 2009 dated August 17,2009

[387] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/42 dated March 25, 2019

# CHAPTER 11: DIVIDEND DISTRIBUTION PROCEDURE[388,389]

11.1 All the existing (i.e. schemes as on October 05, 2020) and proposed Schemes of Mutual Funds shall name / rename the Dividend option(s) in the following manner:

| Option / Plan | Name |
|---|---|
| Dividend Payout | Payout of Income Distribution cum capital withdrawal option |
| Dividend Re-investment | Reinvestment of Income Distribution cum capital withdrawal option |
| Dividend Transfer Plan | Transfer of Income Distribution cum capital withdrawal plan |

11.2 Offer documents shall clearly disclose that the amounts can be distributed out of investors capital (Equalization Reserve), which is part of sale price that represents realized gains. Further, AMCs shall ensure that the said disclosure is made to investors at the time of subscription of such options/plans.

11.3 AMCs shall ensure that whenever distributable surplus is distributed, a clear segregation between income distribution (appreciation on NAV) and capital distribution (Equalization Reserve) shall be suitably disclosed in the Consolidated Account Statement provided to investors.

11.4 [390]The payment of dividend to the unitholders shall be made within seven working days from the record date.

11.5 Regulations[391] permit Mutual Funds to distribute returns including dividend. To introduce uniform practices in dividend distribution, the following guidelines should be followed:

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[388] SEBI Circular No. SEBI/IMD/CIR No.1/64057/06 dated April 4, 2006, SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/194 dated October 05, 2020.

[389] For details on advertisement on dividend please refer to Chapter No. 14 on 'Advertisements'

[390] Regulation 53(a) of the SEBI (Mutual Funds) Regulations, 1996 & SEBI Circular No. SEBI/HO/IMD/IMD-I DOF2/P/CIR/2022/161 dated November 25, 2022

[391] Regulation 53(a) of the SEBI (Mutual Funds) Regulations, 1996

11.6 These guidelines are applicable to all Mutual Fund schemes/plans which intend to declare the dividend irrespective of their dates of launch.[392]

11.6.1 Unlisted Scheme(s)/ Plan(s)

11.6.1.1 The Trustees shall decide the quantum of dividend and the record date in their meeting[393]. Dividend so decided, shall be paid, subject to availability of distributable surplus.

11.6.1.2 Record date shall be the date which will be considered for the purpose of determining the eligibility of investors whose names appear on the register of unit holders for receiving dividends. The NAV shall be adjusted to the extent of dividend distribution and statutory levy, if applicable, at the close of business hours on record date.

11.6.1.3 [394]Within one calendar day of the decision by the trustees, AMC shall issue notice to the public communicating the decision including the record date. The record date shall be two working days[395] from the date of publication in at least one English newspaper or in a newspaper published in the language of the region where the Head Office of the mutual fund is situated, whichever is issued earlier.

11.6.1.4 Before the issue of such notice, no communication whatsoever indicating the probable date of dividend declaration shall be issued by any Mutual Fund or its distributors of its products.

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[392] SEBI Circular No SEBI/IMD/CIR No. 3/65370/06 dated April 21,2006
[393] Clause 20 of Third Schedule of SEBI (Mutual Funds) Regulations, 1996
[394] SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021
[395] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF2/P/CIR/2022/161 dated November 25, 2022

11.6.1.5 The notice shall, in font size 10, bold, categorically state that pursuant to dividend distribution, NAV of the scheme would fall to the extent of payout and statutory levy (if applicable).

11.6.2 Liquid / Debt Schemes with frequent dividend distribution

11.6.2.1 The requirement of giving notice is not mandatory for scheme(s)/ plan(s)/ option(s) with dividend distribution frequency ranging from daily up to monthly distribution if requisite disclosures in this regard are made in the SID.

11.6.3 [396]With respect to declaration of dividends upto monthly frequency, the trustees can delegate to the officials of AMC to declare and fix the record date as well as decide the quantum of dividend, subject to the following;

I. Record date is specified in the offer document and the same is adhered to.

II. Such delegation to AMC officials shall mandatorily include CEO of AMC and making him responsible for such declaration of dividends, subject to adhering to the policy framework as approved by Trustees.

III. The policy shall specify appropriate parameters or factors (for example Growth in NAV from the last dividend declared, or availability of adequate distributable surplus, or minimum reserves to be maintained, etc.) to be considered prior to deciding the quantum.

IV. Actual dividend declared to be ratified by the Trustees in its immediately following Board meeting.

11.6.4 Listed Schemes/Plans

11.6.4.1 Listed scheme(s)/ plan(s) shall follow the requirements stipulated in the Listing Agreement for dividend declaration and distribution.

[396] SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

## 11.7 ***Non availability of Unit Premium Reserve for dividend distribution***[397]

11.7.1 Regulations[398] provide the accounting policies to be followed for determining distributable surplus and accounting the sale and repurchase of units in the books of the Mutual Fund. The format for Scheme Balance Sheet (including Abridged) provides for disclosure of Unit Premium Reserve.

11.7.2 Unit Premium Reserve, which is part of the sales price of units that is not attributable to realized gains, cannot be used to pay dividend. Therefore:

11.7.2.1 When units of an open-ended scheme are sold, and sale price is higher than face value of the unit, part of sale proceeds that represents unrealized gains shall be credited to a separate account (Unit Premium Reserve) and shall be treated at par with unit capital and the same shall not be utilized for the determination of distributable surplus.

11.7.2.2 When units of an open-ended scheme are sold, and sale price is less than face value of the unit, the difference between the sale price and face value shall be debited to distributable reserves and the dividend can be declared only when distributable reserves become positive after adjusting the amount debited to reserves as per Regulations[399].

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[397] SEBI circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010
[398] Ninth and Eleventh Schedule of SEBI (Mutual Funds) Regulations, 1996
[399] Clause 2(a) (ix) of Eleventh Schedule of SEBI (Mutual Funds) Regulations, 1996

## CHAPTER 12: INVESTMENT BY SCHEMES

### *12.1 Investment in Listed and Unrated Debt Instruments*[400]

12.1.1 Mutual fund scheme shall not invest in unlisted debt instruments including commercial papers (CPs), other than (a) government securities, (b) other money market instruments and (c) derivative products such as Interest Rate Swaps (IRS), Interest Rate Futures (IRF), etc. which are used by mutual funds for hedging.

However, mutual fund schemes may invest in unlisted Non-Convertible Debentures (NCDs) not exceeding 10% of the debt portfolio of the scheme subject to the condition that such unlisted NCDs have a simple structure (i.e. with fixed and uniform coupon, fixed maturity period, without any options, fully paid up upfront, without any credit enhancements or structured obligations) and are rated and secured with coupon payment frequency on monthly basis.

12.1.2 ***Clarification on existing grandfathered unlisted NCDs***[401]

The existing investments of mutual fund schemes in unlisted debt instruments, including NCDs, may be grandfathered till maturity date (as stands as on October 01, 2019) of such instruments. The grandfathering of the identified NCDs (existing grandfathered unlisted NCDs) is applicable across the mutual fund industry. Accordingly, mutual funds can transact in such identified NCDs and the criteria specified in Paragraph 12.1.1 above is not applicable. However, investments in such identified NCDs shall continue to be subject to compliance with investment due diligence and all other applicable investment restrictions.

12.1.3 For the purpose of the provisions of paragraph 12.1, listed debt instruments shall include listed and to be listed debt instruments.

[400] SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/104 dated October 1, 2019, Refer SEBI letter No. SEBI/HO/IMD/DF2/OW/P/2019/138/1 dated January 01, 2019
[401] SEBI circular No. EBI/HO/IMD/DF2/CIR/P/2020/75 dated April 28, 2020

12.1.4 All fresh investments by mutual fund schemes in CPs would be made only in CPs which are listed or to be listed.

12.1.5 Further, investment in unrated debt and money market instruments, other than government securities, treasury bills, derivative products such as Interest Rate Swaps (IRS), Interest Rate Futures (IRF), etc. by mutual fund schemes shall be subject to the following:

a. Investments should only be made in such instruments, including bills re-discounting, usance bills, etc., that are generally not rated and for which separate investment norms or limits are not provided in SEBI (Mutual Fund) Regulations, 1996 and various circulars issued thereunder.

b. Exposure of mutual fund schemes in such instruments, shall not exceed 5% of the net assets of the schemes.

c. All such investments shall be made with the prior approval of the Board of AMC and the Board of trustees.

d. The existing investments of mutual fund schemes in such instruments in excess of the aforesaid limit of 5% may be grandfathered till maturity date (as stands as on October 01, 2019) of such instruments.

e. [402]The single issuer limit and the group exposure limit shall be calculated at the issuing bank level as BRDS are issued with recourse to the issuing bank.

f. Investment in BRDS by debt schemes of mutual funds shall be considered as exposure to financial services sector for the purpose of sector exposure limits.

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[402] SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2021/683 dated December 10, 2021

### 12.2 [403]*Investment in Instruments having Special Features*

12.2.1 Mutual Funds invest in certain debt instruments with special features viz. subordination to equity (absorbs losses before equity capital) and /or convertible to equity upon trigger of a pre-specified event for loss absorption. Additional Tier I bonds and Tier 2 bonds issued under Basel III framework are some instruments which may have above referred special features. The debt instruments having such special features, which otherwise are Non-Convertible Debentures, may be treated as debt instruments until converted to equity.

12.2.2 The investment limits of mutual funds in such instruments shall be as under:

a) No Mutual Fund under all its schemes shall own more than 10% of such instruments issued by a single issuer;

b) A Mutual Fund scheme shall not invest
   i. more than 10% of its NAV of the debt portfolio of the scheme in such instruments; and
   ii. more than 5% of its NAV of the debt portfolio of the scheme in such instruments issued by a single issuer.

The above investment limit for a mutual fund scheme shall be within the overall limit for debt instruments issued by a single issuer as specified at clause 1 of the Seventh Schedule of SEBI (Mutual Fund) Regulations, 1996, and other prudential limits with respect to the debt instruments.

12.2.3 The investments of mutual fund schemes in such instruments in excess of the limits specified under paragraph above as on March 10, 2021 may be grandfathered and such mutual fund schemes shall not

[403] SEBI circular No. SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021

make any fresh investment in such instruments until the investment comes below the specified limits.

### *12.3 Restrictions on Investment in debt instruments having Structured Obligations / Credit Enhancements:*[404]

12.3.1 The investment of mutual fund schemes in the following instruments shall not exceed 10% of the debt portfolio of the schemes and the group exposure in such instruments shall not exceed 5% of the debt portfolio of the schemes:

a. Unsupported rating of debt instruments (i.e. without factoring-in credit enhancements) is below investment grade and

b. Supported rating of debt instruments (i.e. after factoring-in credit enhancement) is above investment grade.

For the purpose of this provision, 'Group' shall have the same meaning as defined in Paragraph 12.9.3.3 of this Master Circular.

12.3.2 Investment limits as mentioned in Paragraph 12.3.1 above shall not be applicable on investments in securitized debt instruments, as defined in SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations 2008.

12.3.3 Investment in debt instruments, having credit enhancements backed by equity shares directly or indirectly, shall have a minimum cover of 4 times considering the market value of such shares.

AMCs may ensure that the investment in debt instruments having credit enhancements are sufficiently covered to address the market volatility and reduce the inefficiencies of invoking of the pledge or cover, whenever required, without impacting the interest of the investors. In case of fall in the value of the cover below the specified

[404] SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/104 dated October 1, 2019

limit, AMCs should initiate necessary steps to ensure protection of the interest of the investors.

12.3.4 The existing investments by mutual fund schemes in debt instruments that are not in terms of the provisions of Paragraph 12.3 above may be grandfathered till maturity date (as stands as on the October 01, 2019) of such debt instruments.

12.3.5 Details of investments in debt instruments having structured obligations or credit enhancement features should be disclosed distinctively in the monthly portfolio statement of mutual fund schemes.

***12.4 Transactions in Corporate Bonds/Commercial Papers through Request for Quotes ("RFQ") platform:*** [405] [406]

12.4.1 In order to increase the liquidity on exchange platform:

12.4.1.1 On monthly basis, Mutual Funds shall undertake minimum 25% of their total secondary market trades by value (excluding Inter Scheme Transfer trades) in Corporate Bonds by placing/seeking quotes through one-to-many mode on the Request for Quote (RFQ) platform of stock exchanges and

12.4.1.2 On monthly basis, Mutual Funds shall now undertake minimum 10% of their total secondary market trades by value (excluding Inter Scheme Transfer trades) in Commercial Papers by placing/seeking quotes through one-to-many mode on the Request for Quote (RFQ) platform of stock exchanges

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[405] SEBI circular No. SEBI/HO/IMD/DF3/CIR/P/2020/130 dated July 22, 2020, Refer SEBI letter No. SEBI/HO/OW/IMD-II/DOF3/P/2021/1467/1 dated January 18, 2021

[406] SEBI circular No. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/641 dated October 6, 2021

12.4.1.3 The percentage as specified shall be reckoned on the average of secondary trades by value in immediate preceding three months on rolling basis.

For example, for the month of October 2020, Mutual Funds shall undertake 10% (by value) of their average secondary market trades (excluding IST) done in immediate preceding three months i.e. July 2020, August 2020 and September 2020 for Corporate bonds by placing/seeking quotes through RFQ platform for Stock exchanges.

12.4.1.4 All transactions in Corporate Bonds and Commercial Papers wherein Mutual Fund is on both sides of the trade shall be executed through RFQ platform of stock exchanges in one-to-one mode.

12.4.1.5 Any transaction entered by mutual fund in Corporate Bonds in one to many mode and gets executed with another mutual fund shall also be counted for the aforesaid 10% requirement.

12.4.1.6 Mutual Funds are permitted to accept the Contract Note from the brokers for transactions carried out in One to One (OTO) and One to Many (OTM) modes of RFQ platform.

### *12.5 Investments by Index Funds:*[407]

12.5.1 Investments by index funds shall be in accordance with the weightage of the scrips in the specific index as disclosed in the SID[408] In case of sector or industry specific scheme, the upper ceiling on investments may be in accordance with the weightage of the scrips in the

[407] SEBI Circular No - MFD/CIR/09/014/2000 dated January 5, 2000, Refer SEBI letter No. SEBI/H0/0W/IMD-II/DOF3/P/24098/2022 dated June 10, 2022
[408] See Clause 10, Seventh Schedule of Mutual Funds Regulations.

representative sectoral index or sub index as disclosed in the SID or 10% of the NAV of the scheme, whichever is higher.

### *12.6 Investments by Liquid Schemes and plans*[409]

12.6.1 The 'liquid fund schemes and plans' shall make investment in /purchase debt and money market securities with maturity of upto 91 days only with effect from May 1, 2009[410]. This shall also be applicable in case of inter scheme transfer of securities [411]

12.6.1.1 Explanation:

a. In case of securities where the principal is to be repaid in a single payout the maturity of the securities shall mean residual maturity. In case the principal is to be repaid in more than one payout then the maturity of the securities shall be calculated on the basis of weighted average maturity of security.

b. In case of securities with put and call options (daily or otherwise) the residual maturity of the securities shall not be greater than 91 days[412]

c. In case the maturity of the security falls on a non-business day then settlement of securities will take place on the next business day.

12.6.2 The above requirements shall be disclosed in the SID and shall form part of the investment allocation pattern. Any deviation from these requirements shall be viewed as violation of investment restrictions.

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[409] SEBI Circular No - SEBI/IMD/CIR No.13/150975 / 09 dated January 19, 2009

[411] Transition provision: Inter-scheme transfers of securities having maturity upto 365 days and held in other schemes as on February 01, 2009 shall be permitted till October 31, 2009. With effect from November 1, 2009 the requirements stated at paragraph 12.3.1 above shall apply to such inter-se scheme transfers also.

[412] Applicable with effect from May 01, 2009.

### 12.7 *Investments by close ended debt schemes:*

12.7.1 Close ended debt schemes shall invest only in such securities which mature on or before the date of the maturity of the scheme[413]

12.7.2 Close ended debt schemes shall not invest in perpetual bonds.[414]

### 12.8 *Introduction of credit risk based single issuer limit for investment by mutual fund schemes in debt and money market instruments*[415]

12.8.1 As per Regulation 44(1) read with clause 1 of Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996 ("MF Regulation"), a mutual fund scheme shall not invest more than 10% of its NAV in debt instruments, issued by a single issuer, comprising money market securities and non-money market securities rated investment grade or above by a Credit Rating Agency (CRA). This overall investment limit may be extended to 12% of the NAV of the scheme with the prior approval of the Board of Trustees and Board of Directors of the Asset Management Company.

12.8.2 In order to avoid inconsistency in investment by mutual funds in debt instruments of an issuer, irrespective of the scheme being actively or passively managed, it has been decided to introduce a credit rating based single issuer limit for actively managed mutual fund schemes.

12.8.3 Accordingly, within the limits specified in the clause 1 of Seventh Schedule[416], following prudential limits shall be followed, for schemes other than Credit risk funds:

12.8.3.1 A Mutual Fund scheme shall not invest more than:

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[413] SEBI Circular No IMD/CIR No 12/147132/08 dated December 11, 2008. Also refer Regulations 32, 33, 52(4)(xiid), 18(4)(h), 48(2) for other provisions pertaining to close-ended schemes.

[414] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021

[415] SEBI Circular No. SEBI/HO/IMD/IMD-1 DOF2/P/CIR/2022/164 dated November 29, 2022

[416] SEBI (Mutual Funds) Regulations, 1996

a) 10% of its NAV in debt and money market securities rated AAA; or

b) 8% of its NAV in debt and money market securities rated AA; or

c) 6% of its NAV in debt and money market securities rated A and below issued by a single issuer

The above instrument limits may be extended by up to 2% of the NAV of the scheme with prior approval of the Board of Trustees and Board of Directors of the AMC, subject to compliance with the overall 12% limit specified in clause 1 of Seventh Schedule[417].

12.8.4 The long term rating of issuers shall be considered for the money market instruments. However, if there is no long term rating available for the same issuer, then based on credit rating mapping of CRAs between short term and long term ratings, the most conservative long term rating shall be taken for a given short term rating. Exposure to government money market instruments such as TREPS on G-Sec/ T-bills shall be treated as exposure to government securities.

12.8.5 The above provisions shall be applicable for all the new schemes to be launched with effect from November 29, 2022. Existing schemes (as on November 29, 2022) shall be grandfathered from these guidelines till the maturity of the underlying debt and money market securities.

[417] SEBI (Mutual Funds) Regulations, 1996

### ***12.9 Prudential limits and disclosures on portfolio concentration risk in debt oriented mutual fund schemes***[418] [419]

12.9.1 [420]Mutual Funds/AMCs shall ensure that total exposure of debt schemes of mutual funds in a particular sector (excluding investments in Bank CDs, triparty repo on Government securities or treasury bills[421], G-Secs, TBills, short term deposits of Scheduled Commercial Banks and AAA rated securities issued by Public Financial Institutions and Public Sector Banks) shall not exceed 20% of the net assets of the scheme;

Provided that an additional exposure to financial services sector (over and above the limit of 20%) not exceeding 10% of the net assets of the scheme shall be allowed only by way of increase in exposure to Housing Finance Companies (HFCs); Further, an additional exposure of 5% of the net assets of the scheme has been allowed for investments in securitized debt instruments based on retail housing loan portfolio and/or affordable housing loan portfolio.
However, the overall exposure in HFCs shall not exceed the sector exposure limit of 20% of the net assets of the scheme.

Provided further that the additional exposure to such securities issued by HFCs are rated AA and above and these HFCs are registered with National Housing Bank (NHB) and the total investment/ exposure in HFCs shall not exceed 20% of the net assets of the scheme.

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[418] SEBI Circular No. CIR/IMD/ DF/ 21/ 2012 dated September 13, 2012 and SEBI Circular No. CIR/IMD/DF/24/2012 dated November 19, 2012 SEBI/ HO/ IMD/ DF2/CIR/P/2016/35 dated February 15, 2016 and SEBI Circular No. SEBI/ HO/ IMD/ DF2/CIR/P/2016/68 dated August 10, 2016
[419] SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/104 dated October 1, 2019
[420] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/14 dated February 22, 2017
[421] SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

12.9.2 Further, appropriate disclosures in this regard shall be made in Scheme Information Document (SID) and Key Information Memorandum (KIM) of debt schemes.

12.9.3 **Group Exposure** –

12.9.3.1 Mutual Funds/ AMCs shall ensure that total exposure of debt schemes of mutual funds in a group (excluding investments in securities issued by Public Sector Units, Public Financial Institutions and Public Sector Banks) shall not exceed 20% of the net assets of the scheme. Such investment limit may be extended to 25% of the net assets of the scheme with the prior approval of the Board of Trustees.

12.9.3.2 The investments by debt mutual fund schemes in debt and money market instruments of group companies of both the sponsor and the asset management company shall not exceed 10% of the net assets of the scheme. Such investment limit may be extended to 15% of the net assets of the scheme with the prior approval of the Board of Trustees. [422]

12.9.3.3 For this purpose, a group means a group as defined under regulation 2 (mm) of SEBI (Mutual Funds) Regulations, 1996 (Regulations) and shall include an entity, its subsidiaries, fellow subsidiaries, its holding company and its associates.

12.9.3.4 The investments of mutual fund schemes in debt and money market instruments of group companies of both the sponsor and the asset management company of the mutual fund in excess of the limits specified therein, made on or before October 1, 2019 may be grandfathered till maturity date of such instruments. The maturity date of such instruments shall be as applicable on October 1, 2019.

[422] SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/104 dated October 1, 2019

12.9.3.5 All AMCs shall publish on their respective website a list of their group companies and those of their sponsor(s).[423]

12.9.3.6 AMFI shall publish on its website a list of all group companies along with names and identifier of the respective group that are considered for calculation of group exposure by mutual fund schemes and also the sector to which each company belongs. [424]

12.9.3.7 The disclosures at Paragraphs 12.9.3.5 and 12.9.3.6 above shall be made on 1st working day of each calendar quarter starting from January 1, 2020.[425]

12.9.4 Trustee shall review exposure of a mutual fund, across all its schemes, towards individual issuers, group companies and sectors. Trustee should satisfy themselves on the levels of exposure and confirm the same to SEBI in the half-yearly trustee report starting from the half-year ending March 31, 2016.

12.9.5 The revised investment restrictions at issuer level, sector level and group level shall be applicable to all new schemes and fresh investments by existing schemes from February 15, 2016.

12.9.6 Existing mutual fund schemes shall comply with the revised investment restrictions at issuer level, sector level and group level within a period of one year from February 15, 2016. Existing close ended schemes shall not be required to sell their investments to comply with the restrictions. However, if existing close ended schemes sell their investments then their fresh investments shall be subject to the restrictions.

[423] SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/152 dated December 10, 2019
[424] SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/152 dated December 10, 2019
[425] SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2019/152 dated December 10, 2019

## *12.10 [426]Investment in Non-Convertible Preference Shares(NCPSs):*

12.10.1 NCPSs shall be treated as debt instruments and investment restrictions as applicable on debt instruments as specified in MF Regulations & circulars issued thereunder shall also be applicable to NCPSs.

## *12.11 Stock Lending Scheme[427]*

12.11.1 The following guidelines are issued to facilitate lending of securities by Mutual Funds through intermediaries approved by the Board in accordance with the Stock Lending & Borrowing Scheme.[428] Existing schemes (schemes existing as on June 6, 2008) may engage in short selling of securities as well as lending and borrowing of securities after making additional disclosures including risk factors in the SID in accordance with Paragraph 1.2.2 of this Master Circular, as amended from time to time.

12.11.2 Disclosure Requirements

12.11.2.1 The following information shall be disclosed in the SID to enable the investors and unit holders to take an informed decision:

a. Intention to lend securities belonging to a particular Mutual Fund scheme in accordance with the guidelines on securities lending and borrowing issued by SEBI from time to time.[429]

b. Exposure limit with regard to securities lending, both for the scheme as well as for a single intermediary.

[426] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021
[427] SEBI/IMD/CIR No.6/127947/08 dated June 6, 2008 read with SEBI Circular No MFD/CIR/01/047/99 dated February 10, 1999.
[428] Regulation 44(4) of the SEBI (Mutual Funds) Regulations, 1996.
[429] SEBI Circular No - SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

c. Risks factors such as loss, bankruptcy etc. associated with such transactions.

12.11.3 Reporting Requirement

12.11.3.1 The AMC(s) shall report to the Trustees on a quarterly basis about the level of lending, in terms of value, volume and intermediaries and also earnings and/or losses, value of collateral security etc.

12.11.3.2 The Trustees shall periodically review the securities lending contract and take reasonable steps to ensure that the same is not, in any way, detrimental to the interests of the unit holders of the scheme.

12.11.3.3 The Trustees shall offer their comments on the above aspects in the Half Yearly Trustee Report filed with the Board.[430]

12.11.4 Existing schemes

12.11.4.1 In case an existing SID does not provide for lending of securities, Mutual Funds may still lend securities belonging to the scheme, in accordance with the SEBI Guidelines, provided approval is obtained from the Trustees and the intention to lend securities is conveyed to the unit holders.

### *12.12 Approval for Investment in Unrated Debt Instruments*[431]

12.12.1 Mutual Funds may, for the purpose of operational flexibility, constitute committees to approve investment proposals in unrated instruments. However, detailed parameters for investment in unrated debt instruments have to be approved by the Board of the AMC and Trustees. Details of such investments shall be

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430 Regulation 18(23)(a) of the Mutual Funds Regulations. Further, for format of Half Yearly Trustee Report, please refer to format no. 2.C under the section on Formats.
431 SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

communicated by the AMCs to the Trustees in their periodical reports, along with clear indication as to how the parameters set for investments have been complied with. Prior approval of the Board of the AMC and Trustees shall be required in case investment is sought to be made in an unrated security falling outside the prescribed parameters.

### *12.13 Investments in Units of Venture Capital Funds*[432]

12.13.1 Mutual Fund schemes can invest in units of Venture Capital Funds within the prescribed investment limits as applicable.[433]

### *12.14 Investment limits for Government guaranteed debt securities*[434]

12.14.1 Prudential investment norms as per Regulations stipulating limits for investments in debt securities[435] issued by a single issuer are applicable to all debt securities issued by public bodies or institutions such as electricity boards, municipal corporations, state transport corporations etc. guaranteed by either State / Central Government. Government securities issued by Central and/or State Government or on its behalf, by the RBI are however exempt from these limits.

### *12.15 Investment Restrictions for Securitised Debt*[436]

12.15.1 For investments made in Securitised Debt (mortgage backed securities and asset backed securities), restrictions as per Clause 1 of Seventh Schedule[437] shall not apply at the originator level.

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[432] SEBI Circular No. MFD/CIR/9/230/2001 dated August 14, 2001.
[433] Clauses 10 and 11, Seventh Schedule of SEBI (Mutual Funds), Regulations, 1996.
[434] SEBI Circular No. SEBI/IMD/CIR No.8/18944/03 dated October 6, 2003.
[435] Clauses 1 and 1A, Seventh Schedule of SEBI (Mutual Funds), Regulations, 1996.
[436] SEBI Circular No. SEBI/IMD/CIR No.6/63715/06 dated March 29, 2006, Refer SEBI email dated August 25, 2010
[437] Clause I of Schedule VII of SEBI (Mutual Fund), Regulations, 1996

### *12.16 Investments in Short Term Deposits (STDs) of Scheduled Commercial Banks - pending deployment*[438]

12.16.1 The guidelines for deployment of funds in short term deposits of commercial banks for schemes are as under:

12.16.1.1 "Short Term" for parking of funds by Mutual Funds shall be treated as a period not exceeding 91 days.

12.16.1.2 Such deposits shall be held in the name of the concerned scheme.

12.16.1.3 No mutual fund scheme shall park more than 15% of their net assets in short term deposits of all scheduled commercial banks put together. This limit however may be raised to 20% with prior approval of the Trustees. Also, parking of funds in short term deposits of associate and sponsor scheduled commercial banks together shall not exceed 20% of the total deployment by the Mutual Fund in short term deposits.

12.16.1.4 No mutual fund scheme shall park more than 10% of the net assets in short term deposits with any one scheduled commercial bank including its subsidiaries.

12.16.1.5 Trustees/AMCs shall ensure that no funds of a scheme is parked in Short Term Deposit of a bank which has invested in that scheme. Trustees/AMCs shall also ensure that the bank in which a scheme has STD do not invest in the said scheme until the scheme has STD with such bank.[439]

12.16.1.6 Asset Management Company (AMC) shall not be permitted to charge investment management and advisory fees for parking of

[438] SEBI Circulars No. SEBI/IMD/CIR No.9/20306/03 dated November 12, 2003, SEBI Circular No. SEBI/IMD/Cir No.1/91171/07 dated April 16, 2007, SEBI and Clause 8 of Seventh Schedule of Mutual Funds Regulations, 1996.

[439] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/093 dated August 16, 2019.

funds in short term deposits of scheduled commercial banks.[440] Half Yearly portfolio statements shall disclose all funds parked in short term deposit(s) under a separate heading. Details shall also include name of the bank, amount of funds parked, percentage of NAV.

12.16.1.7 Trustees shall, in the Half Yearly Trustee Reports certify that provisions of the Mutual Funds Regulations pertaining to parking of funds in short term deposits pending deployment are complied with at all points of time. The AMC(s) shall also certify the same in its CTR(s).

12.16.1.8 Investments made in short term deposits pending deployment of funds[441] shall be recorded[442] and reported to the Trustees including the reasons for the investment especially comparisons with interest rates offered by other scheduled commercial banks.[443]

12.16.1.9 Except for Paragraph 12.16.1.7 above, the above guidelines shall not apply to term deposits placed as margins for trading in cash and derivatives market[444]. All term deposits placed as margins shall be disclosed in the half yearly portfolio statements under a separate heading. Details such as name of bank, amount of term deposits, duration of term deposits, percentage of NAV may be disclosed[445].

[440] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/101 dated September 20, 2019.
[441] Clause 8, Schedule Seven, SEBI (Mutual Funds), Regulations, 1996.
[442] SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.
[443] SEBI Circular No. SEBI/IMD/CIR No.9/20306/03 dated November 12, 2003.
[444] SEBI Circular No. SEBI/IMD/Cir No.7/129592/08 dated June 23, 2008.
[445] SEBI Circular No. SEBI/IMD/Cir No.7/129592/08 dated June 23, 2008

## *12.17 Reconciliation Procedure for Investment in Government Securities*[446]

12.17.1 According to the RBI guidelines[447] issued to all SGL account holders, to make transactions in government securities transparent, a monthly reconciliation system has been introduced between RBI and Mutual Funds maintaining SGL/CSGL accounts with respect to Government Securities on an ongoing basis.

12.17.2 Mutual Funds shall reconcile the balances reported in the monthly statements furnished by RBI with the transactions undertaken by them.

12.17.3 The reconciliation procedure shall be made part of internal audit and the auditors shall on a continuous basis, check the status of reconciliation and submit a report to the Audit Committee. These reports shall be placed in the meetings of the Board of the AMC and Trustees. Mutual Funds shall submit, on a quarterly basis to the RBI, a certificate confirming compliance with these requirements and any other guidelines issued by the RBI from time to time in this regard. Compliance shall also be reported to the Board in the CTRs of AMC(s) and Half Yearly Trustee Reports.

## *12.18 Participation of mutual funds in repo in corporate debt securities*[448]

12.18.1 Mutual funds can participate in repos in corporate debt securities as per the guidelines issued by RBI from time to time, subject to the following conditions:

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[446] SEBI Circular No. MFD/CIR/19/22474/2002 dated November 20, 2002.
[447] RBI Circular No.P.D.O.SGL.CIRR/1945/2002-2003 dated November 1, 2002.
[448] SEBI Circular No. CIR/IMD/DF/19/2011 dated November 11, 2011

12.18.1.1 The gross exposure of any mutual fund scheme to repo transactions in corporate debt securities shall not be more than 10 % of the net assets of the concerned scheme.

12.18.1.2 The cumulative gross exposure through repo transactions in corporate debt securities along with equity, debt and derivatives shall not exceed 100% of the net assets of the concerned scheme.

12.18.1.3 Mutual funds shall participate in repo transactions only in AA[449] and above rated corporate debt securities.

12.18.1.4 In terms of Regulation 44 (2) of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, mutual funds shall borrow through repo transactions only if the tenor of the transaction does not exceed a period of six months.

12.18.1.5 The Trustees and the Asset Management Companies shall frame guidelines about, *inter alia*, the following in context of these transactions keeping in mind the interest of investors in their schemes:

a. Category of counterparty

b. Credit rating of counterparty

c. Tenor of collateral

d. Applicable haircuts

12.18.1.6 Mutual funds shall ensure compliance with the Seventh Schedule of the Mutual Funds Regulations about restrictions on investments, wherever applicable, with respect to repo transactions in corporate debt securities.

12.18.1.7 The details of repo transactions of the schemes in corporate debt securities, including details of counterparties, amount involved

[449] SEBI Circular No. CIR/IMD/DF/23/2012 dated November 15, 2012

and percentage of NAV shall be disclosed to investors in the half yearly portfolio statements and to SEBI in the half yearly trustee report.

12.18.1.8 To enable the investors in the mutual fund schemes to take an informed decision, the concerned Scheme Information Document shall disclose the following:

a. The intention to participate in repo transactions in corporate debt securities in accordance with directions issued by RBI and SEBI from time to time;

b. The exposure limit for the scheme; and

c. The risk factors associated with repo transactions in corporate bonds.

### *12.19 Overseas Investment*[450] [451]

12.19.1 Applicable limits:

12.19.1.1 [452]Mutual Funds can make overseas investments subject to a maximum of US $ 1 billion per Mutual Fund, within the overall industry limit of US $ 7 billion.

12.19.1.2 Mutual Funds can make overseas investments in Exchange Traded Fund (ETF(s)) subject to a maximum of US $ 300 million per Mutual Fund, within the overall industry limit of US $ 1 billion.

12.19.1.3 The allocation methodology of the aforementioned limits shall be as follows:

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[450] SEBI Circular No. SEBI/IMD/CIR No.7/104753/07 dated September 26, 2007 & SEBI Circular No. SEBI/IMD/CIR No.2/122577/08 dated April 8, 2008, Refer SEBI letter No. SEBI/HO/IMD/IMDII/DOF3/P/OW/2021/11530/1 dated June 4, 2021, Refer SEBI email dated January 28, 2022.

[451] SEBI Circular No.SEBI/HO/IMD/DF3/CIR/P/2020/225 dated November 05, 2020.

[452] SEBI Circular No. SEBI/HO/IMD/IMD-II/DOF3/P/CIR/2021/571 dated June 03, 2021.

a. In case of overseas investments specified at Paragraph 12.19.1.1 above, US $ 50 million would be reserved for each mutual fund individually, with in the overall industry limit of US $ 7 billion.

b. New Fund Offers ("NFOs"): Mutual Funds launching new schemes intending to invest in Overseas securities / Overseas ETFs shall ensure that the scheme documents shall disclose the intended amount that they plan to invest in Overseas securities / Overseas ETFs subject to maximum limits specified at Paragraph 12.19.1, as the case maybe. Such limits disclosed in scheme documents will be valid for a period of six months from the date of closure of NFO. Further investments should follow the norms for ongoing schemes.

c. Ongoing Schemes: For all ongoing schemes that invest or are allowed to invest in Overseas securities / Overseas ETFs, an investment headroom of 20% of the average AUM in Overseas securities / Overseas ETFs of the previous three calendar months would be available to the Mutual Fund for that month to invest in Overseas securities / Overseas ETFs subject to maximum limits specified at Paragraph 12.19.1 above, as the case maybe.

d. [453]The above disclosure Paragraph 12.19.1.3.(b) and 12.19.1.3.(c) would be soft limits for the purpose of reporting only by Mutual Funds on monthly basis in the prescribed format[454].

12.19.1.4 Further, Mutual Funds shall report the utilization of overseas investment limits on monthly basis, within 10 days from end of

[453] SEBI Circular No. SEBI/HO/IMD/IMD-II/DOF3/P/CIR/2021/571 dated June 03, 2021.
[454] Please refer Format no. 2.I under the section on formats

each month. The format for reporting is enclosed at formats section[455]

12.19.2 Permissible Investments:

12.19.2.1 ADR(s) and/or GDR(s) issued by Indian or foreign companies.

12.19.2.2 Equity of overseas companies listed on recognized Stock Exchanges overseas.

12.19.2.3 Initial and Follow on Public Offerings for listing at recognized Stock Exchanges overseas.

12.19.2.4 Foreign debt securities in the countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited/ registered credit rating agencies.

12.19.2.5 Money Market Instruments rated not below investment grade.

12.19.2.6 Repos in form of investment, where the counterparty is rated not below investment grade; repo shall not however involve any borrowing of funds by Mutual Funds.

12.19.2.7 Government securities where the countries are rated not below investment grade.

12.19.2.8 Derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities.

12.19.2.9 Short term deposits with banks overseas where the issuer is rated not below investment grade.

12.19.2.10 Units / securities issued by overseas Mutual Funds or unit trusts registered with overseas regulators and investing in

[455] Please refer Format no. 2.I under the section on formats

a. Aforesaid Securities

b. Real Estate Investment Trusts listed on recognized Stock Exchanges overseas or

c. Unlisted overseas securities, not exceeding 10% of their net assets

12.19.3 Other Conditions: Apart from SEBI (Mutual Funds) Regulations, 1996 and guidelines issued from time to time, the Mutual Funds shall adhere to the following specific guidelines while making overseas investments:

12.19.3.1 Appointment of a Dedicated Fund Manager:

a. A dedicated fund manager shall be appointed for making the above overseas investments stipulated under Paragraph 12.19.2.1 to 12.19.2.9.

12.19.3.2 Due Diligence:

a. The Board of the AMC and Trustees shall exercise due diligence in making investment decisions and record the same.[456] They shall make a detailed analysis of risks and returns of overseas investment and how these investments would be in the interest of investors. Investment shall be made in liquid actively traded securities /instruments.

b. The Board of the AMC and Trustees may prescribe detailed parameters for making such investments which may include identification of countries, country rating, country limits etc. They shall satisfy themselves that the AMC has experienced key personnel, research facilities and infrastructure for making such investments. Other specialized agencies and service providers associated with such investments e.g.

[456] SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

custodian, bank, advisors etc. shall also have adequate expertise and infrastructure facilities. Their past track record of performance and regulatory compliance record, if they are registered with foreign regulators, should also be considered. Necessary agreements may be entered into with them as required.

12.19.3.3 <u>Mandatory Disclosure Requirements for Mutual Fund schemes proposing overseas investments:</u>

a. Intention to invest in foreign securities and/or ETF(s) shall be disclosed in the SID. The attendant risk factors and returns ensuing from such investments shall be explained clearly in the SID. Mutual Funds shall also disclose as to how such investments will help in the furtherance of the investment objectives of the scheme(s). Such disclosures shall be in a language comprehensible to an average investor.

b. Mutual Funds shall disclose the name of the Dedicated Fund Manager for making overseas investments as stipulated under Paragraph 12.19.3.1.a above.

c. Mutual Funds shall disclose exposure limits i.e. the percentage of assets of the scheme they would invest in foreign securities / ETF(s).

d. Such investments shall be disclosed while disclosing Half Yearly portfolios in the prescribed format under a separate heading "Foreign Securities and/or overseas ETF(s)." Scheme wise percentage of investments made in such securities shall be disclosed while publishing Half Yearly Results in the prescribed format[457] as a footnote.

[457] For Half Yearly Results, please refer to format no. 3.A under the section on Formats

12.19.3.4 Investment by Existing Schemes*:*

a. Existing schemes of Mutual Funds where the SID provides for investment in foreign securities and attendant risk factors but which have not yet invested, may invest in foreign securities, consistent with the investment objectives of the schemes, provided a Dedicated Fund Manager has been appointed as stipulated in Paragraph 12.19.3.1 above. Additional disclosures specified above shall be included by way of addendum and unit holders will be informed accordingly.

b. In case the SID of an existing scheme does not provide for overseas investment, the scheme, if it so desires, may make such investments in accordance with these Guidelines, provided that prior to the overseas investments for the first time, the AMC shall ensure that a written communication about the proposed investment is sent to each unit holder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the Mutual Fund is situated. The communication to unit holders shall also disclose the risk factors associated with such investments.

12.19.3.5 Detailed periodic reporting to Trustees by AMC(s) shall include:

a. Performance of overseas investments

b. Amount invested in various schemes and any breach of the exposure limit laid down in the SID.

12.19.3.6 Review of Performance:

a. The Board of the AMC and Trustees shall review the performance of schemes making overseas investments with appropriate benchmark(s) as disclosed in the SID.

12.19.3.7 Reporting to the Board:

a. The Trustees shall offer their comments on the compliance of these guidelines in the Half Yearly Reports filed with the Board.

12.19.3.8 Prudential Investment Norms:

a. Investment restrictions specified in Schedule Seven of the Mutual Funds Regulations are applicable to overseas investments stipulated under Paragraphs 12.19.2.1-12.19.2.10 above.

b. However, Clause 4 of the Seventh Schedule of the Mutual Funds Regulations that restricts investments in Mutual Fund units up to 5% of net assets and prohibits charging of fees, shall not be applicable to investments in Mutual Funds in foreign countries made in accordance with these Guidelines.

c. Management fees and other expenses charged by the Mutual Funds in foreign countries along with the management fee and recurring expenses charged to the domestic Mutual Fund scheme shall not exceed the total limits on expenses as prescribed under Regulation 52(6) of the Mutual Funds Regulations. Where the scheme is investing only a part of the net assets in overseas Mutual Funds, the same principle shall be applicable for that part of investment. Details of calculation for charging such expenses shall be reported to the Board of the AMC and the

Trustees and shall also be disclosed in the Annual Report of the scheme.

d. The application[458] for seeking approval for investing in foreign securities, ADR/GDR/overseas ETF(s) shall be made in advance of making investments. On receipt of approval from the Board, intimation may be sent by the AMC(s) to Overseas Investment Division, Foreign Exchange Department, RBI.

### *12.20 Investments in Indian Depository Receipts (IDRs)* [459]

12.20.1 Mutual funds can invest in Indian Depository Receipts[460] [Indian Depository Receipts as defined in Companies (Issue of Indian Depository Receipts) Rules, 2004] subject to compliance with SEBI (Mutual Funds) Regulations 1996 and guidelines issued there under, specifically investment restrictions as specified in the Seventh Schedule of the Regulations.

### *12.21 Investments in units of REITs / InvITs*[461]

12.21.1 The investment restrictions mentioned at Clause 13 in the Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996 shall be applicable to all fresh investments by all schemes, including an existing scheme.

12.21.2 Any existing scheme intending to invest in units of REITs/InvITs shall abide by the provisions of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996.

12.21.3 For investment in units of REITs / InvITs by an existing Mutual Fund scheme, unit holders of the scheme shall be given a time

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[458] Please refer to format no. 4 under the section on formats for format of proposal for investments in foreign securities and ETFs
[459] SEBI Circular No. IMD/CIR. No.1/165935/2009 dated June 09, 2009
[460] Regulation 43(1) of SEBI (Mutual Funds) Regulations, 1996
[461] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/17 dated February 28, 2017

period of at least 15 days for the purpose of exercising the exit option.

### 12.22 Investment Restrictions[462]

12.22.1 All investment restrictions as contained in the Regulations[463] shall be applicable at the time of making investment.

### 12.23 Recording of Investment Decisions[464]

12.23.1 AMC(s) shall exercise due diligence and care in all investment decisions as would be exercised by other persons engaged in the same business.[465] Further AMC(s) shall maintain records in support of each investment decision which will indicate data, facts and opinion leading to that decision. While broad parameters for investments can be prescribed by the Board of Directors of the AMC, the basis for taking individual scrip wise investment decision in equity and debt securities shall be recorded. A detailed research report analyzing various factors for each investment decision taken for the first time shall be maintained and the reasons for subsequent purchase and sales in the same scrip shall also be recorded. The contents of the research reports may be decided by the AMC(s) and the Trustees.

12.23.2 The Board of the AMC shall develop a mechanism to verify that due diligence is being exercised while making investment decisions especially in cases of investment in unlisted and privately placed securities, unrated debt securities, securities classified as below investment grade or default[466], transactions where associates are

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[462] SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000, Refer SEBI letter No. SEBI/HO/IMD-II/DoF8/OW/P/05031/2022- dated February 07, 2022
[463] Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996.
[464] SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000, Refer SEBI letter No. SEBI/HO/IMD II/DoF4/OW/P/3503/2021 dated February 09, 2021
[465] Regulation 25(2) of the SEBI (Mutual Funds) Regulations, 1996.
[466] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019.

involved and instances where the performance of the scheme(s) is poor.

12.23.3 AMC(s) shall report compliance with these requirements in their periodical reports to the Trustees and the Trustees shall report the same to the Board in the Half Yearly Trustee Reports[467]. Trustees shall also check compliance with these Guidelines through independent auditors or internal and/or statutory auditors or other systems developed by them.

### *12.24 Cumulative Gross Exposure Limits[468]:*

12.24.1 The cumulative gross exposure through equity, debt, derivative positions (including commodity and fixed income derivatives), repo transactions and credit default swaps in corporate debt securities, Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), other permitted securities/assets and such other securities/assets as may be permitted by the Board from time to time should not exceed 100% of the net assets of the scheme.

### *12.25 Norms for investment and disclosure by Mutual Funds in derivatives[469]*

12.25.1 Mutual Funds shall not write options or purchase instruments with embedded written options except for the covered call strategy[470].

12.25.2 The total exposure related to option premium paid must not exceed 20% of the net assets of the scheme.

467 For Half Yearly Trustee Report please refer to format no. 2.C under the section on Formats
468 SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021
469 SEBI Circular No. Cir/ IMD/ DF/ 11/ 2010 dated August 18, 2010 and SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021, Refer SEBI letter No. SEBI/HO/ IMD-II/DOF3/OW/P/2021/31487/1 dated November 3, 2021
470 Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/17 dated January 16, 2019

12.25.3 Cash or cash equivalents with residual maturity of less than 91 days may be treated as not creating any exposure.

12.25.4 Exposure due to hedging positions may not be included in the above mentioned limits subject to the following:

a. Hedging positions are the derivative positions that reduce possible losses on an existing position in securities and till the existing position remains.

b. Hedging positions cannot be taken for existing derivative positions. Exposure due to such positions shall have to be added and treated under limits mentioned in Paragraph 12.24.1 above.

c. Any derivative instrument used to hedge has the same underlying security as the existing position being hedged.

d. The quantity of underlying associated with the derivative position taken for hedging purposes does not exceed the quantity of the existing position against which hedge has been taken.

12.25.5 [471]Mutual Funds may enter into plain vanilla Interest Rate Swaps (IRS) for hedging purposes. The value of the notional principal in such cases must not exceed the value of respective existing assets being hedged by the scheme.

12.25.6 In case of participation in IRS is through over the counter transactions, the counter party has to be an entity recognized as a market maker by RBI and exposure to a single counterparty scheme in such transactions should not exceed 10% of the net assets of the scheme. However, if mutual funds are transacting in IRS through an electronic trading platform offered by the Clearing

[471] SEBI/HO/IMD/IMD-I DOF2/P/CIR/2021/580 dated June 18, 2021

Corporation of India Ltd (CCIL) and CCIL is the central counterparty for such transactions guaranteeing settlement, the single counterparty limit of 10% shall not be applicable.

12.25.7 Exposure due to derivative positions taken for hedging purposes in excess of the underlying position against which the hedging position has been taken, shall be treated under the limits mentioned in Paragraph 12.24.1.

12.25.8 **Writing of Covered Call Options by Mutual Fund Schemes[472]:**

Mutual funds have been permitted to write call options under a covered call strategy as prescribed below:

i. Mutual Fund schemes (except Index Funds and ETFs) may write call options only under a covered call strategy for constituent stocks of NIFTY 50 and BSE SENSEX subject to the following:

   a. The total notional value (taking into account strike price as well as premium value) of call options written by a scheme shall not exceed 15% of the total market value of equity shares held in that scheme.

   b. The total number of shares underlying the call options written shall not exceed 30% of the unencumbered shares of a particular company held in the scheme. The unencumbered shares in a scheme shall mean shares that are not part of Securities Lending and Borrowing Mechanism (SLBM), margin or any other kind of encumbrances.

   c. At all points of time the Mutual Fund scheme shall comply with the provisions at Paragraphs 12.25.8.(i).(a) and 12.25.8.(i).(b) above. In case of any passive breach of the

[472] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/17 dated January 16, 2019

requirement at Paragraph 12.25.8.(i).(a), the respective scheme shall have 7 trading days to rebalance the portfolio. During the rebalancing period, no additional call options can be written in the said scheme.

d. In case a Mutual Fund scheme needs to sell securities on which a call option is written under a covered call strategy, it must ensure compliance with Paragraphs 12.25.8.(i).(a) and 12.25.8.(i).(b) above while selling the securities.

e. In no case, a scheme shall write a call option without holding the underlying equity shares. A call option can be written only on shares which are not hedged using other derivative contracts.

f. The premium received shall be within the requirements prescribed in terms of Paragraph 12.25.2 above i.e. the total gross exposure related to option premium paid and received must not exceed 20% of the net assets of the scheme.

g. The exposure on account of the call option written under the covered call strategy shall not be considered as exposure under Paragraph 12.24.1 above.

h. The call option written shall be marked to market daily and the respective gains or losses factored into the daily NAV of the respective scheme(s) until the position is closed or expired.

ii. For schemes intending to use covered call strategy, the risks and benefit of the same, must be disclosed in the Scheme Information Document.

iii. Format for the purpose of uniform disclosure of investments in derivative instruments by Mutual Funds in half yearly portfolio disclosure, annual report or in any other disclosures is prescribed[473]. Further, the call options written shall be disclosed in the format[474] prescribed.

iv. For existing schemes (schemes as on January 16, 2019), writing of call options shall be permitted subject to appropriate disclosure and compliance with Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996.

12.25.9 ***Hedging of Interest Rate Risk***[475]

12.25.9.1 To reduce interest rate risk in a debt portfolio, mutual funds may hedge the portfolio or part of the portfolio (including one or more securities) on weighted average modified duration basis by using Interest Rate Futures (IRFs). The maximum extent of short position that may be taken in IRFs to hedge interest rate risk of the portfolio or part of the portfolio, is as per the formula given below:

$$\frac{\text{(Portfolio Modified Duration * Market Value of the Portfolio)}}{\text{(Futures Modified Duration * Futures Price / PAR)}}$$

12.25.9.2 In case the IRF used for hedging the interest rate risk has different underlying security(s) than the existing position being hedged, it would result in imperfect hedging.

12.25.9.3 Imperfect hedging using IRFs may be considered to be exempted from the gross exposure, up to maximum of 20% of the net assets of the scheme, subject to the following:

i. Exposure to IRFs is created only for hedging the interest rate risk based on the weighted average modified duration of the bond portfolio or part of the portfolio.

[473] Please refer format no. 3.C under the section on formats
[474] Please refer format no. 7.F under the section on formats
[475] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/109 dated September 27, 2017

ii. Mutual Funds are permitted to resort to imperfect hedging, without it being considered under the gross exposure limits, if and only if, the correlation between the portfolio or part of the portfolio (excluding the hedged portions, if any) and the IRF is at least 0.9 at the time of initiation of hedge. In case of any subsequent deviation from the correlation criteria, the same may be rebalanced within 5 working days and if not rebalanced within the timeline, the derivative positions created for hedging shall be considered under the gross exposure computed in terms of Paragraph 12.24.1 above. The correlation should be calculated for a period of last 90 days.

Explanation: If the fund manager intends to do imperfect hedging up to 15% of the portfolio using IRFs on weighted average modified duration basis, either of the following conditions need to be complied with:

(a) The correlation for past 90 days between the portfolio and the IRF is at least 0.9 or

(b) The correlation for past 90 days between the part of the portfolio (excluding the hedged portions, if any) i.e. at least 15% of the net asset of the scheme (including one or more securities) and the IRF is at least 0.9.

iii. At no point of time, the net modified duration of part of the portfolio being hedged should be negative.

iv. The portion of imperfect hedging in excess of 20% of the net assets of the scheme should be considered as creating exposure and shall be included in the computation of gross exposure in terms of Paragraph 12.24.1 above.

12.25.9.4 The basic characteristics of the scheme should not be affected by hedging the portfolio or part of the portfolio (including one or more securities) based on the weighted average modified duration.

Explanation: In case of long term bond fund, after hedging the portfolio based on the modified duration of the portfolio, the net modified duration should not be less than the minimum modified duration of the portfolio as required to consider the fund as a long term bond fund.

12.25.9.5 The interest rate hedging of the portfolio should be in the interest of the investors.

12.25.9.6 Mutual Fund schemes may imperfectly hedge their portfolio or part of their portfolio using IRFs, subject to the following conditions:

i. Prior to commencement of imperfect hedging, existing schemes (schemes as on September 27, 2017) shall comply with the provisions of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996 and all unit holders shall be given a time-period of at least 30 days to exercise the option to exit at prevailing NAV without charging of exit load.
The risks associated with imperfect hedging shall be disclosed and explained by suitable numerical examples in the offer documents and also needs to be communicated to the investors through public notice or any other form of correspondence.

ii. In case of new schemes (schemes launched on or after September 27, 2017), the risks associated with imperfect hedging shall be disclosed and explained by suitable numerical examples in the offer documents.

12.25.10 **Disclosure of Derivative Positions**

In addition to the existing provisions, the mutual funds shall also make the following disclosures

12.25.10.1 Separately disclose the hedging positions through IRF (both perfectly and imperfectly) in respective debt portfolios as per the prescribed format[476].

12.25.10.2 Investment in interest rate derivatives (both IRS/IRF) shall also be disclosed in the monthly portfolio disclosure in terms of Paragraph 5.1 of this Master Circular.

12.25.10.3 Disclosure of the details of interest rate derivatives (both IRS/IRF) used for hedging along with debt and money market securities transacted on its website and also forwarded to AMFI as per Paragraph 9.13 of this Master Circular.

12.25.11 **Definition of Exposure in case of Derivative Positions**

12.25.11.1 Each position taken in derivatives shall have an associated exposure as defined under. Exposure is the maximum possible loss that may occur on a position. However, certain derivative positions may theoretically have unlimited possible loss. Exposure in derivative positions shall be computed as follows:

| Position | Exposure |
|---|---|
| Long Future | Futures Price * Lot Size * Number of Contracts |
| Short Future | Futures Price * Lot Size * Number of Contracts |
| Option bought | Option Premium Paid * Lot Size * Number of Contracts. |

12.25.11.2 The provisions shall be applicable for all new schemes launched post August 18, 2010. For all existing schemes (as on August 18, 2010), compliance with the guidelines shall be effective from October 01, 2010.

[476] Please refer format no. 3.C & 7.F under the section on formats.

### *12.26 Participation of mutual funds in Exchange Traded Commodity Derivatives (ETCDs)*[477]*:*

12.26.1 Mutual funds are permitted to participate in ETCDs in India, except in commodity derivatives on 'Sensitive Commodities'[478].

12.26.2 ETCDs having gold as the underlying, shall also be considered as 'gold related instrument' for Gold Exchange Traded Funds (Gold ETFs).

12.26.3 [479]No Mutual fund schemes shall invest in physical goods except in 'gold' through Gold ETFs. Further, as mutual fund schemes participating in ETCDs may hold the underlying goods in case of physical settlement of contracts, in that case mutual funds shall dispose of such goods from the books of the scheme, at the earliest, not exceeding the timeline prescribed below:

a) For Gold and Silver: - 180 days from the date of holding of physical goods,
b) For other goods (except for Gold and Silver):
    1) By the immediate next expiry day of the same contract series of the said commodity.
    2) However, if Final Expiry Date (FED) of the goods falls before the immediate next expiry day of the same contract series of the said commodity, then within 30 days from the date of holding of physical goods.

12.26.4 No mutual fund scheme shall have net short positions in ETCDs on any particular good, considering its positions in physical goods as well as ETCDs, at any point of time.

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[477] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/65 dated May 21, 2019
[478] SEBI circular no. SEBI/HO/CDMRD/DMP/CIR/P/2017/84 dated July 25, 2017
[479] SEBI circular no. SEBI/HO/IMD/DF2/CIR/P/2020/96 dated June 05, 2020, Refer SEBI letter No. SEBI/HO/IMD/DF3/OW/P/2019/31579/1 dated November 28, 2019

12.26.5 Mutual funds are permitted to participate in ETCDs through the following schemes:

a. Hybrid schemes[480] including multi asset scheme and
b. Gold ETFs.

12.26.6 The following exposures shall not be considered in the cumulative gross exposure for the purpose of Paragraph 12.24.1 above [481]:

a. Short position in Exchange Traded Commodity Derivatives (ETCDs) not exceeding the holding of the underlying goods received in physical settlement of ETCD contracts
b. Short position in ETCDs not exceeding the long position in ETCDs on the same goods.
c. Further, the mutual funds shall not write options, or purchase instruments with embedded written options in goods or on commodity futures.

12.26.7 In case of existing schemes (schemes existing as on May 21, 2019), as mentioned in Paragraph 12.26.5 above, prior to commencement of participation in ETCDs, the scheme shall comply with the provisions of Regulation 18(15A) of SEBI (Mutual Funds) Regulations, 1996, as this will lead to change in fundamental attributes of the scheme and all unitholders shall be given a time period of at least 30 days to exercise the option to exit at prevailing NAV without charging of exit load, if any.

12.26.8 Prior to participation in ETCDs, the AMCs shall adhere to the following:

a. Appoint a dedicated fund manager with requisite skill and experience in commodities market (including commodity derivatives market).

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[480] SEBI Circular No.SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017
[481] SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2021/10 dated January 15, 2021

b. Appoint a custodian registered with the Board for custody of the underlying goods, arising due to physical settlement of contracts.
c. Have written down investment policy for participation in ETCDs approved by the Board of the Asset Management Company and the Board of Trustees.
d. Have written down valuation policies approved by the Board of the AMC and the Board of Trustees for valuation of commodity derivatives and the underlying goods, arising due to physical settlement of contracts. The approved valuation policies should be subject to the principles of fair valuation of the assets of mutual funds schemes.

12.26.9 Mutual fund schemes may participate in the ETCDs as 'clients' and shall be subject to all the rules, regulations and instructions, position limit norms, etc. as may be applicable to clients, issued by SEBI and Exchanges from time to time. The position limits at mutual fund level be as applicable to 'Trading Members'.

12.26.10 Schemes investing in ETCDs shall be benchmarked against an appropriate benchmark.

12.26.11 AMCs shall not on board Foreign Portfolio Investors (FPIs) in schemes investing in ETCDs until FPIs are permitted to participate in ETCDs.

12.26.12 **Investment Limits in ETCDs:** Participation of mutual funds in ETCDs shall be subject to the following investment limits:

a. Mutual fund schemes shall participate in ETCDs of a particular goods (single), not exceeding 10% of net asset value of the scheme. However, the limit of 10% is not applicable for investments through Gold ETFs in ETCDs having gold as underlying.

b. In case of multi assets allocation schemes, the exposure to ETCDs shall not be more than 30% of the net asset value of the scheme.

c. In case of other hybrid schemes excluding multi assets allocation scheme, the participation in ETCDs shall not exceed 10% of net asset value of the scheme.

12.26.13 In case of mutual fund schemes investing in ETCDs, the AMC shall adhere to the following:

a. The NAVs of those schemes shall be updated on each business day by the AMCs on their website and on the website of AMFI by 09:00 a.m. of the following calendar day.

b. The format of monthly and half yearly portfolio may be modified to reflect the investment in ETCDs.

c. The total exposure to ETCDs shall be disclosed as a line item in the Monthly Cumulative Report (MCR) submitted by mutual funds.

### *12.27 Interval Schemes/Plans*[482]

12.27.1 Certain SIDs provide that the subscription to the scheme can be made during a specific period (known as specified transaction period) and the repurchase of units is permitted on all business days subject to applicable loads (except for redemption during specified transaction period when no load is charged). These schemes are generally referred to as 'interval schemes'.

12.27.2 For all interval schemes/plans:

12.27.2.1 The units shall be mandatorily listed.

12.27.2.2 No redemption/repurchase of units shall be allowed except during the specified transaction period (the period during which

[482] SEBI Circular No. CIR/IMD/DF /19/2010 dated November 26, 2010

both subscription and redemption may be made to and from the scheme). The specified transaction period shall be of minimum 2 working days.

12.27.2.3 Minimum duration of an interval period in an interval scheme/plan shall be 15 days.

12.27.2.4 Investments shall be permitted only in such securities which mature on or before the opening of the immediately following specified transaction period.

Explanation: In case of securities with put and call options the residual time for exercising the put option of the securities shall not be beyond the opening of the immediately following transaction period.

### *12.28 CDS – mutual funds as users (protection buyers)[483]*

12.28.1 Mutual funds have been permitted to participate in CDS market, as per the guidelines issued by RBI from time to time, subject to the following conditions:

12.28.1.1 Mutual funds shall participate in CDS transactions only as users (protection buyer). Thus, mutual funds are permitted to buy credit protection only to hedge their credit risk on corporate bonds they hold. They shall not be allowed to sell protection and hence not permitted to enter into short positions in the CDS contracts. However, they shall be permitted to exit their bought CDS positions, subject to Paragraph 12.28.1.4 below.

12.28.1.2 Mutual funds can participate as users in CDS for the eligible securities as reference obligations, constituting from within the

[483] SEBI Circular No. CIR/IMD/DF/23/2012 dated November 15, 2012 and SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021.

portfolio of only Fixed Maturity Plans (FMP) schemes having tenor exceeding one year.

12.28.1.3 Mutual funds shall buy CDS only from a market maker approved by the RBI and enter into Master Agreement with the counterparty as stipulated under RBI Guidelines. Exposure to a single counterparty in CDS transactions shall not exceed 10% of the net assets of the scheme.

12.28.1.4 The cumulative gross exposure through equity, debt, derivative positions (including commodity and fixed income derivatives), repo transactions and credit default swaps in corporate debt securities, Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), other permitted securities/assets and such other securities/assets as may be permitted by the Board from time to time should not exceed 100% of the net assets of the scheme.

12.28.1.5 The total exposure related to premium paid for all derivative positions, including CDS, shall not exceed 20% of the net assets of the scheme.

12.28.1.6 Before undertaking CDS transactions, mutual funds shall put in place a written policy on participation in CDS approved by the Board of the Asset Management Company and the Trustees as per the guidelines specified by RBI and Securities and Exchange Board of India (SEBI). The policy shall be reviewed by mutual funds, at least once a year.

12.28.1.7 To enable the investors in the mutual funds schemes to take an informed decision, the concerned Scheme Information Document (SID) shall disclose the intention to participate in CDS transaction in corporate debt securities in accordance with directions issued by RBI and SEBI from time to time, and related information as appropriate in this regard.

12.28.1.8 Mutual funds shall also disclose the details of CDS transactions of the scheme in corporate debt securities in the monthly portfolio statements as well as in the half yearly trustee report, as per the format[484]. Further, mutual funds shall disclose the scheme wise details of CDS transactions in the notes to the accounts of annual report of the mutual fund as per the format[485] .

12.28.2 Mutual funds participating in CDS transactions, as users, shall be required to comply with the guidelines issued by RBI, vide notification no. IDMD.PCD. No.5053/14.03.04/2010-11 dated May 23, 2011 and subsequent guidelines issued by RBI and SEBI from time to time.

### *12.29 Trade execution and Allocation[486]:*

12.29.1 AMCs shall put in place a written down policy which inter-alia, detail the specific activities, role and responsibilities of various teams engaged in fund management, dealing, compliance, risk management, back-office etc. with regard to order placement, execution of order, trade allocation amongst various schemes and other related matters.

12.29.2 The aforesaid policy shall ensure that all the schemes and its investors are treated in a fair and equitable manner. Further, the policy shall be approved by the Board of AMC and the Trustees and they shall ensure compliance with following:

12.29.3 For orders pertaining to equity and equity related instruments:

a. AMCs shall use an automated Order Management System (hereinafter referred to as 'OMS'), wherein the orders for equity

[484] Please refer to format no. 2.C, 3.C & 7.G.A under the section on Formats
[485] Please refer to format no. 7.G.B under the section on Formats
[486] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2020/175 dated September 17, 2020

and equity related instruments of each scheme shall be placed by the fund manager(s) of the respective schemes. [487]However, a fund manager may authorise an employee of the AMC for order placement on his behalf, subject to adherence to the following:

I. The order instructions to such employee by the fund manager shall be through electronic mode i.e. either through e-mail or other electronic utility, wherein scheme wise audit trail of such orders starting from the instruction of the fund manager is maintained along with time stamping of each stage of the process.
II. The employee placing the order shall be bound by the same requirements of maintaining confidentiality and the code of conduct as applicable to the fund manager in this regard i.e. in respect of order placement.

b. Further, the orders in case of arbitrage transactions, stock lending and borrowing transactions, passive schemes (such as Index Funds and ETFs) and schemes investing primarily based on pre-defined rules and models, where the discretion of the fund manager is not required for placement of order, is not mandated to be placed through OMS, subject to the following:

I. The AMC shall document and demonstrate that no judgement and discretion of the fund manager is required for placement of such orders;
II. The AMCs shall ensure that orders in breach of applicable regulatory limits and allocation limits as specified in Scheme Information Documents (SIDs), should not be placed and executed;

[487] SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2020/253 dated December 31, 2020

III. The fund manager shall provide the scheme wise details as required for order placement such as value of transaction(s), nature of transaction(s), etc. to the dealer;

IV. The scheme wise audit trail of placement of orders (including the information provided by the fund manager), order execution and trade allocation shall be maintained along with time stamping of each stage of the process.

c. At all points of time, the responsibility associated with order placement shall continue to vest with the fund manager.

d. In case a fund manager is managing multiple schemes, the fund manager shall necessarily place scheme wise order.

e. All regulatory limits and allocation limits as specified in SID shall be in-built in the OMS to ensure that orders in breach of such limits are not accepted by the OMS. AMCs may further place soft limits for internal control and risk management based on its internal policy. Further, any change in limits specified in OMS shall be subject to the approval of Compliance and Risk Officer.

f. All orders of fund manager(s) shall be received by dedicated dealer(s) responsible for order placement and execution. However[488], in case order(s) for arbitrage transactions, stock lending and borrowing transactions, passive schemes (such as Index Funds and ETFs) and schemes investing primarily based on pre-defined rules and models the requirement of a dedicated dealer shall not be mandatory.

g. The internal policy of AMC may also provide certain scenarios within the regulatory limits, wherein, prior approval of

[488] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2020/253 dated December 31, 2020

Compliance or Risk Officer would be required through OMS before the order is received by the dealer

12.29.4 Requirements with respect to investment in all instruments[489]

a. AMC shall ensure that the dealing desk is suitably staffed and comply with the following:
   I. All conversations of the dealer shall be only through the dedicated recorded telephone lines
   II. No mobile phones or any other communication devices other than the recorded telephone lines shall be allowed inside the dealing room
   III. Restricted access to internet facilities on computers and other devices inside the dealing room. It shall be used for activities related to trade execution only
   IV. No sharing of information by dealer through any mode, except for trade execution under the approved internal policy

b. Orders by dealer can be placed either for each scheme individually or pooled on the basis of orders from multiple schemes. The trade allocation policy of the AMCs shall inter-alia detail (i) specific situations (not generic) wherein the orders by dealers shall be placed for each scheme individually or pooled from multiple schemes, (ii) the timeline to be considered for pooling of orders in case of multiple schemes.

c. In case of pooled orders, post allocation of trades shall be on pro-rata basis as per the size of the order placed. The said allocation shall be based on weighted average price. The policy shall clearly include scenarios / situations (e.g. redemption pressure) in which deviation from the allotment of units on pro-rata basis would be permissible, if at all. Further, the

[489] Refer SEBI email dated July 16, 2010

deviations shall be on account of exigency only and require prior written approval of Chief Investment Officer, Risk Officer and the Compliance Officer with detailed rationale for such deviation.

d. In case of scenarios, wherein, the mutual funds are required to place certain margins /collaterals in order to execute certain transactions, the policy shall include details on how such margins / collaterals shall be segregated / placed from amongst various schemes, without affecting the interest of investors of any scheme.

12.29.5 Monitoring of Compliance:

a. AMC shall have a system based monitoring mechanism to ensure compliance with the requirements under Paragraphs 12.29.3 and 12.29.4 above.

b. [490]Audit trail of activities as detailed in Paragraph 12.29.3 above related to order placement, trade execution and allocation shall be available in the system. Further, there should be time stamping with respect to order placed by fund manager (or the order placed by the employee of the AMC authorized by the fund manager), order placed by dealer, order execution and trade allocation in the OMS. The audit trail and time stamping of all other orders (including orders through RFQ platform) not placed through OMS shall also be adequately maintained.

c. Any non-compliance and all material information in this regard shall be reported to trustees on quarterly basis. Trustees shall inform the same to SEBI in their half yearly trustee report.

[490] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2020/253 dated December 31, 2020

## *12.30* [491]Inter Scheme Transfer of Securities ("IST"):

12.30.1 Transfers of securities from one scheme to another scheme in the same mutual fund is allowed only if such transfers are done at the prevailing market price for quoted instruments on spot basis and the securities so transferred are in conformity with the investment objective of the scheme to which such transfer has been made.

12.30.2 In order to ensure that such Inter Schemes Transfers (ISTs) of securities are in conformity with the above objective, the following additional safeguards have been prescribed:

12.30.2.1 In case of Close Ended Schemes, IST purchases would be allowed within "three" business days of allotment pursuant to New Fund Offer (NFO) and thereafter, no ISTs shall be permitted to/from Close Ended Schemes.

12.30.2.2 In case of Open Ended Schemes, ISTs may be allowed in the following scenarios:

a. **For meeting liquidity requirement in a scheme in case of unanticipated redemption pressure:**

AMCs shall have an appropriate Liquidity Risk Management (LRM) Model at scheme level, approved by trustees, to ensure that reasonable liquidity requirements are adequately provided for. Recourse to ISTs for managing liquidity will only be taken after the following avenues for raising liquidity have been attempted and exhausted:

I. Use of scheme cash & cash equivalent
II. Use of market borrowing
III. Selling of scheme securities in the market

[491] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2020/202 dated October 08, 2020

IV. After attempting all the above, if there is still a scheme level liquidity deficit, then out of the remaining securities, outward ISTs of the optimal mix of low duration paper with highest quality shall be effected.

The use of market borrowing before ISTs will be optional and Fund Manager may at his discretion take decision on borrowing in the best interest of unitholders. The option of market borrowing or selling of security as mentioned at Paragraphs 12.30.2.2.a.II & 12.30.2.2.a.III above may be used in any combination and not necessarily in the above order. In case option of market borrowing and/or selling of security is not used, the reason for the same shall be recorded with evidence.

**b. For Duration/Issuer/Group rebalancing:**

I. ISTs shall be allowed only to rebalance the breach of regulatory limit.

II. ISTs can be done where any one of duration, issuer, sector and group balancing is required in both the transferor and transferee schemes. Different reasons cannot be cited for transferor and transferee schemes except in case of transferee schemes is being a Credit Risk scheme.

III. In order to guard against possible mis-use of ISTs in Credit Risk scheme, trustees shall ensure to have a mechanism in place to negatively impact the performance incentives of Fund Managers, Chief Investment Officers (CIOs), etc. involved in process of ISTs in Credit Risk scheme, in case the security becomes default grade after the ISTs within a period of one year. Such negative impact on performance shall mirror the existing mechanism for performance incentives of the AMC.

12.30.2.3 No ISTs of a security shall be allowed, if there is negative news or rumors in the mainstream media or an alert is generated about the security, based on internal credit risk assessment in terms of Paragraph 4.3 of this Master Circular during the previous four months.

12.30.2.4 AMC shall ensure that Compliance Officer, Chief Investment Officer and Fund Managers of transferor and transferee schemes have satisfied themselves that ISTs undertaken are in compliance with the regulatory requirements. Prescribed "Template"[492] and documentary evidence in this regard shall be maintained by the AMC for all ISTs.

12.30.2.5 If security gets downgraded following ISTs, within a period of four months, Fund Manager of buying scheme has to provide detailed justification /rationale to the trustees for buying such security.

[492] Please refer to format no. 11 under the section on formats

## CHAPTER 13: ADVERTISEMENTS[493]

**13.1** Advertisement shall be in terms of Sixth Schedule[494].

**13.2** In addition to the provisions of the Sixth Schedule, mutual funds shall comply with the following:[495]

13.2.1 While advertising pay out of dividends, all advertisements shall disclose the dividends declared or paid in rupees per unit along with the face value of each unit of that scheme and the prevailing NAV at the time of declaration of the dividend.

13.2.2 Further, for pay out of dividends at maturity of closed-ended scheme(s)/ at completion of the interval period of interval scheme(s), AMC shall advertise that "the entire distributable surplus at the time of maturity or at the completion of the interval period shall be distributed

13.2.3 Pay out of Dividend/ Bonus: While advertising pay outs, all advertisements shall disclose, immediately below the pay out figure (in percentage or in absolute terms) that the NAV of the scheme, pursuant to pay out would fall to the extent of payout and statutory levy (if applicable).

**13.3 Disclosing performance related information in Mutual Fund advertisements*[496]***

13.3.1 In performance advertisements of Mutual Fund schemes:

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[493]SEBI Circular No. Cir/IMD/DF/13/2011 dated August 22, 2011 and SEBI Circular No. Cir/IMD/DF/6/2012 dated February 28, 2012 and SEBI Circular No. SEBI/IMD/CIR No.1/64057/06 dated April 04, 2006, Refer SEBI email dated May 03, 2017, Refer SEBI letter No. IMD/DF2/RS/2017/10751 dated May 12, 2017, Refer SEBI letter No. IMD/SEC4/OW/P/2023/9448/1 dated March 03, 2023

[494] Sixth Schedule of SEBI (Mutual Funds) Regulations, 1996

[495] SEBI Circular No. Cir/IMD/DF/6/2012 dated February 28, 2012 and Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021, Refer SEBI email dated June 02, 2010

[496] SEBI Circular No. Cir/IMD/DF/23/2017 dated March 15, 2017

13.3.1.1 Performance of the Mutual Fund scheme shall be advertised in terms of CAGR for the past 1 year, 3 years, 5 years and since inception.

13.3.1.2 In order to provide ease of understanding to retail investors, point-to-point returns on a standard investment of Rs. 10,000/- shall also be provided in addition to CAGR of the scheme.

13.3.1.3 Performance advertisements of Mutual Fund schemes should provide information based on period computed from the last day of month-end preceding the date of advertisement.

13.3.1.4 It should be specifically mentioned whether performance so disclosed, is of regular or direct plan of the Mutual Fund scheme along-with a footnote mentioning that different plans have a different expense structure.

13.3.1.5 If a Mutual Fund scheme has not been managed by the same fund manager for the full period of the information being published in the advertisement, the same should be disclosed in a footnote

13.3.2 Where the scheme has been in existence for less than six months past performance shall not be provided. Further, if the scheme has been in existence for more than six months but less than one year, then simple annualized growth rate of the scheme for the past 6 months from the last day of month-end preceding the date of advertisement shall be provided[497].

13.3.3 [498]In case of Overnight funds, Liquid funds and Money Market funds, wherein investors have very short investment horizon, the performance can be advertised by simple annualisation of yields if a performance figure is available for at least 7 days, 15 days and 30

[497] SEBI Circular No. Cir/IMD/DF/13/2011 dated August 22, 2011 and SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021
[498] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

days provided it does not reflect an unrealistic or misleading picture of the performance or future performance of the scheme.

13.3.4 For the sake of standardization, a similar return in INR and by way of CAGR must be shown for the following apart from the scheme benchmarks:

| **Sr.No.** | **Category of Schemes** | **Additional Benchmark** |
|---|---|---|
| 1 | *All Equity Scheme* | *Sensex/ Nifty* |
| 2 | *All Debt Schemes having duration / maturity upto 1 year and Arbitrage Funds* | *1-year T-Bill* |
| 3 | *All Debt Schemes which are not covered in Point 2* | *10 year dated GOI Security* |
| 4 | *Conservative Hybrid Fund* | *10 year dated GOI Security* |
| 5 | *Balanced Hybrid Fund / Aggressive Hybrid Fund / Dynamic Asset Allocation or Balanced Advantage / Multi Asset Allocation* | *Sensex / Nifty* |
| 6 | *Equity Savings* | *10 year dated GOI Security* |
| 7 | *Retirement Fund / Children's Fund* | *Sensex/Nifty* |
| 8 | *Index Funds / ETFs & FoFs (Overseas/ Domestic)* | *Appropriate benchmark based on the underlying asset allocation as per above* |

These disclosures shall form a part of the Statement of Additional Information and all advertisements of Mutual Funds.

13.3.5 Any disclosure regarding quarterly/ half yearly/ yearly performance shall pertain to respective calendar quarterly/ half yearly/ yearly only.

13.3.6 [499]When the performance of a particular Mutual Fund scheme is advertised, the advertisement shall also include the performance data of all the other schemes managed by the fund manager/s of that particular scheme. Such performance data of the other schemes managed by the fund manager shall be provided as follows:

13.3.6.1 Performance of other schemes managed by the fund manager, along-with their respective scheme's benchmark, shall be provided in terms of CAGR for a period of 1 year, 3 years and 5 years. The period referred here shall be computed in the same manner as that of the scheme being advertised.

13.3.6.2 In case the number of schemes managed by a fund manager is more than six, then the AMC may disclose the total number of schemes managed by that fund manager along with the performance data of top 3 and bottom 3 schemes (in addition to the performance data of the scheme for which the advertisement is being made) managed by that fund manager in all performance related advertisements. However, in such cases, AMCs shall ensure that true and fair view of the performance of the fund manager is communicated by providing additional disclosures, if required.

13.3.6.3 If a Mutual Fund scheme has not been managed by the same fund manager for the full period of information being published in the advertisement, the same should be disclosed in a footnote.

13.3.6.4 Further, for advertisement published in internet-enabled media, Mutual Funds shall be permitted to provide an exact website link

[499] SEBI Circular No. Cir/IMD/DF/23/2017 dated March 15, 2017

to such summarized information of performance of other schemes managed by the concerned fund manager.

13.3.6.5 An indicative format[500] of disclosure of performance of other schemes managed by the concerned fund manager is provided.

### 13.4 *Disclosure of Performance of Schemes post-merger*[501] *:*

13.4.1 Disclosure of performance of schemes post-merger shall be as given below

13.4.1.1 When two schemes, for example, Scheme A (Transferor Scheme) & Scheme B (Transferee Scheme), having similar features, get merged and the merged scheme i.e., surviving scheme also has the same features, the weighted average performance of both the schemes needs to be disclosed.

13.4.1.2 When Scheme A (Transferor Scheme) gets merged into Scheme B (Transferee Scheme) and the features of Scheme B are retained, the performance of the scheme whose features are retained needs to be disclosed.

13.4.1.3 When Scheme A (Transferor Scheme) gets merged into Scheme B (Transferee Scheme) and the features of Scheme A (Transferor scheme) are retained, the performance of the scheme whose features are retained needs to be disclosed.

13.4.1.4 When Scheme A (Transferor Scheme) gets merged with Scheme B (Transferee Scheme) and a new scheme, Scheme C emerges after such consolidation or merger of schemes, the past performance need not be provided.

13.4.2 In addition to disclosing the performance of the scheme as mentioned above, past performance of such scheme(s) whose features are not

[500] Please refer to format no. 7.A under the section on Formats
[501] SEBI Circular No- SEBI/HO/IMD/DF3/CIR/P/2018/69 dated April 12, 2018

retained post-merger may also be made available on request with adequate disclaimer.

## 13.5 *Filing* of Advertisements[502]

13.5.1 Regulation 30 of SEBI (Mutual Funds) Regulations, 1996 (MF Regulations) on Advertisement material, requires Mutual Funds to submit to SEBI, the advertisements issued by them, within 7 days from the date of issue.

13.5.2 In continuation to the various Go Green initiatives in Mutual Funds, the Mutual Funds are advised to submit links to access the advertisements to be filed under the MF Regulations by sending the same through e-mail to SEBI at mf_advertisement@sebi.gov.in. However, advertisement materials like pamphlets may be submitted as attachment along with e-mail, if the size of the attachment does not exceed 250 KB.

13.5.3 Mutual Funds shall however, maintain copy of advertisements for future references.

13.5.4 While sending the e-mail, the compliance officer of respective Mutual Fund shall expressly confirm that the advertisement is in compliance with the Advertisement code specified in the sixth schedule of the MF Regulations.

## 13.6 Indicative portfolios and yields in mutual funds schemes[503]

13.6.1 Mutual Funds shall not offer any indicative portfolio and indicative yield. No communication regarding the same in any manner whatsoever shall be issued by any Mutual Fund or distributors of its

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[502] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/34 dated March 08, 2019, Refer SEBI email dated March 29, 2010
[503] SEBI Circular No. IMD/CIR No. 14/151044/09 dated January 19, 2009

products. The compliance of the same shall be monitored by the AMC and Trustees and reported in their respective reports to SEBI.

13.6.2 **Indicative portfolio or yield in close ended debt oriented mutual fund schemes**[504]

Mutual Funds (MFs)/AMCs may make following additional disclosures in the SID/SAI and KIM without indicating the portfolio or yield, directly or indirectly:

13.6.2.1 MFs/AMCs shall disclose their credit evaluation policy for the investments in debt securities.

13.6.2.2 MFs/AMCs shall also disclose the list of sectors they would not be investing.

13.6.2.3 MFs shall disclose the type of instruments which the schemes propose to invest viz. CPs, CDs, Treasury bills etc.

13.6.2.4 MFs shall disclose the floors and ceilings within a range of 5% of the intended allocation (in %) against each sub asset class/credit rating. For example, it may be disclosed that x-y % would be in AAA rated bank CD as per the sample matrix below:

| Credit Rating / Instruments | AAA | AA | A | BBB |
|---|---|---|---|---|
| CDs | | | | |
| CPs | | | | |
| NCDs | | | | |
| Securitized debt | | | | |
| Any Other | | | | |

13.6.2.5 After the closure of NFO, the AMCs will report in the next meeting of AMCs and Trustees the publicized percentage allocation and

504 SEBI Circular No. CIR/IMD/DF/12/2011 dated August 01, 2011

the final portfolio. Variations between indicative portfolio allocation and final portfolio will not be permissible.

# CHAPTER 14: INVESTOR RIGHTS & OBLIGATIONS

## PART I – INVESTOR RIGHTS

### *14.1 Transfer of Redemption or Repurchase Proceeds*[505]

14.1.1 The transfer of redemption or repurchase proceeds to the unitholders shall be made within three working days from the date of redemption or repurchase.

14.1.2 Paragraph 12.19.2 of this Master Circular prescribes a list of permissible investments for the purpose of overseas investments. For schemes investing at least 80% of total assets in such permissible overseas investments, the transfer of redemption or repurchase proceeds to the unitholders shall be made within five working days form the date of redemption or repurchase.

14.1.3 AMFI, in consultation with SEBI, has published a list of exceptional circumstances for schemes unable to transfer redemption or repurchase proceeds to investors within time as stipulated at Paragraph 14.1.1 and 14.1.2 above, along with applicable time frame for transfer of redemption or repurchase proceeds to the unitholders in such exceptional circumstances. The said list is available on AMFI website.

### *14.2 Payment of interest for delay in dispatch of redemption and/or repurchase proceeds and/or dividend*[506]

14.2.1 In the event of failure to dispatch:

505 SEBI Circular No. SEBI/HO/IMD/IMD-I DOF2/P/CIR/2022/161 dated November 25, 2022
506 SEBI Circular No. SEBI/HO/IMD/IMD-I DOF2/P/CIR/2022/161 dated November 25, 2022 & SEBI Circular No. SEBI/MFD/CIR/2/266/2000 dated May 19, 2000.

a. Redemption or repurchase proceeds within three[507] working days from the date of receipt of such requests and/ or

b. Dividend within the stipulated seven working days[508] period[509],

Interest for the period of delay in transfer of redemption or repurchase or dividend shall be payable to unitholders at the rate of 15% per annum along with the proceeds of redemption or repurchase or dividend, as the case may be. Such Interest shall be borne by AMCs. The details of such payments shall be sent to SEBI as part of Compliance Test Reports in the prescribed format. Investors shall also be informed about the rate and amount of interest paid to them.

### *14.3 Unclaimed Redemption and Dividend Amount[510]*

14.3.1 [511]The unclaimed redemption and dividend amounts, that are currently allowed to be deployed only in call money market or money market instruments, shall also be allowed to be invested in a separate plan of Overnight scheme / Liquid scheme/ Money Market Mutual Fund scheme floated by Mutual Funds specifically for deployment of the unclaimed amounts.

Provided that such schemes where the unclaimed redemption and dividend amounts are deployed shall be only those Overnight scheme/ Liquid scheme / Money Market Mutual Fund schemes which are placed in A-1 cell (Relatively Low Interest Rate Risk and Relatively Low Credit Risk) of Potential Risk Class matrix.

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[507] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF2/P/CIR/2022/161 dated November 25, 2022

[508] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF2/P/CIR/2022/161 dated November 25, 2022

[509] Regulation 53(a), SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

[510]SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000 & SEBI/HO/IMD/DF2/CIR/P/2016/37 dated February 25, 2016

[511]SEBI Circular No. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/608 dated July 30, 2021

14.3.2 AMCs shall not be permitted to charge any exit load in this plan and TER (Total Expense Ratio) of such plan shall be capped as per the TER of direct plan of such scheme or at 50 bps, whichever is lower.

14.3.3 Further, for the Unclaimed redemption and dividend amounts deployed by Mutual Funds in Call Money Market or Money Market instruments, the investment management and advisory fee charged by the AMC for managing unclaimed amounts shall not exceed 50 basis points.

14.3.4 Investors who claim the unclaimed amounts during a period of three years from the due date shall be paid initial unclaimed amount along-with the income earned on its deployment. Investors, who claim these amounts after 3 years, shall be paid initial unclaimed amount along-with the income earned on its deployment till the end of the third year. After the third year, the income earned on such unclaimed amounts shall be used for the purpose of investor education.

14.3.5 The AMC shall make a continuous effort to remind the investors through letters to take their unclaimed amounts.

14.3.6 Further, to ensure Mutual Funds play a pro-active role in tracing the rightful owner of the unclaimed amounts:

a. Mutual Funds shall be required to provide on their website, the list of names and addresses of investors in whose folios there are unclaimed amounts.

b. AMFI shall also provide on its website, the consolidated list of investors across Mutual Fund industry, in whose folios there are unclaimed amounts. The information provided herein shall contain name of investor, address of investor and name of Mutual Fund/s with whom unclaimed amount lies.

c. Information at Paragraph (a) & (b) above may be obtained by investor only upon providing his appropriate credentials (like

PAN, date of birth, etc.) along-with adequate security control measures being put in place by Mutual Fund / AMFI.

d. The website of Mutual Funds and AMFI shall also provide information on the process of claiming the unclaimed amount and the necessary forms / documents required for the same.

e. Further, the information on unclaimed amount along-with its prevailing value (based on income earned on deployment of such unclaimed amount), shall be separately disclosed to investors through the periodic statement of accounts / Consolidated Account Statement sent to the investors.

14.3.7 Disclosures on above provisions shall be made in the SAI /SID. Disclosure on the unclaimed amounts and the number of such investors for each scheme shall be made in the Annual Report also.[512]

### *14.4 Dispatch of Statement of Accounts*[513]

14.4.1 AMCs shall allot the units to the applicant whose application has been accepted and also send confirmation specifying the number of units allotted to the applicant by way of email and/or SMS's to the applicant's registered email address and/or mobile number as soon as possible but not later than five working days from the date of closure of the initial subscription list and/or from the date of receipt of the request from the unitholders.

14.4.2 Option to hold units in demat form[514]

a. Mutual Funds/AMCs are advised to invariably provide an option to the investors to mention demat account details in the subscription form, in case they desire to hold units in demat

[512] Please refer to Schedule XI of SEBI (Mutual Funds) Regulations, 1996
[513] SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000, SEBI Circular No. IMD/CIR/12/80083/2006 dated November 20, 2006 and SEBI Circular No. Cir/IMD/DF/16/2011 dated September 08, 2011
[514] SEBI circular no. CIR/IMD/DF/9/2011, dated May 19, 2011

form while subscribing to any scheme (open ended/close ended/Interval).

b. Mutual Funds/AMCs shall ensure that above mentioned option is provided to the investors in all their schemes (existing and new).

c. Mutual Funds/AMCs are advised to obtain ISIN for each option of the scheme and quote the respective ISIN along with the name of the scheme, in all Statement of Account/Common Account Statement (CAS) issued to the investors.

d. Dematerialization of existing units held by investors

In case investors desire to convert their existing physical units (represented by statement of account) into dematerialized form, mutual funds / AMCs shall take such steps in coordination with Registrar and Transfer Agents, Depositories and Depository participants (DPs) to facilitate the same.

e. Where investor desires to hold units in dematerialised form, demat statement given by depository participant would be deemed to be adequate compliance with requirements for account statement prescribed by SEBI[515].

14.4.3 Consolidated Account Statement[516]

14.3.3.1 As per Regulation[517], AMCs shall ensure that the consolidated account statement for each calendar month, is issued [518]on or before fifteenth day of the succeeding month.

[515] For details on dispatch of statement of accounts. refer to Chapter 15- Investor Rights and Obligations
[516] SEBI Circular No. Cir/IMD/DF/16/2011 dated September 08, 2011
[517] Regulation 36(4) of SEBI (Mutual Funds) Regulations, 1996
[518] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

14.3.3.2 [519]The AMC shall ensure that the CAS for the half year is issued on or before twenty first day of the succeeding month.

14.3.3.3 As per Regulation[520], the asset management company shall ensure that a consolidated account statement every half yearly (September/ March) is issued, detailing holding at the end of the six month, across all schemes of all mutual funds, to all such investors in whose folios no transaction has taken place during that period.

14.3.3.4 Further, in order to increase transparency of information to investors, it has been decided that[521]

a. Each CAS issued to the investors shall also provide the total purchase value / cost of investment in each scheme.

b. Further, CAS issued for the half-year (ended September/ March) shall also provide.

i. The amount of actual commission paid by AMCs/Mutual Funds (MFs) to distributors (in absolute terms) during the half-year period against the concerned investor's total investments in each MF scheme. The term 'commission' here refers to all direct monetary payments and other payments made in the form of gifts / rewards, trips, event sponsorships etc. by AMCs/MFs to distributors. Further, a mention may be made in such CAS indicating that the commission disclosed is gross commission and does not exclude costs incurred by

[519] SEBI Circular No SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021
[520] Regulation 36(4) of SEBI (Mutual Funds) Regulations, 1996
[521] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016 and SEBI/HO/IMD/DF2/CIR/P/2016/89 dated September 20, 2016

distributors such as service tax (wherever applicable, as per existing rates), operating expenses, etc.

ii. The scheme's average Total Expense Ratio[522] (in percentage terms) along with the break up between Investment and Advisory fees, Commission paid to the distributor and Other expenses for the period for each scheme's applicable plan (regular or direct or both) where the concerned investor has actually invested in."

iii. Trustees and AMCs shall ensure compliance of the provisions mentioned above at Paragraph 14.3.3.4.(b).(ii) above and trustees shall confirm the same to SEBI in the half yearly trustee report.

c. Such half-yearly CAS shall be issued to all MF investors, excluding those investors who do not have any holdings in MF schemes and where no commission against their investment has been paid to distributors, during the concerned half-year period.

d. Further, an indicative format[523] providing guidance on the key components which shall be reflected in half-yearly CAS may be referred.

14.4.4 <u>Transferability of Mutual Fund units</u>[524]

a. Regulations[525] states that "a unit unless otherwise restricted or prohibited under the scheme, shall be freely transferable by act of parties or by operation of law." The spirit and intention of this

[522] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018
[523] Please refer to Format no. 3.F under the section on Formats
[524] SEBI Circular No - CIR/IMD/DF/10/2010 dated August 18, 2010, Refer SEBI email dated February 02, 2011
[525] Regulation 37(1) of SEBI (Mutual Fund) Regulations, 1996

regulation is not to prohibit transferability of units as a general rule or practice.

b. All AMCs shall clarify by way of an addendum that units of all mutual fund schemes held in demat form shall be freely transferable from the date of the issue of said addendum. However, restrictions on transfer of units of ELSS schemes during the lock-in period shall continue to be applicable as per the ELSS Guidelines.

### *14.5 AMC's Annual Reports for unitholders*[526]

14.5.1 The annual report containing accounts of the AMCs should be displayed on the website of Mutual Fund. It should also be mentioned in the Annual Report of Mutual Funds schemes that the unitholders, if they so desire may request for the Annual Report of the AMC.

### *14.6 Treatment and disposal of illiquid securities or securities classified as default at the time of maturity / closure of schemes*[527] [528]

14.6.1 In case of close-ended schemes, some of the investments made by Mutual Funds may become default at the time of maturity of schemes. Further, at the time of winding up of a scheme, some of the investments made by Mutual Funds may become default or illiquid. In due course of time i.e. after the maturity or winding up of the schemes, such investments may be realised by the Mutual Funds. It is advised to distribute such amount, if it is substantial, to the concerned investors. In case the amount is not substantial, it may be used for the purpose of investor education. The decision as to the determination of substantial amount shall be taken by the Trustees of Mutual Funds after considering the relevant factors including

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[526] SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000
[527] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019
[528] SEBI Circular No. MFD/CIR/05/432/2002 dated June 20, 2002.

number of investors, amount recovered, cost of transferring funds to investors; among others.

### *14.7 Change of Mutual Fund Distributor*[529]

14.7.1 In case an investor wishes to change his distributor or wishes to go direct, Mutual Funds/AMC's shall ensure compliance with the instruction of the investor informing his desire to change his distributor and / or go direct, without compelling that investor to obtain a 'No Objection Certificate' from the existing distributor.[530]

### *14.8 Additional mode of payment through Applications Supported by Blocked Amount (hereinafter referred to as "ASBA") in Mutual Funds*[531]

14.8.1 ASBA facility which investors have been using for subscription to public issue of equity capital of companies has been extended to the investors subscribing to New Fund Offers (NFOs) of mutual fund schemes. It shall co-exist with the current process, wherein cheques/ demand drafts are used as a mode of payment.

14.8.2 The banks which are in SEBI's list shall extend the same facility in case of NFOs of mutual fund schemes to all eligible investors in Mutual Fund units.

14.8.3 Mutual Funds shall ensure that adequate arrangements are made by Registrar and Transfer Agents for the implementation of ASBA. Mutual Funds/AMCs shall make all relevant disclosures in this regard in the SAI.

[529] Refer SEBI email dated August 12, 2010
[530] SEBI Circular No -SEBI/IMD/CIR No./ 13/187052 /2009 December 11, 2009
[531] SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

14.8.4 SEBI circulars[532] related to ASBA shall be followed to the extent applicable.

14.8.5 The Mutual Funds/AMCs have to compulsorily provide ASBA facility to the investors for all NFOs launched.

### *14.9 Instant Access Facility (IAF)* [533]

14.9.1 IAF facilitates credit of redemption proceeds in the bank account of the investor on the same day of redemption request. In order to further enhance the reach of Mutual Funds (MFs) towards the retail investors, it has been decided to issue guidelines for extending IAF. MFs/AMCs may offer IAF subject to the following conditions:

a. **Eligibility** -IAF shall be allowed through online mechanism and only for resident individual investors.

b. **Applicability**

i. **NAV**: While observing the extant cut-off timings with respect to repurchase (i.e. Redemption), under IAF the following NAVs shall be applied:

- where the IAF application is received up to 3.00pm–the lower of (i) NAV of previous calendar day and (ii) NAV of calendar day on which application is received;
- where the IAF application is received after 3.00 pm –the lower of (i) NAV of calendar day on which such application is received, and (ii) NAV of the next calendar day.

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532 SEBI Circular No. SEBI/CFD/DIL/DIP/31/2008/30/7 dated July 30, 2008, SEBI/CFD/DIL/2008/25/09dated September 25, 2008, SEBI/CFD/DIL/MB/IS/5/2009/05/08 dated August 5, 2009 and SEBI/CFD/DIL/ASBA/1/2009/30/12 dated December 30, 2009 and CIR/CFD/DIL/7/2010 dated July 13, 2010, Cir / IMD / DF / 6 / 2010 dated July 28, 2010

533 SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/39 dated May 08, 2017

ii. **Scheme**[534]–MFs/ AMCs can offer Instant Access Facility (IAF) only in Overnight and Liquid Schemes of the MF.

iii. **Monetary Limit**-The monetary limit under IAF shall be INR 50,000/-or 90% of latest value of investment in the scheme, whichever is lower. This limit shall be applicable per day per scheme per investor.

c. **Liquidity**

i. Liquidity for IAF has to be provided out of the available funds with the scheme and MFs/ AMCs should put in place a mechanism so that adequate balance is available in the bank account of the scheme to meet liquidity/ redemption requirements under IAF. Such mechanism may be based on historical trends of instant access. For example, AMCs offering IAF may set aside in cash at least 3 times of –the higher of, last one month's or three month's daily average of redemptions under instant access on a rolling day basis. AMCs should also lay down robust processes for continuous monitoring and for funding the redemptions under the IAF.

ii. MFs/ AMCs cannot borrow to meet the redemption requirements under IAF.

d. **Disclosures**

i. AMCs shall make appropriate disclosures in the scheme related documents about IAF and ensure that no mis-selling is done on the pretext of instant availability of funds to the investors.

534 SEBI Circular No. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/608 dated July 30, 2021

ii. Appropriate disclosures shall be made to the investors mentioning the scenarios under which IAF may be suspended and that IAF request would be processed as a normal redemption request in such circumstances.

e. **Approvals and Controls**

i. MFs/ AMCs shall offer IAF only after obtaining approvals from the AMC Board and the Trustees and keep in place adequate safeguards in the system to implement this facility.

ii. IAF shall also be considered while carrying out stress testing of the schemes.

### *14.10 Use of e-wallet for investment in MFs [535]*

14.10.1 With an objective to promote digitalization, MFs/AMCs can accept investment by an investor through e-wallets (Prepaid Payment Instruments (PPIs)) subject to the following:

a. MFs/ AMCs shall ensure that extant regulations such as cut-off timings, time stamping, etc., are complied with for investment in MFs using e-wallets.

b. MFs/ AMCs shall enter into an agreement / arrangement with issuers of PPIs for facilitating payment from e-wallets to MF schemes.

c. Redemption proceeds should be made only to the bank account of the investor/ unit holder.

d. MFs/ AMCs shall ensure that total subscription through e-wallets for an investor is restricted to INR 50,000/-per MF

[535] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/39 dated May 08, 2017

per financial year. Further, the limit of INR 50,000/-would be an umbrella limit for investments by an investor through both e-wallet and/or cash, per Mutual Fund per financial year.

e. In context of e-wallets, it should be ensured that all e-wallets are fully compliant with KYC norms as prescribed by Reserve Bank of India.[536]

f. MFs/ AMCs shall ensure that e-wallet issuers shall not offer any incentives such as cashback, vouchers, etc., directly or indirectly for investing in MF schemes.

g. MFs/ AMCs shall ensure that only amounts loaded into e-wallet through cash or debit card or net banking, can be used for subscription to MF schemes.

h. MFs/ AMCs shall ensure that amount loaded into e-wallet through credit card, cash back, promotional scheme etc. should not be allowed for subscription to MF schemes.

i. MFs/ AMCs shall also comply with the requirement of no third party payment norm for investment made using e-wallets.

[536] Paragraph 14.10.1.(e) is applicable with effect from May 01, 2023, SEBI Circular No. SEBI/HO/IMD/IMD-PoD-2/P/CIR/2023/40 dated March 23, 2023,

## PART II – INVESTOR'S OBLIGATIONS

### *14.11 Mandatory mentioning of PAN Number*[537]

14.11.1 For the requirement of mentioning PAN Number by investors of mutual fund schemes, the applicable SEBI guidelines may be referred.[538]

### *14.12 Mandatory mentioning of Bank Account by Investors*[539]

14.12.1 It shall be mandatory for the investors of the Mutual Funds schemes to mention their bank account numbers in their applications/request for redemption. For this purposes Mutual Funds shall provide space in applications and redemption request forms.

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[537] SEBI Circular No. MRD/DoP/Cir-05/2007 dated April 27, 2007, SEBI Circular No. MRD/DoP/Cir-08/2007 dated June 25, 2007, SEBI Circular No. MRD/DoP/MF/Cir-08/2008 dated April 3, 2008, SEBI Circular No. MRD/DoP/Cir-20/2008 dated June 30, 2008, Refer SEBI Letter No. MRD/Policy/PAN/AT/97151/2007 dated June 25, 2007, Refer SEBI letter No. SEBI/HO/IMD/DF2/OW/P/2016/6768/1 dated March 08, 2016, Refer SEBI letter No. IMD/DF2/MSD/OW/P/2016/ 20426/1 dated July 20, 2016, Refer SEBI letter No. SEBI/HO/OW/IMD /PoD/P/2022/48112 /1 dated September 12, 2022

[538] SEBI Circular No. MRD/DoP/MF/Cir`-08/2008 dated April 3, 2008, SEBI Circular No. SEBI/IMD/CIR No. 6/ 4213/04 dated March 1, 2004, Refer SEBI letter No. OW/ 16541 /2012 dated July 24, 2012

[539] SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998

**PART III– INVESTOR EDUCATION**

### *14.13 SEBI Investors Education Programme – Investments in Mutual Funds[540]*

14.13.1 SEBI has prepared a brochure in question-answer format explaining the fundamental issues pertaining to mutual funds. The same is available on SEBI website https://www.sebi.gov.in under the "FAQs" section. The details for accessing the same are enclosed at **Annexure 4**.

14.13.2 AMCs are advised to circulate copies of the brochure among their distributors and agents (including brokers, banks, post offices) and the investors.

14.13.3 AMCs may publish the same as small booklets. In such a case, while the booklets must bear SEBI name and logo, AMC may give their name as publisher. This may also be displayed prominently on their websites

14.13.4 AMFI may consider including the brochure as a part of study material for their training programmes for investors and for their certification programme conducted for agents and distributors.

14.13.5 SEBI may be kept informed about the steps taken by the AMCs in this regard from time to time.

### *14.14 Financial Inclusion[541]:*

14.14.1 In context of Mutual Funds, financial inclusion implies that the concept of Mutual Fund products is understood by all and are accessible to anyone who wishes to make an investment in them. Also, investors should be capable of figuring out which Mutual Fund

540 SEBI Cir No. MFD/CIR NO -13/370/02 dated January 16,2002
541 SEBI Cir No. CIR/IMD/DF/05/2014 dated March 24, 2014

scheme is appropriate for their financial objectives. Towards this, it has been decided that:

a. Mutual Funds shall mandatorily also make available printed literature on mutual funds in regional languages for investor awareness and education.

b. Mutual Funds to introduce Investor awareness campaign in regional languages both in print and electronic media

# CHAPTER 15: CERTIFICATION AND REGISTRATION OF INTERMEDIARIES[542, 543]

15.1 No Mutual Fund shall deal with any intermediary (i.e. distributors, agents, brokers, sub brokers or called by any other name, whether individuals or belonging to any other organization structure) in relation to selling and marketing of Mutual Fund units unless they have cleared the certification examination[544].

15.2 Exemption for Senior Citizens: Senior citizens with experience in distributing Mutual Funds units are exempt from the mandatory certification examination if they have completed 50 years of age and have experience of at least 5 years as on September 30, 2003. They are also required to follow the guidelines prescribed by the Board and AMFI. They had to attend a mutual fund training programme and a certificate to that effect endorsed by a mutual fund should be submitted to AMFI.

15.3 No Mutual Fund shall engage/employ employee(s) interacting with investors (i.e. those working in investors relations, call centers, employees engaged in sales and marketing etc.) unless they have cleared the certification examination.

15.4 Further, such intermediaries and employees shall also adhere to the Guidelines specified by the Board and AMFI.[545]

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[542] SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001, SEBI Circular No. MFD/CIR/20/23230/2002 dated November 28, 2002, SEBI Circular No. SEBI/MFD/CIR No.01/6693/03 dated April 3, 2003, SEBI Circular No. SEBI/IMD/CIR No.2/254/04 dated February 4, 2004, SEBI Circular No. MFD/CIR/06/210/2002 dated June 26, 2002.

[543] Exemption for Senior Citizens: Senior citizens with experience in distributing Mutual Funds units are exempt from the mandatory certification examination if they have completed 50 years of age and have experience of at least 5 years as on September 30, 2003. They are also required to follow the guidelines prescribed by the Board and AMFI. They had to attend a mutual fund training programme and a certificate to that effect endorsed by a mutual fund should be submitted to AMFI.

[544] Refer SEBI letter No.– OW / 14970 / 2012 dated July 5, 2012

[545] SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001, SEBI Circular No. MFD/CIR/20/23230/2002 dated November 28, 2002, Refer SEBI email dated September 22, 2020 & October 14, 2020

### *15.5 Distributors of Mutual Fund products*[546]

15.5.1 The AMCs shall regulate the distributors by putting in place a due diligence process as follows:

15.5.1.1 The due diligence of distributors is solely the responsibility of mutual funds/AMCs. This responsibility shall not be delegated to any agency. However, mutual funds/AMCs may take assistance of an agency of repute while carrying out due diligence process of distributors.[547]

15.5.1.2 The due diligence process shall be initially applicable for distributors satisfying one or more of the following criteria:

a. Multiple point presence (More than 20 locations)

b. AUM raised over Rs.100 Crore across industry in the non-institutional category but including high net worth individuals (HNIs)

c. Commission received of over Rs.1 Crore p.a. across industry

d. Commission received of over Rs.50 Lakh from a single Mutual Fund

15.5.1.3 At the time of empaneling distributors and during the period i.e. review process, Mutual Funds/AMCs shall undertake a due diligence process to satisfy 'fit and proper' criteria that incorporate, amongst others, the following factors:

a. Business model, experience and proficiency in the business.

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[546] SEBI Circular No. CIR/IMD/DF/13/2011 dated August 22, 2011, Refer SEBI email dated February 17, 2011.

[547] SEBI Circular No. Cir/IMD/DF/7/2012 dated February 28, 2012, Refer SEBI letter no. IMD/RB/35057/2011 dated November 16, 2011

b. Record of regulatory / statutory levies, fines and penalties, legal suits, customer compensations made; causes for these and resultant corrective actions taken.

c. Review of associates and subsidiaries on above factors.

d. Organizational controls to ensure that the following processes are delinked from sales and relationship management processes and personnel:

   i. Customer risk / investment objective evaluation.

   ii. MF scheme evaluation and defining its appropriateness to various customer risk categories.

15.5.1.4 In this respect, customer relationship and transactions shall be categorized as:

a. Advisory - where a distributor represents to offer advice while distributing the product, it will be subject to the principle of 'appropriateness' of products to that customer category. Appropriateness is defined as selling only that product categorization that is identified as best suited for investors within a defined upper ceiling of risk appetite. No exception shall be made.

b. Execution Only - in case of transactions that are not booked as 'advisory', it shall still require:

   i. The distributor has information to believe that the transaction is not appropriate for the customer, a written communication be made to the investor regarding the unsuitability of the product. The communication shall have to be duly acknowledged and accepted by investor.

   ii. A customer confirmation to the effect that the transaction is ‘execution only notwithstanding the advice of in-appropriateness from that distributor be obtained prior to the execution of the transaction.

iii. That on all such ‘execution only’ transactions, the customer is not required to pay the distributor anything other than the standard flat transaction charge.

c. There shall be no third categorization of customer relationship / transaction.
d. While selling Mutual Fund products of the distributors’ group/ [548]associates, the distributor shall make disclosure to the customer regarding the conflict of interest arising from the distributor selling of such products.

15.5.1.5 Compliance and risk management functions of the distributor shall include review of defined management processes for:

a. The criteria to be used in review of products and the periodicity of such review.
b. The factors to be included in determining the risk appetite of the customer and the investment categorization and periodicity of such review.
c. Review of transactions, exceptions identification, escalation and resolution process by internal audit.
d. Recruitment, training, certification and performance review of all personnel engaged in this business.
e. Customer on boarding and relationship management process, servicing standards, enquiry / grievance handling mechanism.
f. Internal/ external audit processes, their comments / observations as it relates to MF distribution business.

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[548] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

g. Findings of ongoing review from sample survey of investors.

15.5.1.6 Mutual Funds/AMCs may implement additional measures as deemed appropriate to help achieve greater investor protection.

### *15.6 Code of Conduct[549]:*

15.6.1 Mutual Funds are required to monitor the activities of their distributors, agents, brokers to ensure that they do not indulge in any malpractice or unethical practice while selling or marketing Mutual Funds units. Any noncompliance with the Mutual Funds Regulations and Guidelines pertaining to Mutual Funds especially guidelines on advertisements and/ or sales literature and/or Code of Conduct shall be reported in the periodic meetings of the Board of the AMC and the Trustee(s) and shall also be reported to the Board by the AMC(s) in their CTR(s) and by the Trustees in their Half Yearly Reports.

15.6.2 AMFI has prescribed a Code of Conduct for Mutual Fund intermediaries which is available on AMFI Website[550]. All intermediaries shall follow the Code of Conduct strictly and not indulge in any practice contravening it directly or indirectly[551].

15.6.3 Noncompliance with the Code of Conduct shall be reported by the Mutual Funds to the Board and AMFI. Further, no Mutual Fund shall deal with intermediaries contravening the prescribed Code of Conduct.

[549] Refer SEBI letter No. SEBI/HO/IMD/IMD-I DOF5/P/OW/2022/2463/1 dated March 21, 2022 & SEBI letter No. SEBI/HO/IMD/IMD-I DOF5/P/OW/2022/14567/1 dated April 04, 2022

[550] Also refer SEBI Circulars - MFD/CIR/ 06/210/2002 dated June 26, 2002; MFD/CIR/20/23230/02 dated November 28, 2002 and SEBI/IMD/08/174648/2009 dated August 27, 2009.

[551] Refer SEBI letter No. SEBI/HO/OW/IMD/SEC-DIV-3/P/2022/44787/1 dated August 24, 2022

### *15.7 Empanelment of Intermediaries by Mutual Funds*[552]

15.7.1 Empanelment of intermediaries by Mutual Funds, payment of commissions, brokerage and/or sub-brokerage etc. shall be in accordance with parameters and guidelines specified by the Board and AMFI from time to time. Mutual Funds shall monitor the compliance of these guidelines and Code of Conduct by their intermediaries in terms of business done across all Mutual Funds. In case of non-compliance, Mutual Funds shall suspend further business and payment of commissions, etc. until full compliance by the empaneled intermediary.

### *15.8 Certification Programme for sale and/ or distribution of mutual fund products*[553]

15.8.1 With effect from June 01, 2010, the certification examination for distributors, agents or any other persons employed or engaged or to be employed or engaged in the sale and/or distribution of mutual fund products, would be conducted by the National Institute of Securities Markets (NISM)[554]. The text of notification in this regard is enclosed herewith as **Annexure 5**.

15.8.2 Under the existing instructions, the agent/ distributor was exempted from the AMFI certification examination if he had completed fifty years of age and had at least five years of experience in distribution of mutual fund units. As per regulation 4(3) of the Certification Regulations, persons who have attained the age of fifty years or who have at least ten years' experience in the securities markets in the sale and/ or distribution of mutual fund products as on May 31, 2010, will be given the option of obtaining the certification either by passing the NISM certification examination or qualifying for

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[552] Refer SEBI letter No. IMD/SM/10 dated June 02, 2010

[553] SEBI Circular No. Cir/IMD/DF/5/2010 dated June 24, 2010

[554] For Notification under regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 please refer to section on Annexures)

Continuing Professional Education (CPE) by obtaining such classroom credits as may be specified by NISM from time to time.

15.8.3 The Certification Regulations require the persons referred to in Paragraph 15.8.1 above to comply with the requirements for CPE as specified by NISM within the validity period of the certificate obtained by passing the certification examination.

15.8.4 An associated person holding a valid AMFI/NISM certification whose validity expires any time after December 31, 2010, would be required to comply with the CPE requirements as laid down by NISM under the relevant clauses of the Certification Regulations, prior to the expiry of the validity of the certification.

15.8.5 The requirement of obtaining registration from AMFI after obtaining certification, as per Chapter 15 of this Master Circular, would continue.

### *15.9 New cadre of distributors*[555]

15.9.1 A new cadre of distributors, such as postal agents, retired government and semi-government officials (class III and above or equivalent) with a service of at least 10 years, retired teachers with a service of at least 10 years, retired bank officers with a service of at least 10 years, and other similar persons (such as Bank correspondents) as may be notified by AMFI/AMC from time to time, shall be allowed to sell units of simple and performing mutual fund schemes.

15.9.2 Simple and performing mutual fund schemes shall comprise of diversified equity schemes, fixed maturity plans (FMPs), index schemes, Retirement benefit schemes having tax benefits and Liquid schemes/ Money Market Mutual Fund schemes[556] and should have

[555] SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012, Refer SEBI Letter No. IMD/OW/24/2013dated January 02, 2013
[556] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/37 February 25, 2016.

returns equal to or better than their scheme benchmark returns during each of the last three years.

15.9.3 These new cadre of distributors would require a simplified form of NISM certification and AMFI Registration.

### *15.10 Developing alternative distribution channels*[557]

15.10.1 In order to increase penetration of Mutual Fund products and to energize the distribution network while protecting the interest of investors, SEBI had permitted additional expense ratio of 30 bps for garnering funds from B-30 cities. This development would lead to setting up of distribution infrastructure by AMCs. However, in order to achieve participation from all parts of the country in Mutual Funds there is greater need for developing additional distribution channels. Therefore, it has been decided that:

a. **Distribution through PSU banks:** PSU banks which have wide bank branches network and have distribution reach in the nook and corner of the country, could play a key role in Mutual Funds distribution. In order to leverage the PSU banks infrastructure, Mutual Funds/ AMCs need to develop a system for active support to PSU banks to distribute Mutual Fund products through them. Such active support would also encourage PSU banks to distribute products of all Mutual Funds.

b. [558]**Online distribution:** Online distribution not only increases customer convenience, but also significantly improves distributor economics. The online phenomenon is increasing rapidly and it is observed that more and more people especially younger generation prefers online transactions. Therefore, it has been decided that all Mutual Funds should enhance the online investment facility and tap the internet savvy users to invest in Mutual Funds by providing an online investment facility on their

[557] SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014
[558] Refer SEBI emails dated June 04, 2010 and July 28, 2010

websites. Mutual Funds also need to tap the burgeoning mobile-only internet users for direct distribution of Mutual Fund products.

### *15.11 Unique Identity Number*

15.11.1 AMFI shall create a unique identity number of the employee/ relationship manager/ sales person of the distributor interacting with the investor for the sale of mutual fund products, in addition to the AMFI Registration Number (ARN) of the distributor.

15.11.2 The application form for mutual fund schemes shall have provision for disclosing the unique identity number of such sales personnel along with the ARN of distributor.

## CHAPTER 16: TRANSACTION IN MUTUAL FUNDS UNITS

### *16.1 Maintenance of documents*[559]

16.1.1 As per the requirements specified by Board in respect of "Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT) / Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed there-under"[560], maintenance of all documentation pertaining to the unitholders/ investors is the responsibility of the AMC.

16.1.2 Accordingly, AMCs were advised to confirm whether all the investor related documents were maintained/ available with the AMC. If not, and to the extent of and relating to such investor accounts/folios where investor related documentation was incomplete/inadequate/not available or was stated to be maintained by the distributors, then the Trustees were advised to ensure the following:

16.1.2.1 No further payment of any commissions, fees and / or payments in any other mode should be made to such distributors till full compliance/ completion of the steps enumerated herein.

16.1.2.2 Take immediate steps to obtain all investor/ unit holders documents in terms of the AML/ CFT, including KYC documents/ PoA as applicable.

16.1.2.3 Take immediate steps to obtain all supporting documents in respect of the past transactions.

16.1.2.4 On a one-time basis, send statement of holdings and all transactions since inception of that folio in duplicate to the

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[559] SEBI Circular No - SEBI/IMD/CIR No.12 /186868 /2009 dated December 11, 2009, Refer SEBI letter No. IMD/AT/2868/10 dated April 27, 2010 and SEBI email dated August 20, 2010, Refer SEBI letter No. SEBI/HO/lMD2/DoF4/OW/P/19402/2019 dated July 30, 2019, Refer SEBI letter No. SEBI/HO/OW/IMD-II/DOF3/P/27993/2022 dated July 08, 2022 and SEBI letter No. SEBI/HO/OW/IMD-II/DOF3/P/27989 dated July 08, 2022

[560] SEBI Circular No ISD/AML/CIR-1/2008 dated December 19, 2008

investor and seek confirmation from the unit holders on the duplicate copy.

16.1.2.5 Set up a separate customer services mechanism to handle/ address queries and grievance of the above mentioned unitholders.

16.1.3 Pending completion of documentation, exercise great care and be satisfied of investor bonafides before authorizing any transaction, including redemption, on such accounts/ folios.

16.1.4 The Trustees were required forthwith to confirm to Board that the steps had been taken to address the above and also send a status to the Board as and when process was completed to their satisfaction.

16.1.5 All mutual funds/ AMCs are directed that[561]:

16.1.5.1 All new folios/ accounts shall be opened only after ensuring that all investor related documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signature are available with AMCs/RTAs and not just with the distributor.

16.1.5.2 For existing folios, AMCs shall be responsible for updation of the investor related documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signature.

## *16.2 Facilitating transactions in Mutual Fund schemes through the Stock Exchange infrastructure[562]*

16.2.1 Stock Exchange terminals can be used for facilitating transactions in mutual fund schemes. The Stock Exchange mechanism would

[561] SEBI Circular No Cir /IMD/DF/9 / 2010 dated August 12, 2010, Refer SEBI email dated January 10, 2020

[562] SEBI Circular No - SEBI /IMD / CIR No.11/183204/ 2009 dated November 13,2009, Refer SEBI letter No. SEBI/HO/IMD/DF5/OW/P/2020/11567/1 dated July 10, 2020, Refer SEBI letter no. SEBI/HO/IMD/IMD-I DOF5/P/OW/2022/8536/1 dated February 25, 2022

also extend the present convenience available to secondary market investors to mutual fund investors.

16.2.2 Units of mutual fund schemes may be permitted to be transacted through registered stock brokers of recognized stock exchanges and such stock brokers will be eligible to be considered as official points of acceptance[563].

16.2.3 The respective stock exchange would provide detailed operating guidelines to facilitate the above.

16.2.4 In this regard, Mutual Funds/AMC are advised that:

16.2.4.1 Empanelment and monitoring of Code of Conduct for brokers acting as mutual fund intermediaries-

a. The stock brokers intending to extend the transaction in Mutual Funds through stock exchange mechanism shall be required to comply with the requirements of passing the AMFI certification examination[564].All such stock brokers would then be considered as empaneled distributors with mutual fund/AMC.

b. These stock brokers shall also comply with Code of Conduct[565] for intermediaries of Mutual Funds, and applicable SEBI guidelines[566], applicable to intermediaries engaged in selling and marketing of mutual fund units.

c. It is clarified that, stock exchanges shall monitor the compliance of the code of conduct specified regarding empanelment of intermediaries by mutual funds[567].

563 SEBI Circular No. SEBI/IMD/CIR No.11/78450/06 dated October 11, 2006, Refer SEBI email dated February 07, 2011
564 Please refer Chapter 16 on Certification and Registration of Mutual Funds intermediaries
565 For Code of Conduct, please refer to AMFI website
566 Please refer Chapter 16 on Certification and Registration of Mutual Funds intermediaries
567 Please refer Chapter 16 on Certification and Registration of Mutual Funds intermediaries

16.2.4.2 Time stamping

a. Time stamping as evidenced by confirmation slip given by stock exchange mechanism to be considered sufficient compliance with clause for cut–off timing for liquid scheme and plans, cut-off timing for other schemes and plans and time stamping provisions mandated by the Board[568].

16.2.4.3 Investor grievance mechanism

a. Stock exchanges shall provide for investor grievance handling mechanism to the extent they relate to disputes between brokers and their client.

16.2.4.4 Know your client (KYC)

a. Where investor desires to hold units in dematerialised form, the KYC performed by DP in terms of SEBI requirements[569] would be considered compliance with applicable requirements specified in this regard[570] by Mutual Funds/AMCs.

b. The Mutual Funds/AMC shall take necessary steps to do KYC requirements of all investors as per the prescribed guidelines[571].

16.2.4.5 Stock exchanges and mutual funds/AMCs, based on the experience gained may improve the mechanism in the interest of investors.

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568 Please refer to Chapter 8 – Net Asset Value for details on cut off timing provisions

569 SEBI Circular No - MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004 and SEBI/IMD/CIR No.11/183204/2009 dated November 13, 2009

570 SEBI Circular No - ISD/AML/CIR-1/2008 dated December 19, 2008

571 SEBI Circular No. MIRSD/SE/Cir-21/2011, dated October 5, 2011, SEBI Circular No. MIRSD/Cir-23/2011 dated December 2, 2011 and SEBI Circular No. MIRSD/Cir- 26 /2011 dated December 23, 2011

16.2.4.6 In addition to the existing facilities of purchasing and redeeming directly with the Mutual Funds and Stock Brokers, the following be noted[572]:

a. Units of mutual funds schemes may be permitted to be transacted through clearing members of the registered Stock Exchanges.

b. Permit Depository participants of registered Depositories to process only redemption request of units held in demat form.

16.2.4.7 The following be noted with respect to investors having demat account and purchasing and redeeming mutual funds units through stock brokers and clearing members for transactions up to June 30, 2022. (For transactions from July 1, 2022 refer Paragraph 16.3 below):

a. Investors shall receive redemption amount (if units are redeemed) and units (if units are purchased) through broker/clearing member's pool account. Mutual Funds(MF)/ Asset management Companies(AMC) would pay proceeds to the broker/clearing member (in case of redemption) and broker/clearing member in turn to the respective investor and similarly units shall be credited by MF/AMC into broker/clearing member's pool account (in case of purchase) and broker/clearing member in turn to the respective investor.

b. Payment of redemption proceeds to the broker/clearing members by MF/AMC shall discharge MF/AMC of its obligation of payment to individual investor. Similarly, in case of purchase of units, crediting units into broker/clearing

[572] SEBI Circular No CIR/IMD/DF/17/2010 dated November 9, 2010

member pool account shall discharge MF/AMC of its obligation to allot units to individual investor.

16.2.4.8 The following may be noted in this regard:

a. Clearing members and Depository participants will be eligible to be considered as official points of acceptance[573] and conditions stipulated[574] Viz. AMFI /NISM certification, code of conduct prescribed by SEBI for Intermediaries of Mutual Fund, shall be applicable for such Clearing members and Depository participants as well.

b. Stock exchanges and Depositories shall provide investor grievance handling mechanism to the extent they relate to disputes between their respective regulated entity and their client and shall also monitor the compliance of code of conduct specified[575] regarding empanelment and code of conduct for intermediaries of Mutual Funds.

16.2.4.9 The respective stock exchanges and Depositories would provide detailed operating guidelines to facilitate the above and ensure that timelines prescribed[576] shall be adhered to with regard to allotment of units and receipt of redemption proceeds at the investor's level.

16.2.5 Stock exchanges and mutual funds/AMCs, based on the experience gained may further improve the mechanism in the interest of investors. Necessary clarifications, if any, would be issued at appropriate time by SEBI in this regard.

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[573] SEBI Circular No. SEBI/IMD/CIR No.11/78450/06 dated October 11, 2006
[574] SEBI Circular dated November 13, 2009 for stock brokers
[575]SEBI Circulars MFD/CIR/20/23230/02 dated November 28, 2002 and SEBI/IMD/08/174648/2009 dated August 27, 2009
[576] SEBI (Mutual Funds) Regulations, 1996

16.2.6 [577]SEBI Registered Investment Advisors (RIAs) has been allowed to use infrastructure of the recognised stock exchanges to purchase and redeem mutual fund units directly from Mutual Fund/Assets Management Companies on behalf of their clients, including direct plans.

16.2.7 [578]A mutual fund Distributor registered with Association of Mutual Funds in India (AMFI) and who has been permitted by the concerned recognised stock exchange, (MF distributor) shall be eligible to use recognised stock exchanges' infrastructure to purchases and redeem mutual fund units directly from Mutual Fund/Assets Management Companies.

16.2.8 The recognised stock exchange shall grant permission on a request made by a AMFI registered mutual fund distributor on the basis of criteria including fee, code of conduct, etc. as laid down by it.

16.2.9 The MF distributors shall not handle payout and pay in of funds as well as units on behalf of investor. The recognised stock exchange shall put necessary system in place to ensure that pay in will be directly received by recognised clearing corporation and payout will be directly made to investor account. In the same manner, units shall be credited and debited directly from the demat account of investors, where held in demat mode.

16.2.10 In order to broad base the reach of this platform, it is decided to permit non demat transactions also in the Mutual fund through stock exchange platform[579].

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[577] SEBI Circular No. SEBI/HO/MRD/DSA/CIR/P/2016/113 dated October 19, 2016
[578] SEBI Circular No. CIR/MRD/DSA/32/2013 dated October 04, 2013
[579] SEBI Circular No. CIR/MRD/DSA/33/2014 dated December 09, 2014

16.2.11 The respective recognised stock exchanges, recognised clearing corporations and depositories shall provide detailed operating guidelines for MF distributor to facilitate the above.

16.2.12 [580]Investors have been allowed to directly access infrastructure of the recognised stock exchanges to purchase and redeem mutual fund units directly from Mutual Fund/ Asset Management Companies.

### *16.3 Discontinuation of usage of pool accounts for transactions in units of Mutual Funds on the Stock Exchange Platforms*[581]

The following has been decided with respect to transactions on stock exchange platform for units of Mutual Funds:

16.3.1 Pooling of funds and/ or units by stock brokers / clearing members in any form or manner shall be discontinued for mutual fund transactions.

16.3.2 Similar to mechanisms for transactions in mutual fund units by MFDs and IAs, stock exchanges shall put necessary mechanisms in place for stock brokers / clearing members also, to ensure that funds pay-in is directly received by the clearing corporation from the investor account and funds pay-out is directly made to the investor account. Pay-in / pay-out of funds shall not be handled by the stock brokers / clearing members. In the same manner, for both demat and non-demat mode transactions, the units shall be credited and debited directly to/ from the investors' demat account/ folio account without routing it through the pool account of the stock brokers / clearing members. However, for redemption of units held in dematerialised mode, the practice of issuance of Delivery Instruction Slip ('DIS') (physical or electronic) to the Depository

[580] SEBI Circular No. SEBI/HO/MRD1/DSAP/CIR/P/2020/29 dated February 26, 2020
[581] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/635 dated October 4, 2021, Refer SEBI letter No. SEBI/HO/IMD/IMD-I DOF5/P/OW/2022/10847/1 dated March 15, 2022

Participant to debit the units for delivery to clearing corporation may continue.

16.3.3 It is further clarified that stock brokers / clearing members facilitating mutual fund transactions shall:

16.3.3.1 not accept mandates for SIPs or Lumpsum transactions in their name;

16.3.3.2 accept cheque payments from investors issued in favor of the respective SEBI recognized Clearing Corporations or mutual fund scheme(s) only;

16.3.3.3 not accept or handle funds or units of investors in their proprietary accounts or pool accounts in any form or manner; and

16.3.3.4 not accept payment through one-time mandate or issuance of mandates/ instruments in their name for mutual fund transactions. However, one-time mandates in favour of SEBI recognized Clearing Corporations may be accepted. [582] In this regard, it is clarified that:

a. Existing mandates being used for Mutual Fund transactions can continue to remain in the name of the stock brokers / clearing members, subject to Stock Exchanges/ Clearing Corporations ensuring that Payment Aggregators ("PA") puts in place mechanisms wherein beneficiary of the mandate can only be an Approved Account (which shall only be the bank account of the Clearing Corporation) such that:

    i. PA shall directly credit the monies collected from the bank account of the investor only into an Approved Account; and

[582] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/29 dated March 15, 2022

ii. PA shall not act on instructions of the stock brokers / clearing members to alter or modify the list of Approved Accounts and in no case the monies shall be credited to the bank account of the stock brokers / clearing members.

b. With respect to processing mutual fund transactions under the above mentioned mandates, Stock Exchanges/ Clearing Corporations shall:

i. ensure that PA has put in place adequate checks and balances, inter alia, to ensure such Approved Account is that of a Clearing Corporation;

ii. enter into an agreement with the concerned PA to ensure that only those mutual fund transactions are processed through them which are in compliance with these guidelines.

iii. have adequate checks and balances to monitor and govern the receipt of payments through the PA, including by way of third party audits (at least on an annual basis), to verify the compliance with these provisions which shall form part of the agreement with the PA.

16.3.4 Stock Exchanges/ Clearing Corporations shall provide investor grievance redressal / arbitration mechanism to clients against stock brokers/ clearing members (as is applicable for other segment of Stock Exchange transactions), in case of breach of these conditions or misuse of funds by the PA appointed by the stock brokers/ clearing members or by the stock brokers/clearing members with respect to mandates accepted in respect of Mutual Fund transactions.

16.3.5 [583]On or after July 01, 2022, new mandates shall be accepted only in favor of SEBI recognized Clearing Corporations and those mandates shall exclusively be for subscriptions to units of Mutual Fund schemes and not for any other purpose.

16.3.6 The onus of compliance with PMLA provisions and not permitting transactions with third party bank account continues to lie with the AMCs. AMCs may avail the services of SEBI recognized Clearing Corporations to validate the investors' source bank account information. In such cases, Clearing Corporation shall make the necessary source account details available to AMCs.

16.3.7 Further, to facilitate investor servicing and parity in information dissemination, Stock Exchanges, Depositories, AMCs, RTAs, and other entities involved in mutual fund transactions, shall ensure the following:

16.3.7.1 Relevant information shall be made available to all the stakeholders involved in the transactions, including the investor, banks, payment aggregators, stock brokers, clearing members, clearing corporations, RTAs and AMCs in line with the Operating Guidelines issued by the Stock Exchanges in this regard.

16.3.7.2 The information sharing as above, shall be system generated and adequately secured. Cost towards system development / improvement in this regard, if any, shall not be passed on to the investors.

16.3.8 Stock Exchanges and AMFI shall jointly, in consultation with SEBI, issue Operating Guidelines to stock brokers/ clearing members and AMCs respectively, to facilitate the mutual fund transactions on stock exchange platforms. The Operating Guidelines shall include, inter-alia, roles and responsibilities of various stakeholders,

583 SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/41 dated March 31, 2022

timelines with respect to activities specified in Paragraph 16.3 of this Master Circular, sharing of system generated information among various stakeholders at relevant stage of the transaction in a secured environment, sharing of relevant information with concerned entities to perform functional, tax and regulatory obligations, etc. All the concerned intermediaries shall comply with the aforesaid Operating Guidelines[553].

16.3.9 It is reiterated that in terms of Regulation 4 (g) of SEBI (Investment Advisers) Regulations, 2013, stock brokers are required to comply with general obligations and responsibilities specified in Chapter III of SEBI (Investment Advisers) Regulations, 2013, which, inter-alia, provide that client level segregation of advisory and distribution activities needs to be ensured at the entity and group level.

16.3.10 For the purpose of provisions in this Chapter, the term:

“mandate” includes instrument, authorisation or order in any form, including electronic means, to effect a payment by a person for the purpose of mutual fund investment; and

“Payment Aggregators” includes Payment Aggregators authorized / permitted by RBI and scheduled commercial banks acting in the capacity of Payment Aggregators.

16.3.11 Timelines given by AMFI in consultation with various stakeholders to implement discontinuation of pooling of funds and/or units in mutual funds and Two Factor Authentication:

a) Stock Exchange (‘SE’) Platforms:

| Parameters | Timeline |
|---|---|
| 1. Discontinuation of Pooling of Funds and Units | 1st July 2022 |
| 2. Other processes including Third Party Verification (TPV), Two Factor Authentication (2FA), and verification of | 1st July 2022 |

| | |
|---|---|
| key investor details as applicable to the SE platforms | |
| 3. Standardizing the recipients and contents of information at various stages of transaction processing | 1st July 2022 |

### *16.4 Discontinuation of usage of pool accounts by entities including online platforms other than stock exchanges for transactions in the units of Mutual Funds* [584]

The following has been decided with respect to transactions in the units of Mutual Funds undertaken through service providers/platforms other than stock exchanges:

16.4.1 AMCs shall ensure that the transactions (financial/ non-financial) can be executed only if there is a service agreement between the AMC and the service provider / platform.

16.4.2 AMCs shall ensure that intermediate pooling of funds and/or units in any manner by MFDs, IAs, MFU, channel partners or any other service providers/ platforms, by whatsoever name called, are discontinued for MF transactions. However, this requirement shall not apply to the SEBI registered Portfolio Managers subject to compliance with SEBI (Portfolio Managers) Regulations, 2020 and circulars issued thereunder.

[584] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634 dated October 4, 2021, Refer SEBI letter No. SEBI/HO/IMD/IMD-I DOF5/P/OW/2022/10847/1 dated March 15, 2022.

16.4.3 AMCs shall put necessary systems in place to ensure the following:For subscription, funds should be credited directly from the investors' account into the MF scheme account without any intermediate pooling. For ease of transactions, funds can be routed through payment aggregators authorized by RBI or SEBI recognized clearing corporations, as the case may be.

b) For redemption, funds should be directly credited to the investor's registered bank account from the MF scheme account without any intermediate pooling.

c) For subscription, units should be directly credited into the investor's account by the mutual fund for both demat and non-demat modes without any intermediate pooling.

d) For redemption, units should be directly transferred from investor's account to the mutual fund without any intermediate pooling, in both demat and non-demat modes.

e) MFDs / IAs, MFU, channel partners and other entities (including online platforms) facilitating MF transactions shall not accept payment through one-time mandate or issuance of mandates/ instruments in their name for mutual fund transactions. [585] In this regard, it is clarified that:

   i. Existing mandates being used for Mutual Fund transactions can continue to remain in the name of such OTM holders, subject to AMCs ensuring that the PA puts in place mechanisms wherein beneficiary of the mandate can only be an Approved Account (which shall only be the bank account of a mutual fund pool account or mutual fund scheme account) such that:

[585] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/29 dated March 15, 2022

I. PA shall directly credit the monies collected from the bank account of the investor only into an Approved Account, with the credit being made as per the mandate/ instruction given to the OTM holder by the client; and

II. PA shall not act on instructions of the OTM holder to alter or modify the list of Approved Accounts and in no case the monies shall be credited to the bank account of the OTM Holder.

ii. With respect to processing mutual fund transactions under the above mentioned mandates, AMCs shall:

I. ensure that PA has put in place adequate checks and balances, inter alia, such that Approved Account is that of a mutual fund scheme or mutual fund registered with SEBI;

II. enter into an agreement with the concerned PA to ensure that only those mutual fund transactions are processed through them which are in compliance with these provisions.

III. have adequate checks and balances to monitor and govern the receipt of payments through the PA, including by way of third party audits (at least on an annual basis), to verify the compliance with these provisions which shall form part of the agreement with the PA.

iii. AMCs shall be liable to the unit holders for breach of these conditions or misuse of funds by PA or OTM holder with respect to mandates covering Mutual Fund transactions.

iv. On or after April 01, 2022, new Mandates may be accepted in the name of the OTM holders, subject to compliance with conditions mentioned in Paragraph 16.4.3.e) above and those mandates shall exclusively be for subscriptions to units of Mutual Fund schemes and not for any other purpose.

f) Cheque payments from investor shall be made in favor of the respective MF Schemes only.

g) For better investor experience and faster transfer of funds, AMCs shall provide different methods of payment through RBI recognized modes of payment.

h) AMFI, in consultation with SEBI, shall issue guidelines for AMCs with regard to mitigating risks of co-mingling of funds at the level of Payment Aggregators/Payment Gateways involved in mutual fund transactions. It shall be mandatory for all AMCs to follow such guidelines.

i) AMCs shall ensure that for the purpose of investor servicing:

   i. Detailed information at each stage of the relevant transaction, including rejection, shall be made available at the same time to all the stakeholders of the same category involved in the transactions, as applicable, including investors, Registrar and Transfer Agents ('RTAs'), MFDs, IAs, etc. Only payment related information required to ensure reconciliation and traceability shall be made available to the Payment Aggregators.

   ii. Information sharing shall be system generated and adequately secured.

   iii. [586]The information sharing with respect to direct plans of mutual fund schemes shall be in line with the clarifications issued by SEBI to AMFI vide letter dated September 6, 2021 (can be accessed from AMFI website at

[586] Refer SEBI letter No. SEBI/IMD1/DoF-1/SK/2021/25517/1 dated September 06, 2021

https://www.amfiindia.com/Themes/Theme1/downloads/circulars/SEBIClarificationw.r.t.transactionsunderDirectPlan.PDF)

iv. Cost towards system development / improvement in this regard, if any, shall not be passed on to the investors.

16.4.4 For the purpose of these provisions, the term:

a) "mandate" includes instrument, authorisation or order in any form, including electronic means, to effect a payment by a person for the purpose of mutual fund investment; and

b) "Payment Aggregators" includes Payment Aggregators authorized / permitted by RBI and scheduled commercial banks acting in the capacity of Payment Aggregators.

16.4.5 Timelines given by AMFI in consultation with various stakeholders to implement discontinuation of pooling of funds and/or units in mutual funds and Two Factor Authentication:

Non SE Platforms:

| Parameters / Task | Timeline |
|---|---|
| 1. All intermediate pooling will stop from 1st April 2022 | -- |
| 2. Signing of Agreements with Payment Aggregators (PAs) and Banks | 1st May 2022 |
| 3. Verification / validation of email and mobile for new folios / new email IDs and mobile numbers. Validation of the entire existing database of email IDs and / or mobile numbers will be taken up progressively w.e.f. 1st May 2022 | 1st May 2022 |
| 4. Enhanced TPV with independent traceability of source bank account information | 1st June 2022 |
| 5. 2FA for online redemptions | 1st June 2022 |
| 6. Standardizing the recipients and contents of information at various stages of transaction processing | 1st July 2022 |

## *16.5 Other measures to prevent third-party payments and to safeguard the interest of unitholders*

16.5.1 For mitigation of the risk of third party payments:

16.5.1.1 The onus of compliance with PMLA provisions and not permitting usage of third party bank account payments continues to lie with the AMCs.

16.5.1.2 In order to ensure that the folio and source bank account belong to the same person, AMCs shall make sure that payment for MF transactions are accepted through only such modes where independent traceability of end investor can be ensured and source account details are available as audit trail without relying on any other intermediary's records. However, the investment in MF by way of cash/ through e-wallets (Prepaid Payment Instruments) shall be in compliance with Paragraph 16.7 (for cash) and Paragraph 14.10 (for e-wallets) of this Master Circular, respectively.

16.5.1.3 AMCs shall ensure that payment is credited directly to the registered and verified bank account of the investor mapped with the concerned folio, after due verification. The process carried out by AMCs to verify bank account details i.e. investor name, bank account number, bank name, etc. shall be available as audit trail.

16.5.1.4 [587]In case of subscription[588] and redemption of units, Two-Factor Authentication (for online transactions) and signature method (for offline transactions) shall be used for authentication. One of the Factors for such Two-Factor Authentication for non demat transactions shall be a One-Time Password sent to the unit holder at his/her email/ phone number registered with the AMC/RTA.

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[587] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/29 dated March 15, 2022
[588] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF1/P/CIR/2022/132 dated September 30, 2022

In case of demat transaction, process of Two-Factor authentication as laid down by the Depositories shall be followed[589]. It is also clarified that in case of mandates/systematic transactions the requirement of Two-Factor Authentication shall be applicable only at the time of registration of mandate/systematic transactions[590].

16.5.1.5 AMFI's best practice guidelines issued for AMCs with regard to Two-Factor authentication for redemption transactions of Mutual Funds shall be revised suitably to include subscription transactions of Mutual Funds. It shall be mandatory for all AMCs to follow such guidelines.

16.5.2 AMC would be liable to compensate for losses, if any, occurred to a unit holder, where unauthorised transaction(s) occur(s) in unit holder's folio due to fraud/ negligence/ deficiency on the part of the AMC, employee of AMC or persons/ entities whose services have been availed by the AMC including the platform providers, MFDs, RTAs, MFU, and channel partners, irrespective of whether or not the fraud is reported by the unit holder. For this purpose, it is clarified that any unauthorised transaction(s) performed by the Investment Advisors while providing services to the unit holder(s) would not be considered as a liability of the AMC.

16.5.3 To strengthen control with respect to verification of key details of investors like Bank account details, email id, mobile number and address etc., AMFI shall, in consultation with SEBI, issue guidelines. It shall be mandatory for all AMCs to follow such guidelines[558].

[589] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/41 dated March 31, 2022
[590] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF1/P/CIR/2022/132 dated September 30, 2022

### *16.6 RTA inter-operable Platform for enhancing investors' experience in Mutual Fund transactions / service requests*[591]

16.6.1 In order to make it more convenient to the existing and future investors to transact and avail services while invested in Mutual Funds and pursuant to discussions with various stakeholders including AMFI, Depositories and the RTAs, the following has been decided:

16.6.1.1 RTAs shall implement standardized practices, system interoperability amongst themselves to jointly develop a common industry wide platform that will deliver an integrated, harmonized, elevated experience to the investors across the industry. AMCs and Depositories shall facilitate the RTAs for development of the proposed platform

16.6.1.2 The aforesaid platform shall, inter alia in phases, enable a user-friendly interface for investors for execution of mutual fund transactions viz. purchase, redemption, switch etc., initiation and tracking of service requests viz. change of email id / contact number / bank account details etc., initiation and tracking of queries and complaints, access investment related reports viz. mutual fund holdings (both in demat and standard Statement of Account), transactions reports (including historic transactions), capital gains/loss report, details of unclaimed dividend/redemption etc. Through this platform, investors will be able to access these services for all Mutual Funds in an integrated manner. In this regard, AMCs, RTAs and Depositories shall take necessary measures to provide data via APIs on a real time basis to the proposed platform. Additionally, RTAs and Depositories shall also share their respective data feeds between themselves for generation of investment related reports.

[591] SEBI Circular No. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/604 dated July 26, 2021.

16.6.1.3 The platform may also over time, provide services to the distributors, registered investment advisors, AMCs, Stock Exchange platforms and digital platforms for transacting in mutual funds to further augment ease of investing and servicing of investors through the above stakeholders in consultation with SEBI.

16.6.1.4 AMCs, RTAs and Depositories shall review and agree to harmonize the processes across the industry to provide a single-window, integrated, simplified investment and service experience for the investors.

16.6.1.5 AMCs, RTAs, and Depositories shall adopt the data definitions and standards as provided / recommended by SEBI for data exchange amongst various participants.

16.6.1.6 The Platform should be scalable with robust cyber security protocols and supported through an API-based architecture. In this regard, the platform shall adopt the Cyber Security and Cyber Resilience framework specified by SEBI from time to time to "MIIs" (Market Infrastructure Institutions such as Stock Exchanges, Depositories and Clearing Corporations) and "Qualified RTAs" (QRTAs). Further, on request basis, APIs could be exposed to other industry stakeholders such as distributors, registered investment advisors, Stock Exchange platforms and digital platforms etc. with due approval of the concerned Mutual Fund on mutually agreed terms[592].

16.6.1.7 The RTAs are jointly and severally responsible for compliance with all the applicable regulations including system audit and cyber security audit. Further, RTAs shall ensure that the platform complies with the guidelines for Business Continuity Plan (BCP)

[592] Refer SEBI email dated April 28, 2015

and Disaster Recovery (DR) specified by SEBI from time to time to “MIIs”.

16.6.1.8 All the stakeholders are advised to collaborate and work together towards the development and implementation of the proposed investor-friendly platform.

16.6.1.9 AMCs and Depositories shall facilitate and RTAs shall make the aforesaid platform operational in a phased manner (starting with non-financial transactions) and shall be fully operational by December 31, 2021.

16.6.1.10 AMCs, RTAs, Depositories, AMFI and key stakeholders are advised to create awareness about this initiative amongst the investors.

16.6.1.11 Any RTA providing its services to Mutual Fund(s), shall follow the above guidelines or amendments thereto as may be intimated by SEBI from time to time.

### *16.7 Cash Investments in mutual funds*[593]

16.7.1 In order to help enhance the reach of mutual fund products amongst small investors, who may not be tax payers and may not have PAN/bank accounts, such as farmers, small traders/businessmen/workers, cash transactions in mutual funds to the extent of 50,000/-[594] per investor, per mutual fund, per financial year shall be allowed subject to (i) compliance with Prevention of Money Laundering Act, 2002 and Rules framed there under; the SEBI Circular(s) on Anti Money Laundering (AML) and other applicable AML rules, regulations and guidelines and (ii) sufficient systems and procedures in place.

[593] SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.
[594] SEBI Circular No. CIR/IMD/DF/10/2014 dated May 22, 2014

16.7.2 Repayment in the form of redemptions, dividend, etc. with respect to aforementioned investments shall be paid only through banking channel.

### *16.8 Usage of pool accounts by Mutual Funds*[595]

16.8.1 Mutual Funds may use pool accounts, only for such transactions which are executed at mutual fund level owing to certain operational and regulatory requirements, subject to the following conditions:

16.8.1.1 AMCs shall have internal policies approved by the Board of AMC and Trustees to ensure that adequate operational processes and internal controls are in place to segregate and ring-fence the assets and liabilities of each scheme along with segregation and ring-fencing of securities & bank accounts.

16.8.1.2 In such cases, at the end of day, the assets and liabilities of each scheme shall be segregated and ring-fenced from other schemes of the mutual fund; and bank accounts and securities accounts of each scheme shall be segregated and ring-fenced. The pool accounts for both securities and funds should have nil balance at end of the day.

Provided that if the funds lying in the pool bank account of the mutual fund are not identified, due to the reasons beyond the control of the AMC, the same shall be transferred to the respective scheme account not later than one business day from the day such transactions are identified.

16.8.1.3 At no point of time, the securities or funds of one schemes shall be used for other scheme(s) and there shall be any conflict of interest amongst investors of various schemes.

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[595] SEBI/HO/IMD/DF2/CIR/P/2021/683 dated December 10, 2021.

16.8.1.4 The responsibility to ensure segregation and ring-fencing of the assets and liabilities of each scheme along with segregation and ring-fencing of bank accounts & securities accounts shall lie with the Board of AMC and Trustees. Trustees in their Half Yearly Trustee Report (HYTR) to SEBI shall confirm that the assets and liabilities of each scheme along with their bank accounts & securities accounts are segregated and ring-fenced on daily basis, except the unidentified transactions of funds as mentioned in Paragraph 16.8.1.2 above, during the half-year period.

16.8.1.5 The whole mechanism shall be audited on half yearly basis by the auditor appointed by the trustees.

16.8.2 Further, with regard to the margin or collateral requirement for execution of certain transactions, which are carried out only at Mutual Fund level by various schemes, the following has been stipulated:

16.8.2.1 In terms of Clause (5) of the Fifth Schedule of MF Regulations, the AMC shall ensure that margins or collaterals for such transactions are placed from the assets of the respective schemes only, without co-mingling with the assets of other schemes.

## CHAPTER 17: MISCELLANEOUS

### *17.1 Online Registration Mechanism for Mutual Funds*[596]

17.1.1 It has been decided to operationalize SEBI Intermediary Portal (**https://siportal.sebi.gov.in**) for the entities to submit the mutual funds registration applications online. For registration of mutual funds, the SEBI Intermediary Portal shall include online application for registration, processing of application, grant of in-principle approval, grant of final registration etc. Link for SEBI Intermediary Portal is also available on SEBI website - www.sebi.gov.in.

17.1.2 SEBI Intermediary Portal for application of registration of Mutual Funds has been made operational from June 01, 2017. Thereafter, all applications for registration of Mutual Fund is required to be made through SEBI Intermediary Portal only.

17.1.3 In case of any queries and clarifications with regard to the SEBI Intermediary Portal, intermediaries may contact on 022-26449364 or may write at portalhelp@sebi.gov.in.

### *17.2 Clarification*[597] *to Regulation 24*[598]

17.2.1 The amended Regulation mandates that AMCs shall appoint separate fund manager for each separate fund managed by it unless the investment objectives and assets allocations are the same and the portfolio is replicated across all the funds managed by the fund manager.

17.2.2 The replication of minimum 70% of portfolio value shall be considered as adequate for the purpose of said compliance, provided that AMC has in place a written policy for trade allocation and it ensures at all points of time that the fund manager shall not take directionally opposite positions in the schemes managed by him.

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[596] SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2017/52 dated June 01, 2017
[597] SEBI Circular No. Cir/IMD/DF/7/2012 dated February 28, 2012
[598] SEBI (Mutual Funds) Regulations, 1996

17.2.3 Wherein a fund manager is common across mutual fund schemes and schemes/products under other permissible activities of AMC, then the AMC shall:

17.2.3.1 Disclose on their websites, the returns provided by the said manager for all the schemes (mutual fund, pension funds, offshore funds etc.) on a monthly basis.

17.2.3.2 In case of any performance advertisement is issued by the AMC for any scheme, then the details of returns of all the schemes (mutual fund, pension funds, offshore funds etc.) managed by that fund manager shall be provided.

17.2.3.3 In case the difference between the annual returns provided by the schemes managed by the same fund manager is more than 10% then the same shall be reported to the trustee and explanation for the same shall be disclosed on the website of the AMC.

### *17.3 Management and advisory services by AMCs to Foreign Portfolio Investors[599]*

17.3.1 AMCs may provide management and advisory services in terms of Regulation 24(b) of MF Regulations to FPIs falling under the following categories of FPIs as specified in FPI Regulations:

17.3.1.1 Government and Government related investors such as central banks, sovereign wealth funds, international or multilateral organizations or agencies including entities controlled or at least 75% directly or indirectly owned by such Government and Government related investor(s);

17.3.1.2 Appropriately regulated entities such as pension funds, insurance or reinsurance entities, banks and mutual funds;

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[599] SEBI Circular No. SEBI/HO/IMD/IMD-POD1/P/CIR/2023/005 dated January 06, 2023 & SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/155 dated December 16, 2019

17.3.1.3 Appropriately regulated FPIs wherein (a) or (b) above hold more than 50% of shares/ units.

17.3.2 As per above paragraph, AMCs may also provide management and advisory services to FPIs operating from International Financial Centres (IFSC) and regulated by International Financial Services Centres Authority (IFSCA) and falling under the aforesaid categories.

17.3.3 In consultation with IFSCA and based on the requests received from AMCs, it has been decided that, AMCs may also provide management and advisory services to FPIs operating from IFSC and regulated by IFSCA, not falling under the categories of FPIs specified under Paragraph 17.3.1 above, subject to the following:

17.3.3.1 Such FPIs shall be allowed to invest in Mutual Fund schemes other than the schemes in the category of "thematic" as defined in Part IV of Chapter 2 on "Categorization and Rationalization of Mutual Fund Schemes" of this Master Circular.

17.3.3.2 For investment in equity and equity derivative securities listed on recognized stock exchanges in India, such FPI shall not take contra-position for a period of six months from the date of purchase or sale of such securities.

17.3.4 The proviso to clause (vi) of regulation 24(b) of MF Regulations shall be applicable for the categories of FPIs as mentioned under Paragraph 17.3.1 above.

### *17.4 Product Labeling in Mutual Funds*[600]

17.4.1 All the mutual funds shall 'Label' their schemes on the parameters as mentioned under:

[600] SEBI Circular No. CIR/IMD/DF/5/2013 dated March 18, 2013

a) Nature of scheme such as to create wealth or provide regular income in an indicative time horizon (short/ medium/ long term).

b) A brief about the investment objective (in a single line sentence) followed by kind of product in which investor is investing (Equity/Debt).

c) The depiction of risk shall be through pictorial meter named "Riskometer" and this meter would appropriately depict the level of risk in any specific scheme.

d) Risk-o-meter shall have following six levels of risk for mutual fund schemes:[601]

    i. Low risk

    ii. Low to Moderate risk

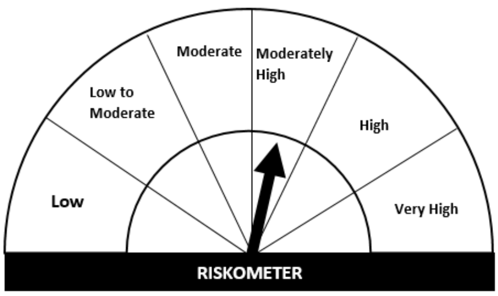
    iii. Moderate risk

    iv. Moderately High risk

    v. High - risk and

    vi. Very High risk.

e) **Riskometer:** Risk level of a scheme shall be depicted by “Risk-o-meter”, as shown below:




[601] SEBI Circular No. CIR/IMD/DF/4/2015 dated April 30, 2015 and Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/197 Dated October 05, 2020

For example, the risk depicted in the above risk-o-meter is Moderately High

f) The detailed guidelines for evaluation of risk levels of a scheme along with few examples are provided at **Annexure 9**[602]**.** Pursuant to a calculation of risk value of the scheme portfolio based on the methodology specified in **Annexure 9**, risk level of a scheme as mentioned at Table 11 of **Annexure 9** shall be depicted by risk-o-meter shown above at Paragraph 17.4.1.(e).

g) Based on the scheme characteristics, Mutual Funds shall assign risk level for schemes at the time of launch of scheme/New Fund Offer.

h) Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular scheme.

i) Risk-o-meter shall be evaluated on a monthly basis and Mutual Funds/AMCs shall disclose the Risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month.

j) Mutual Funds shall disclose the risk level of schemes as on March 31 of every year, along with number of times the risk level has changed over the year, on their website and AMFI website.

k) Mutual Funds shall publish the following table of scheme wise changes in Risk-o-meter in scheme wise Annual Reports and Abridged summary:

| **Scheme name** | **Risk-o-meter level at start** | **Risk-o-meter level at end** | **Number of changes in** |
|---|---|---|---|

[602] SEBI Circular no. SEBI/HO/IMD/DF3/CIR/P/ 2020/197 dated October 05, 2020, Refer SEBI letter no. SEBI/HO/IMD-II/DOF3/OW/P/2021/1566/1 dated January 19, 2021

| | **of the financial year** | **of the financial year** | **Risk-o-meter during the financial year** |
|---|---|---|---|
| | | | |

l) A disclaimer that investors should consult their financial advisers if they are not clear about the suitability of the product.

17.4.2 Risk value of commodities for risk-o-meter:[603]

17.4.2.1 For evaluation of risk value of commodities in which mutual funds are permitted to invest, in terms of Paragraph 17.4.1.(f) of this Master Circular, investment in commodities by mutual fund schemes shall be assigned a risk score corresponding to the annualized volatility of the price of the said commodity. The annualized volatility shall be computed quarterly based on past 15 years' prices of benchmark index of the said commodity and risk score for the commodity shall be in terms of the following table:

| Annualized volatility | Risk value on risk-o-meter (Risk) |
|---|---|
| <10% | 3 (Moderate) |
| 10-15% | 4 (Moderately High) |
| 15-20% | 5 (High) |
| >20% | 6 (Very high) |

*Illustration: If price of gold has annualized volatility of 18% based on price of gold of past 15 years, then Gold and gold related instruments will have risk value of 5 (High) on risk-o-meter.*

17.4.3 Product label shall be disclosed in:

a. Front page of initial offering application forms, Key Information Memorandum (KIM) and Scheme Information Documents (SIDs).

[603] SEBI Circular no. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2022/49 dated April 11, 2022

b. Common application form – along with the information about the scheme.

c. The product label with respect to Paragraph 17.4.3.(a) & 17.4.3.(b) shall be placed in proximity to the caption of the scheme and shall be prominently visible.

d. Scheme advertisements-placed in manner so as to be prominently visible to investors.

17.4.4 Change in risk-o-meter will not be considered as a Fundamental Attribute Change of the scheme in terms of regulation 18(15A) of SEBI (Mutual Fund) Regulations, 1996

### *17.5 Potential Risk Class Matrix*[604]

17.5.1 All the debt mutual funds shall be classified in terms of a Potential Risk Class matrix consisting of parameters based on maximum interest rate risk (measured by Macaulay Duration (MD) of the scheme) and maximum credit risk (measured by Credit Risk Value (CRV) of the scheme).

17.5.2 While the AMCs will continue to retain the same category of their schemes as per Part IV of Chapter 2 on 'Categorization and Rationalization of Mutual Fund schemes' they have full flexibility to place single/multiple schemes in any cell of the Potential Risk Class matrix (PRC).

17.5.3 For the purpose of alignment of the existing schemes with these provisions, each scheme shall be placed in one of the 9 cells specified at Table No. 2 under Paragraph 17.5.10 below, while retaining their existing scheme category as per Part IV of Chapter 2 of this Master Circular on 'Categorization and Rationalization of Mutual Fund

[604] SEBI Circular No. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/573 dated June 07, 2021

Schemes'. This would not be considered as a change in fundamental attribute.

17.5.4 However, subsequently, once a PRC cell selection is done by the scheme, any change in the positioning of the scheme into a cell resulting in a risk (in terms of credit risk or duration risk) which is higher than the maximum risk specified for the chosen PRC cell, shall be considered as a fundamental attribute change of the scheme in terms of regulation 18(15A) of SEBI (Mutual Fund) Regulations, 1996.

17.5.5 Further, the Mutual Funds shall inform the unitholders about the abovementioned classification in one of the 9 cells and subsequent changes, if any, through SMS and by providing a link on their website referring to the said change.

17.5.6 For new debt schemes, the AMC shall choose the PRC cell at the time of filing of Scheme Information document (SID) with SEBI.

17.5.7 Each scheme will continue to comply with the requirements specified in Part IV of Chapter 2 of this Master Circular on 'Categorization of schemes'.

17.5.8 The thresholds for the values of the interest rate risk and the credit risk dimensions would progress in a flexible manner for drawing out the categorization matrix. The thresholds across the matrix would determine the maximum interest rate risk and the maximum credit risk which the scheme would be permitted to take but the scheme would have the flexibility to move downwards on the risk scale. The thresholds along with an illustration of the concept outlined above are given below:

Thresholds

i. Maximum Weighted Average Interest Rate Risk of the scheme (measured in terms of Macaulay Duration):

1. Class I: MD<= 1 year;
2. Class II: MD<=3 years;
3. Class III: Any Macaulay duration

ii. Maximum Weighted Average Credit Risk of the scheme (measured in terms of Credit Risk Value as specified at Table 1 below):

1. Class A: CRV >=12
2. Class B: CRV >=10
3. Class C: CRV <10[605]

a. The Credit Risk Value of the scheme shall be the weighted average of the credit risk value of each instrument in the portfolio of the scheme, the weights based on their proportion to the AUM. Similarly, Macaulay Duration at the scheme level shall be the weighted average of the Macaulay Duration of each instrument in the portfolio with the weights being based on their proportion to the AUM. The value of the debt instrument to be considered for calculating AUM shall include the accrued interest i.e. dirty price of the instrument.

17.5.9 The debt securities of schemes are to be assigned a value for credit risk in the following manner:

| **TABLE 1** | |
|---|---|
| **Instrument** | **CREDIT RISK VALUE (CRV)** |
| G-Sec/ State development loans/ Repo on Government Securities/TREPS / Cash | 13 |
| AAA | 12 |
| AA+ | 11 |
| AA | 10 |

605 Investments by mutual funds are permitted only in investment grade securities in terms of regulation 44(1) read with Schedule VII of SEBI Mutual Fund Regulations, 1996

| **TABLE 1** | |
|---|---|
| **Instrument** | **CREDIT RISK VALUE (CRV)** |
| AA- | 9 |
| A+ | 8 |
| A | 7 |
| A- | 6 |
| BBB+ | 5 |
| BBB | 4 |
| BBB- | 3 |
| Unrated | 2 |
| Below investment grade | 1 |

a. For investment by mutual funds in instruments having short term ratings, the credit risk value shall be based on the lowest long term rating of an instrument of the same issuer as shown above (in order to follow a conservative approach) across credit rating agencies. However, if there is no long term rating of the same issuer, then based on credit rating mapping of CRAs between short term and long term ratings, the most conservative long term rating shall be taken for a given short term rating.

17.5.10 For the purpose of nomenclature, the 3 x 3 matrix shall have the following syntax for each matrix cell:

| **TABLE 2** | | | |
|---|---|---|---|
| **Max Credit Risk of scheme→**<br>**Max Interest Rate Risk of the scheme ↓** | **Class A(CRV >=12)** | **Class B (CRV >=10)** | **Class C (CRV <10)** |

| | | | |
|---|---|---|---|
| **Class I: (MD<=1 year)** | Relatively Low Interest Rate Risk and Relatively Low Credit Risk | Relatively Low interest rate risk and moderate Credit Risk | Relatively Low interest rate risk and Relatively High Credit Risk |
| **Class II: (MD<=3 years)** | Moderate interest rate risk and Relatively Low Credit Risk | Moderate interest rate risk and moderate Credit Risk | Moderate interest rate risk and Relatively High Credit Risk |
| **Class III: Any Macaulay duration** | Relatively High interest rate risk and Relatively Low Credit Risk | Relatively High interest rate risk and moderate Credit Risk | Relatively High interest rate risk and Relatively High Credit Risk |

17.5.11 For example, if an open ended Short Duration Fund wants to invest in securities such that its Weighted Average Macaulay Duration is less than or equal to 3 years and its Weighted Average Credit Risk Value is 10 or more, it would be classified as a scheme with 'Moderate Interest Rate Risk and Moderate Credit Risk'. The position of the scheme in the matrix shall be displayed by the AMCs as under:

| **TABLE 3** | | | |
|---|---|---|---|
| **Potential Risk Class** | | | |
| **Credit Risk →** | | **Moderate (Class B)** | |

| **Interest Rate Risk↓** | **Relatively Low (Class A)** | | **Relatively High (Class C)** |
|---|---|---|---|
| **Relatively Low (Class I)** | | | |
| **Moderate (Class II)** | | B-II | |
| **Relatively High (Class III)** | | | |

17.5.12 The maximum interest rate risk which the aforesaid scheme can take would be in terms of the Weighted Average Macaulay Duration of the scheme and the same shall be ≤ 3 years. The maximum Weighted Average Credit Risk which the aforesaid scheme can take would have Credit Risk Value of 10 or more. Both the maximum interest rate risk and maximum credit risk would be reflected in the above matrix. By virtue of its placement in this position, the scheme would have the flexibility to take interest rate risk and credit risk below the maximum risk as stated above in Table 2.

17.5.13 The type of the scheme shall be modified to include the above cell selection. For the above example, it shall be as under:

*An open ended short term debt scheme investing in instruments with Macaulay duration between 1 year and 3 years (please refer to page no.__)#. A moderate interest rate risk and moderate Credit Risk.*

17.5.14 For a scheme placing itself in Class I (i.e. MD <=1 year), the maximum residual maturity of each instrument held by the scheme shall be three years. For a scheme placing itself in Class II (i.e. MD <=3 years), the maximum residual maturity of each instrument held by the scheme shall be seven years. A scheme placing itself in Class

III can invest in instruments of any maturity. For securities issued by central government and state governments, the cap pertaining to maximum residual maturity of each instrument for Class I and Class II shall not be applicable.

17.5.15 With regards to existing holding of perpetual bonds by debt schemes as on June 07, 2021, (including debt instruments with special features viz. subordination to equity which absorbs losses before equity capital and /or convertible to equity upon trigger of a pre-specified event for loss absorption, for instance Additional Tier I bonds issued under Basel III framework), it has been decided that AMCs shall:

a. Reckon such bonds as having residual maturity as outlined in Paragraphs 4.4.4, 9.4 & 12.2 of this Master Circular.

b. Grand-father existing investments in such instruments with the following provision:

   i. Calculation of Macaulay Duration of the scheme to follow the guidelines in terms of Paragraphs 4.4.4, 9.4 & 12.2 of this Master Circular.

   ii. If the scheme places itself in Class I or II, and the MD exceeds the stipulated level, then it would be treated as a passive breach and a suitable period may be permitted for regularizing the passive breach. Until regularization, the scheme cannot make any investments that would effectively increase the MD of the portfolio. Calculation of MD for this purpose shall be post exclusion of such instruments having special features. To clarify, if a scheme AUM is INR 100 crores, of which INR 10 crores is in such instruments with special features, the base for calculation of MD for the purpose of PRC will be INR 90 crores. The scheme will continue to maintain the threshold of the cell in which it is positioned on INR 90 crores in line with Class I &/or Class II categorization in line with these provisions.

17.5.16 AMCs shall update their SIDs to reflect the fact that placement of the scheme in one of the cells of PRC matrix does not reflect the scheme holdings pertaining to the aforementioned perpetual bonds with respect to the MD and maturity thresholds specified above, till the time such bonds are held by the scheme, for pre-existing holding of aforementioned perpetual bonds by debt schemes as on June 07, 2021.

17.5.17 Fresh investments in perpetual bonds (including Additional Tier 1 bonds) can only be made in schemes that are in Class III.

17.5.18 For the debt instruments with call / put options, the deemed maturity will be in terms of Paragraph 9.3 of this Master Circular. For instruments with interest rate reset dates, the interest rate reset date shall not be treated as deemed maturity.

17.5.19 The dynamic aspect of the risk of each scheme would be separately reflected in the Risk-o-Meter of the scheme, which would be published on a monthly basis.

17.5.20 Mutual Funds shall publish the aforesaid matrix in their scheme wise Annual Reports and Abridged Summary.

17.5.21 The aforesaid matrix along with the mark for the cell in which the scheme resides shall be disclosed on:

a. front page of initial offering application form, Scheme Information Documents (SID) and Key Information Memorandum (KIM).

b. common application form – along with the information about the scheme.

the PRC matrix with appropriate mark with respect to Paragraphs 17.5.21.(a) & 17.5.21.(b) above shall be placed in proximity to the caption of the scheme and shall be prominently visible and in bold.

c. Scheme advertisements – placed in manner by the Mutual Fund and its distributors so as to be prominently visible to investors.

### *17.6 Investment in units of Mutual Funds in the name of minor through guardian and ease of process for transmission of units*[606]

17.6.1 Process for Investments made in the name of a Minor through a Guardian

a. Payment for investment by means of Cheque, Demand Draft or any other mode shall be accepted from the bank account of the minor or from a joint account of the minor with the guardian only. For existing folios, the AMCs shall insist upon a Change of Pay-out Bank mandate before redemption is processed.

b. Upon the minor attaining the status of major, the minor in whose name the investment was made, shall be required to provide all the KYC details, updated bank account details including cancelled original cheque leaf of the new account. No further transactions shall be allowed till the status of the minor is changed to major.

c. AMCs shall build a system control at the account set up stage of Systematic Investment Plan (SIP), Systematic Transfer Plan (STP) and Systematic Withdrawal Plan (SWP) on the basis of which, the standing instruction is suspended when the minor attains majority, till the status is changed to major.

[606] SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2019/166 dated December 24,2019

17.6.2 Process for transmission of Units

a. In order to improve the processing turnaround time for transmission requests, AMCs shall implement image based processing wherever the claimant is a nominee or a joint holder in the investor folio.

b. AMCs shall have a dedicated, Central Help Desk and a webpage carrying relevant information and instructions in order to provide assistance on the transmission process.

c. AMCs shall adopt a common Transmission Request Form (common fields) and NOC form. All such forms and formats shall be made available on the website of the AMCs, RTAs and AMFI.

d. AMCs shall implement a common set of document requirements for transmission of units to claimant who are nominees or joint holders in the investor account.

e. AMCs shall implement a uniform process for treatment of unclaimed funds to be transferred to the claimant including the unclaimed dividends.

f. AMCs shall not accept requests for redemption from a claimant pending completion of the transmission of units in his / her favor.

g. The Stamp duty payable by the claimant with respect to the indemnity bond and affidavit, shall be in accordance with the stamp duty prescribed by law.

h. AMCs and AMFI shall promote the importance of nomination as a part of its investor education and awareness programmes.

17.6.3 To ensure uniformity across the industry, AMFI is advised to prescribe the forms and formats referred in Paragraph 17.6.2.(c), common set of documents referred in Paragraph 17.6.2.(d) and uniform process for treatment of unclaimed funds referred in

Paragraph 17.6.2.(e), and shall mandatorily be followed by all Mutual Funds/AMCs.

### *17.7 [607]Limited Purpose Clearing Corporation ("LPCC") by AMCs:*

17.7.1 SEBI Board in its meeting held on September 29, 2020 approved a proposal to facilitate setting up a LPCC for clearing and settling repo transactions in corporate debt securities and accordingly Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 (SECC Regulations), have been amended vide gazette notification no. SEBI/LAD-NRO/GN/2020/32 dated October 08, 2020.

17.7.2 AMCs shall contribute INR 150 Cr. towards share capital of LPCC in proportion to the Asset Under Management (AUM) of open ended debt oriented mutual fund schemes (excluding overnight, gilt fund and gilt fund with 10 year constant duration but including conservative hybrid schemes) managed by them.

17.7.3 The contribution shall be based on Average AUM of debt oriented schemes as detailed above for the Financial Year (FY) 2020-21[608]. In this regard, AMFI shall calculate contribution per AMC based on the Average AUM of aforementioned schemes for the FY 2020-21 and inform all AMCs. Accordingly, it will be obligatory on the part of AMC(s) to contribute towards the share capital of LPCC.

17.7.4 The setting up of LPCC and making the aforesaid contribution shall be in compliance with the networth requirements, other conditions and timelines, if any, as per SECC Regulations and circulars issued thereunder from time to time.

17.7.5 AMCs shall ensure that the networth as prescribed under Regulation 21(f) of SEBI (Mutual Funds) Regulations, 1996 shall be maintained

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[607] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/17 dated February 2, 2021
[608] SEBI Circular No. SEBI/HO/IMD/IMD-1 DOF2/P/CIR/2021/0548 dated April 6, 2021

over and above the contribution made towards setting up of the LPCC.

### *17.8 [609]Procedure for change in control of AMC:*

The procedure for change in control of the AMC is given below:

17.8.1 **Requirement of Regulations:**

According to Regulation 22(e) of MF Regulations, no change in the control of the AMC, directly or indirectly, can be made unless the following conditions are complied with:

I. Prior approval of the trustees and the Board is obtained;

II. A written communication about the proposed change is sent to each unitholder (for those unitholders whose e-mail IDs are registered with the mutual funds, the communication can be sent through e-mail) 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 (NAV) without any exit load within a time period not less than 30 calendar days from the date of communication.

17.8.2 **New Sponsor(s):**

In case the applicant proposing to take the control of an AMC is not an existing sponsor of a mutual fund registered with SEBI, it shall apply to the Board for approval of taking over control of an existing AMC under MF Regulations. The process for making such application

[609] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021, Refer SEBI letter No. SEBI/HO/OW/IMD/RAC2/P/2022/51980/1 dated October 12, 2022, Refer SEBI letter No. SEBI/HO/OW/IMD/RAC2/P/2022/ 58081/1 dated November 16, 2022

is same as application for registration under MF Regulations. The entire procedure for registration as Mutual Fund is given on the SEBI website under the heading "How to get registered as a mutual fund" in the “Mutual Fund” section.

17.8.3 **Undertakings by new Trustee(s)/Sponsor(s):**

In case of new sponsor(s) or in case of taking over of the schemes by an existing mutual fund, the undertakings on the following lines are required to be given to the Board and to the unitholders:

I. Taking full responsibility of the management and the administration of the schemes including the matters relating to the reconciliation of accounts (as if the schemes had been floated by the new trustees on the date of taking over).

II. Assumption of the trusteeship of the assets and liabilities of the schemes including outstanding borrowings, unclaimed dividends and unclaimed redemptions, if any.

III. Assuming all responsibilities and obligations relating to the investor grievances, if any, in respect of the schemes taken over, in accordance with and pursuant to MF Regulations and various circulars issued thereunder.

17.8.4 **Disclosures to Unitholders:**

While seeking the approval of the Board for change in the control of the AMC, the mutual fund handing over the control to another person, should also file the draft letter / email to be sent to the unitholders along with draft advertisement to be published in the newspaper. The draft letter / email to the unitholders should, *inter-alia*, include the following information:

I. The activities of the new sponsor and its financial track record and performance as prescribed in the standard offer document;

II. In case of taking over of the schemes by an existing mutual fund registered with SEBI, the draft letter should also include the condensed financial information of all the schemes in the format prescribed in the standard offer document;

III. The amount of unclaimed redemption and dividend and also the procedure for claiming such amount by the unitholders.

17.8.5 **Revision of all Standard Offer Documents:**

The information given in all the offer documents of existing schemes shall be revised and updated pursuant to the change in control of the AMC / mutual fund. Such addendum shall also be filed with the Board, as required under MF Regulations and various circulars issued thereunder.

17.8.6 **Other Situations:**

In case of any other situation like indirect change in control of the AMC or indirect change in the promoters of the sponsor(s), which was beyond the control of the sponsor(s), etc., the mutual fund should provide the full details of the information to the Board for further course of action.

17.8.7 **Change in control of the asset management company involving scheme of arrangement under Companies Act, 2013[610]**

To streamline the process of providing approval to the proposed change in control of an AMC involving scheme of arrangement which needs sanction of National Company Law Tribunal ("NCLT") in terms of the provisions of the Companies Act, 2013, following has been decided:

[610] SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/10 dated January 31, 2022

a) The application seeking approval for the proposed change in control of the AMC under Regulation 22(e) of MF Regulations shall be filed with SEBI prior to filing the application with the NCLT;

b) Upon being satisfied with compliance of the applicable regulatory requirements, an in-principle approval will be granted by SEBI;

c) The validity of such in-principle approval shall be three months from the date of issuance, within which the relevant application shall be made to NCLT;

d) Within 15 days from the date of order of NCLT, applicant shall submit the following documents to SEBI for final approval:

    i. Application for the final approval;

    ii. Copy of the NCLT Order approving the scheme;

    iii. Copy of the approved scheme;

    iv. Statement explaining modifications, if any, in the approved scheme vis-à-vis the draft scheme and the reasons for the same; and

    v. Details of compliance with the conditions/ observations mentioned in the in-principle approval provided by SEBI.

### *17.9 [611]Postal Ballot:*

17.9.1 As per the existing provisions of MF Regulations and various circulars issued thereunder, wherever consent or approval of unitholders is required, an option should be given to unitholders. In this regard, it is clarified that the same can also be done through Postal Ballot mechanism;

[611] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

17.9.2 For this purpose, voting through Postal Ballot shall mean voting by post or through any electronic mode

***17.10 [612]Exit period for Unitholders:***

17.10.1 In order to bring uniformity, wherever exit option is required to be given to unitholders under MF Regulations and circulars issued thereunder, unitholders shall be given a time period of atleast 30 calendar days for the purpose of exercising the exit option.

***17.11 [613]Rajiv Gandhi Equity Savings Scheme (RGESS):***

17.11.1 Since, Rajiv Gandhi Equity Savings Scheme (RGESS) has been phased out from the assessment year 2018-19, the references of RGESS have become redundant from all places in MF Regulations and circulars issued thereunder and therefore all provisions related to RGESS issued through various circulars stands deleted.

17.11.2 However, for existing RGESS, if any, the rules and regulations pertaining to RGESS prior to deletion of the provisions shall be applicable.

***17.12 [614]Mode of Payments and Despatch:***

17.12.1 AMCs may also use instruments or payment channels such as RTGS, NEFT, IMPS, direct credit, etc. or any other mode allowed by Reserve Bank of India from time to time, for payments including refunds to unitholders in addition to the cheque, demand draft or dividend warrants;

17.12.2 Further, AMCs may also use modes of dispatch such as speed post, courier etc. for payments including refunds to unitholders in addition to the registered post with acknowledgement due.

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[612] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021
[613] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021
[614] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

### *17.13 [615]Maintenance of Current Accounts in multiple banks by Mutual Funds:*

17.13.1 Mutual funds currently maintain current accounts in multiple banks including in banks having presence beyond the top 30 cities ("B-30 cities"), for receiving subscription amount and for payment of redemption proceeds / dividend / brokerage/ commission etc. This enables investors to transact with banks of their choice and facilitates faster transfer of funds.

17.13.2 Mutual fund industry has informed that the Reserve Bank of India ("RBI") has instructed that banks shall not open current accounts for customers who have availed credit facilities in the form of cash credit / overdraft from the banking system. On a review, however, RBI has provided an indicative list of accounts stipulated under various statutes and instructions of other regulators that can be opened without such restriction, including accounts for the purpose of New Fund Offerings ("NFOs")/ dividend payment/ share buyback, etc.

17.13.3 Mutual fund industry has represented that subscription in units of open ended mutual fund schemes is akin to continuous NFO and redemption of units of mutual fund schemes is akin to buy back or repurchase of shares. Considering the above, industry has requested SEBI to issue instructions for mutual funds in respect of maintenance of current accounts in multiple banks.

17.13.4 Based on the request of mutual fund industry, it is clarified that mutual funds should maintain current accounts in an appropriate number of banks for the purpose of receiving subscription amount and for payment of redemption / dividend / brokerage / commission etc. to facilitate financial inclusion, convenience of investors and ease of doing business.

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[615] SEBI Circular No. SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/610 dated August 04, 2021

### *17.14 [616]Guidelines on Accounting with respect to Indian Accounting Standards (IND AS):*

SEBI vide notification dated January 25, 2022 amended SEBI (Mutual Funds) Regulations, 1996 (MF Regulations), which, inter-alia, mandated that the AMCs shall prepare the Financial Statements and Accounts of the Mutual Fund Schemes in accordance with IND AS with effect from April 01, 2023. Accordingly, the following requirements are specified:

17.14.1 Mutual Fund Schemes shall prepare the opening balance sheet as on date of transition and the comparatives as per the requirements of IND AS.

17.14.2 Perspective historical per unit statistics mentioned in Clause 6 of Eleventh Schedule of MF Regulations requires disclosure of scheme wise per unit statistics for the past 3 years. In this regard, Mutual Fund schemes may not be mandatorily required to restate the previous years published perspective historical per unit statistics as per requirement of IND AS for the first two years from first time adoption of IND AS. However, Mutual Fund schemes shall furnish following additional information in perspective historical per unit statistics:

a) Label the previous Generally Accepted Accounting Principles (GAAP) information prominently as not being prepared in accordance with IND AS; and

b) Disclose the nature of the adjustments that would be required to make it comply with IND AS. Mutual Funds schemes need not quantify those adjustments.

17.14.3 The Financial Statements of the Mutual Fund Schemes shall be prepared in the Format[617].

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[616] SEBI circular no SEBI/HO/IMD-II/DOF8/P/CIR/2022/12 dated February 04, 2022
[617] For format, please refer format no. 3.E under the Section on Formats.

### *17.15 [618]Clearing and Settlement of OTC trades in Commercial Paper (CPs) & Certificates of Deposit (CDs):*

17.15.1 All SEBI regulated entities shall settle their OTC trades in CDs and CPs on the lines of the process for settlement of OTC trades in corporate bonds, through National Securities Clearing Corporation Limited (NSCCL) and Indian Clearing Corporation Limited (ICCL). All transactions cleared and settled in this regard, will be subject to such norms as may be specified by NSCCL and ICCL.

### *17.16 Nomination for Mutual Fund unit holders[619]*

17.16.1 In order to bring uniformity in practices across all constituents in securities market, the following is decided in case of nomination for eligible Mutual Fund Unit Holders:

17.16.1.1 Investors subscribing to mutual fund units on or after October 01, 2022[620], shall have choice of:

a) Providing nomination in the format specified in fourth schedule of SEBI (Mutual Funds) Regulations, 1996 (or)

b) Opting out of nomination through a signed declaration form as provided in **Annexure 11.**

17.16.1.2 AMC shall provide an option to the unit holder(s) to submit either the nomination form or the declaration form for opting out of nomination in physical or online as per the choice of the unit holder(s). In case of physical option, the forms shall carry the wet signature of all the unit holder(s). In case of online option, instead of wet signature(s) of all the unit holder(s), AMCs shall validate the forms:

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[618] SEBI circular no Cir. /IMD/DF/8/2012 dated March 05, 2012, Refer SEBI email dated December 30, 2009

[619] SEBI circular no. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2022/82 dated June 15, 2022

[620] SEBI circular no. SEBI/HO/IMD/IMD-I DOF1/P/CIR/2022/105 July 29, 2022

a. Using e-Sign facility recognized under Information Technology Act, 2000; or
b. Through two factor authentication (2FA) in which one of the factor shall be a One-Time Password sent to the unit holder at his/her email/phone number registered with the AMC.

17.16.1.3 All AMCs shall ensure that adequate systems are in place for providing the e- Sign facility and take all necessary steps to maintain confidentiality and safety of client records.

17.16.1.4 All the AMCs are advised to set deadline as September 30, 2023[621] for nomination / opting out of nomination for all the existing individual unit holder(s) holding mutual fund units either solely or jointly as mentioned at Paragraph 17.16.1.1 above, failing which the folios shall be frozen for debits

17.16.1.5 Further, AMCs and RTAs shall encourage the unit holder(s) to fulfil the requirement for nomination/ opting out of nomination by sending a communication on fortnightly basis by way of emails and SMS to all such unit holder(s) who are not in compliance with the requirement of nomination. The communication shall provide guidance by which the unit holder(s) can provide nomination or opt out of nomination.[622]

## *17.17 Definition of "Associate" & Disclosure requirement for Asset Management Companies (AMCs)[623]*

17.17.1 SEBI has amended the definition of "associate" as per clause (c) of sub-regulation (1) of regulation 2 of SEBI (Mutual Funds) Regulations, 1996 vide Gazette Notification No. SEBI/LAD-

[621] SEBI Circular No. SEBI/HO/IMD/IMD-I POD1/P/CIR/2023/47 dated March 28, 2023
[622] SEBI Circular No. SEBI/HO/IMD/IMD-I POD1/P/CIR/2023/47 dated March 28, 2023
[623] SEBI Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/111 dated August 25, 2022

NRO/GN/2022/92 dated August 03, 2022. The revised definition of Associate is as under:

"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 trustees or the sponsor, as the case may be, or

ii. in respect of whom the asset management company or the trustees or the sponsor, directly or indirectly, by itself, or in combination with other persons exercises a control, or

iii. whose director except an independent director, officer or employee is a director, officer or employee of the asset management company:

*Provided that the above definition of associate shall not be applicable to such sponsors, which invest in various companies on behalf of the beneficiaries of insurance policies or such other schemes as may be specified by the Board from time to time.*

17.17.2 Consequent to the above amendment, it has been decided that AMCs shall ensure scheme wise disclosure of investments, as on the last day of each quarter, in securities of such entities that are excluded from the definition of associate.

17.17.3 Disclosure of Investment shall include ISIN wise value of investment and value as percentage of AUM of scheme. Such disclosure shall be made on the websites of respective AMCs and on the website of AMFI, within one month from the close of each quarter.

### *17.18 Format for Networth computation*

17.18.1 "Networth" is defined under Regulation 2(qa) of SEBI (Mutual Funds) Regulations, 1996, as the aggregate of the paid up capital and free reserves after deducting therefrom, miscellaneous expenditure to the extent not written off or adjusted or deferred revenue expenditure, intangible assets and accumulated losses.

17.18.2 Hence, during the processing of application of registration of a mutual fund, wherever there is a requirement of furnishing Networth certificate with SEBI, the Networth Certificate should be provided by the applicant in the following format:

| **Particulars** | **Amount (in INR crores)** |
|---|---|
| Paid-up capital | |
| Add: Share Premium | |
| Add: Free reserves of the company ((excluding reserves created out of revaluation) | |
| Less: miscellaneous expenditure to the extent not written-off or adjusted or deferred revenue expenditure, | |
| Less: accumulated losses, if any | |
| Less: intangible assets, if any | |
| Less: Minimum Capital Adequacy / Networth requirement for any other activity undertaken under other SEBI regulations | |
| Total Net worth for the FY | |
| Profit After Tax for the FY | |

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