

MASTER CIRCULAR

SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90

June 27, 2024

To,

All Mutual Funds ('MFs')

Asset Management Companies ('AMCs')

Trustee Companies/ Boards of Trustees of Mutual Funds

Registrar to an Issue and Share Transfer Agents ('RTAs')

Association of Mutual Funds in India (AMFI)

All Recognized Stock Exchanges & Clearing Corporations

All Stock Brokers

All Depositories

All Custodians

Dear Sir/ Madam,

Subject: Master Circular for Mutual Funds

1. For effective regulation of Mutual Fund Industry, the Securities and Exchange Board of India ("SEBI") has been issuing various circulars from time to time. In order to enable the stakeholders to have an access to all the applicable regulatory requirements at one place, the provisions of the said circulars issued till March 31, 2023 were incorporated in the Master Circular for Mutual Funds dated May 19, 2023.
2. Subsequently, various guidelines/directions were issued to Mutual Funds by way of circulars/letters. In view of the same, the Master Circular dated May 19, 2023 has been updated to include all relevant circulars that were issued on/before March 31, 2024. The instant Master Circular supersedes the Master Circular for Mutual Funds dated May 19, 2023.

3. Vide Master Circular for Mutual Funds dated May 19, 2023, the guidelines/directions contained in the circulars listed out in the [Appendix](#) to that Master Circular were rescinded. In addition, with the issuance of this Master Circular, the guidelines/directions contained in the circulars listed out at Sr. Nos. 1 to 16 in the [Appendix](#) to this Master Circular, to the extent they relate to the Mutual Funds industry, shall stand rescinded.
4. With respect to the directions or other guidance issued by SEBI, as specifically applicable to Mutual Funds, the same shall continue to remain in force in addition to the provisions of any other law for the time being in force. Terms not defined in this Master Circular shall have the same meaning as provided under the relevant Regulations.
5. Notwithstanding such rescission,
 - 5.1. anything done or any action taken or purported to have been done or taken under the rescinded circulars, including registrations or approvals granted, fees collected, registration suspended or cancelled, any inspection or investigation or enquiry or adjudication commenced or show cause notice issued prior to such rescission, shall be deemed to have been done or taken under the corresponding provisions of this Master Circular;
 - 5.2. any application made to SEBI under the rescinded circulars, prior to such rescission, and pending before it shall be deemed to have been made under the corresponding provisions of this Master Circular;
 - 5.3. the previous operation of the rescinded circulars or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the rescinded circulars, any penalty, incurred in respect of any violation committed against the

rescinded circulars, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, shall remain unaffected as if the rescinded circulars have never been rescinded;

6. Pursuant to issuance of this Master Circular, the entities which are required to ensure compliance with various provisions shall submit necessary reports as envisaged in this Master Circular on a periodic/continuous basis.
7. This Master Circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
8. This Master Circular is available on the SEBI website at <https://www.sebi.gov.in/> under the category “Legal -> Master Circulars”.

Yours faithfully,

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AMFI BEST PRACTICE GUIDELINES -----[Refer AMFI Website](#)

ABBREVIATIONS

American Depositary 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
Clearing Corporation of India Limited	CCIL
Compliance Test Reports	CTR(s)
Common Account Statement	CAS
Contingent Deferred Sales Charge	CDSC
Compound Annual Growth Rate	CAGR
Corporate Debt Market Development Fund	CDMDF
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 Depositary 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 Advisory Committee	MFAC
Mutual Fund Distributor	MFD
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
Unit Holder Protection Committee	UHPC

CHAPTER 1: OFFER DOCUMENT FOR SCHEMES

1.1 Filing of Offer Document with the Board¹

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 formats². 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 paid³ are in conformity with the Mutual Funds Regulations⁴.

[1.1.2A Revision in the format of SID:

- a. In order to enhance ease of preparation of the SID by mutual funds and increase its readability for investors, SEBI in consultation with AMFI, undertook an exercise to revamp the format of SID.
- b. Based on the suggestions of AMFI and the recommendations of the Mutual Fund Advisory Committee, the format of SID was simplified and rationalized. The revised format is aimed at streamlining the dissemination of relevant information to

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

investors, rationalizing the preparation of SID and facilitating its periodic updation by mutual funds.

1.1.2B In line with the new SID format, AMFI shall carry out necessary changes in the formats of KIM and SAI in consultation with SEBI, within two months from the date of this circular.]⁵

[1.1.2C **Applicability of revised format:** The revised format for SID, KIM and SAI shall be adopted as under:

- a. Updated format for SID/KIM/SAI to be implemented w.e.f. June 01, 2024.
- b. Draft SIDs to be filed with SEBI on or before May 31, 2024 or SIDs already filed with SEBI (final observations yet to be issued) or SIDs for which the final observations have already been received from SEBI (if launched on or before May 31, 2024), can use the old format of SID, provided that the SIDs are updated as per timeline mentioned at (c) below.
- c. For Existing SIDs – by June 30, 2024 with data as on May 31, 2024.
- d. Reference is drawn to para 1.2.1 and 1.2.4 of this Master Circular w.r.t updation of SID and KIM within 1 month from the end of half year i.e. April 30, 2024 for half year ended March 31, 2024. In order to avoid duplication of efforts of AMCs as well as to ensure uniform implementation of revised formats, the scheduled updation of SID and KIM for half year ended March 31, 2024, may be carried out by AMCs by June 30, 2024. This extension shall be applicable specifically for half year ended March 31, 2024 only.

⁵ Inserted vide SEBI Circular No. SEBI/HO/IMD/IMD-RAC-2/P/CIR/2023/000175 dated November 01, 2023. Refer SEBI letter No. SEBI/HO/IMD/IMD-RAC-2/P/OW/2023/ 44197 /1 dated November 02, 2023

All updated/revised SIDs shall be made available on the website of SEBI/AMFI/AMCs within the specified timelines.]⁶

1.1.3. All offer documents (ODs) of Mutual Fund schemes shall be filed with SEBI in terms of the Regulations⁷.

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 filing⁸.
- 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 days⁹ shall be calculated from the date of refiling;¹⁰

⁶ Inserted vide SEBI Circular No. SEBI/HO/IMD/IMD-RAC-2/P/CIR/2024/000015 dated March 12, 2024

⁷ Regulation 28 (1) of SEBI (Mutual Funds) Regulation 1996

⁸ SEBI Circular No. IIMARP/MF/CIR/06/793/98 dated March 31, 1998

⁹ Regulation 29(3) of SEBI (Mutual Funds) Regulation 1996

¹⁰ SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997.

- 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)¹¹.

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 same¹², 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 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. [As a part of the go green initiative and based on consultation with AMFI, it has been decided that AMCs shall file all final offer documents (final SID & final KIM) only digitally by emailing the same to a dedicated email id. viz. imdsidfiling@sebi.gov.in and there

¹¹ 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.

¹² SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29, 2009

would be no requirement of filing of physical copies of the same with SEBI. Such submission of all final SID and KIM in digital form shall be made at least two working days prior to the launch of the scheme.]¹³ 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 ¹⁴. Failure to submit the printed SID to the Board before it is issued for circulation shall invite penalties under the Mutual Funds Regulations¹⁵.

- b. In case of any difference, in nature of material alteration of the suggestions made by the Board¹⁶ 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 & KIM¹⁷

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

¹³ Substituted vide SEBI Circular No. SEBI/HO/IMD/IMD-RAC-2/P/CIR/2023/60 dated April 25, 2023. Prior to substitution, clause read as under:

“Soft copy of the final SID in PDF format along with a printed copy should be filed with Board seven working days prior to the launch of the scheme.”

¹⁴ SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

¹⁵ SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997.

¹⁶ Regulation 29(2) of the SEBI (Mutual Funds) Regulations, 1996

¹⁷ 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. Refer SEBI letter No. SEBI/HO/IMD/IMD-RAC-2/P/OW/2023/45312/1 dated November 10, 2023

1.2.1 ¹⁸For 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 same¹⁹.

1.2.2 ²⁰The 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.

¹⁸SEBI Circular- SEBI/HO/IMD/IMD-I DOF2/P/CIR/2021/0560 dated April 30, 2021.

¹⁹ SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

²⁰ Refer SEBI letter No. IMD/DF3/OW/P/2021/32220/1 dated November 11, 2021

- 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.
- 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 ²¹KIM 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 Scheme²²

²¹ SEBI Circular No. SEBI/HO/IMD/IMD-I DOF2/P/CIR/2021/0560 dated April 30, 2021

²² SEBI Cir. No. IMD/CIR No.5/70559/06 dated June 30, 2006

- 1.4.1 In the certificate submitted by Trustees with regard to compliance of AMC with Regulations²³, the Trustees are required to certify as follows:

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

- 1.4.2 This certification shall be disclosed in the SID along with the date of approval of the scheme by the Trustees.
- 1.4.3 This certification is not applicable to 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 SAI²⁴.
- 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

²³ Regulation 18 (4) of SEBI (Mutual Funds) Regulations, 1996

²⁴ For Standard Observations, please refer to [format no. 6](#) under the section on Formats

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

1.6.2 Format of KIM²⁵

1.6.2.1 AMCs shall prepare KIM in the prescribed format²⁶. The contents of KIM shall follow the same sequence as prescribed in the format.

1.7 Easy Availability of Offer Document²⁷

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 Benchmarks²⁸

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 schemes²⁹ developed by research and rating agencies recommended by the AMFI on a regular basis shall be used by the Mutual Funds.

²⁵ Refer SEBI email dated March 29, 2010

²⁶ For format of KIM, please refer [format no. 5.C](#) under the section on Formats

²⁷ SEBI Circular- SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008

²⁸ SEBI Circular No. MFD/CIR/16/400/02 dated March 26, 2002, SEBI Circular No. MFD/CIR/01/071/02 April 15, 2002

²⁹ SEBI Circular No. MFD/CIR/01/071/02 dated April 15, 2002

- 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 justified³⁰.
- 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.

³⁰ 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.

1.9 Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes³¹

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:

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:

³¹SEBI 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. Refer SEBI letter No. SEBI/HO/IMD/POD-II/P/OW/2023/50162/1 dated December 14, 2023

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) Period³²

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

[1.10.1A All NFO shall remain open for subscription for a minimum period of three working days.]³³

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 ³⁴ before the 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.

³² 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.

³³ Inserted vide SEBI Circular No. SEBI/HO/IMD/IMD-RAC-2/P/CIR/2023/60 dated April 25, 2023

³⁴ 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.

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 AMCs³⁵

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 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.

³⁵ SEBI Circular No. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/603 dated July 23, 2021

- (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 Funds³⁶

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 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

³⁶ SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/57 dated May 31, 2016

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)’³⁷

³⁷ SEBI/IMD/CIR No.13/150975 / 09 dated January 19, 2009

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 Attributes³⁸

1.14.1 The words "fundamental attributes"³⁹ 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 Schemes⁴⁰

1.14.1.2 Investment Objective(s)

- a. Main Objective - Growth/Income/Both.
- b. ⁴¹Investment 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.

³⁸ 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

³⁹ Sub-regulation (15A) of Regulation 18 of SEBI (Mutual Funds) Regulations, 1996

⁴⁰ SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017

⁴¹ 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 ⁴²Comments 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).

⁴² SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

CHAPTER 1A: REGISTRATION

1A.1 Regulatory Framework for Sponsors of a Mutual Fund⁴³

1A.1.1 In order to enhance the penetration of the Mutual Fund industry, and to facilitate new types of players to act as sponsors of Mutual Funds, an alternative set of eligibility criteria is introduced. This is with the objective of facilitating fresh flow of capital into the industry, fostering innovation, encouraging competition, providing ease of consolidation and easing exit for existing sponsors.

1A.1.2 In this regard, a Working Group was formed by SEBI to examine the aforesaid issues. The recommendations of the Working Group were deliberated in the Mutual Funds Advisory Committee and subsequent to that, SEBI (Mutual Funds) Regulations, 1996 have been amended vide notification No. SEBI/LAD-NRO/GN/2023/134 dated June 26, 2023.

1A.1.3 In furtherance to the same, the following has been decided:

1A.1.3.A Deployment of liquid net worth by Asset Management Company (AMC)

- i. In terms of Regulation 21(1)(f) of the MF Regulations, an AMC shall deploy the minimum net worth required, as applicable, in assets as may be specified by SEBI.
- ii. In this regard, the following has been decided:
 - a. AMCs shall deploy the minimum net worth required either in cash, money market instruments, Government Securities, Treasury bills, Repo on Government securities, or in listed

⁴³ Inserted vide SEBI Circular No. SEBI/HO/IMD/IMD-PoD-2/P/CIR/2023/118 dated July 07, 2023. Refer SEBI email dated December 14, 2024

AAA rated debt securities without bespoke structures/structured obligations, credit enhancements or embedded options or any other structure/ feature which increase the liquidity risk of the instrument on a continuous basis and such investments shall be unencumbered.

1A.1.3.B Acquisition of an AMC

- i. In terms of Regulation 7 (a) (iii) of the MF Regulations, in case of change in control of an existing AMC due to acquisition of shares, the sponsor shall ensure that the positive liquid net worth of the sponsor or funds tied up by the sponsor is to the extent of aggregate par value or market value of the shares proposed to be acquired, whichever is higher.
- ii. In this regard, the following has been decided.
 - a. In case of change in control of an existing AMC due to acquisition of shares, the cost of acquisition may also be funded out of borrowings by a sponsor but in such cases, the sponsor shall have sufficient other assets to encumber for borrowings other than the shares of the proposed AMC.
 - b. The sponsor's stake in the proposed AMC shall be free from any encumbrance at all times.
- iii. In terms of clause (iv) to the first proviso to Regulation 7 (a) of the MF Regulations, the sponsor has to ensure that in case of acquisition of an existing AMC, the sponsor shall have minimum positive liquid net worth equal to incremental capitalization required to ensure minimum capitalization of the AMC and the positive liquid net worth of the sponsor or the

funds tied up by the sponsor are to the extent of aggregate par value or market value of the shares proposed to be acquired, whichever is higher.

- iv. In this regard, the following has been decided.
 - a. In case of change in control of the existing AMC due to acquisition of shares, the cost of acquisition may be funded out of borrowings by a sponsor but the sponsor shall have sufficient other assets to encumber for borrowings other than the shares of the proposed AMC.
 - b. Minimum incremental capital contribution required in the AMC shall not be funded through borrowings and shall be funded only out of the net worth of the acquirer.
 - c. The sponsor's stake in an AMC shall be free from encumbrances in any form at all points of time.

1A.1.3.C Pooled Investment Vehicle as sponsor of Mutual Funds

- i. Second proviso to Regulation 7 (a) of the MF Regulations permits to allow a private equity fund or a pooled investment vehicle or a pooled investment fund to sponsor Mutual Funds subject to conditions as may be specified by SEBI from time to time.
- ii. In this regard, the following has been decided.
 - a. Among the pooled investment vehicles, only the private equity funds (PEs) can sponsor a Mutual Fund.
 - b. Such PEs shall comply with clauses (i) to (vi) of the first proviso to clause 7 (a) of the MF Regulations.

- c. For any PE to qualify as a Mutual Fund sponsor, the following criteria shall be applicable;
 - I. The applicant PE (scheme/ fund) shall itself be a body corporate or, a body corporate set up by a PE. The applicant body corporate may be set up in India or abroad.
 - II. The applicant PE or its manager shall have a minimum of five years of experience in the capacity of fund/investment manager and an experience of investing in the financial sector, where it should have managed committed and drawn-down capital of not less than INR 5,000 Cr. as on the date of its application made to SEBI.
- d. The following additional safeguards shall also be applicable for PEs acting as Mutual Fund sponsor.
 - I. There shall be no off-market transactions between the schemes of the Mutual Fund and
 - a) Sponsor PE; or
 - b) Schemes/ Funds managed by the manager of the sponsor PE; or
 - c) Investee Companies of schemes/ funds of sponsor PE, where it holds more than 10% stake; or has a board representation or a right to nominate Board representation.
 - II. As per clause (ii) of the first proviso to Regulation 7(a) of the MF Regulations, an initial shareholding of sponsor equivalent to capital contributed to an AMC to the extent

of not less than INR 150 Cr. shall be locked-in for a period of 5 years. In such cases, the lock in period of 5 years shall continue in case of transfer of sponsorship to any other entity within the PE group provided all the criteria required for a PE to act as sponsor are met by the transferee PE as well.

III. The said lock in period of 5 years shall also be applicable to the shareholding of PE in the corporate entity, which is sponsoring the Mutual Fund.

IV. The experience, track record and eligibility regarding the fit and proper criteria of any applicant PE to become sponsor of a Mutual Fund shall be ascertained through its conduct in the respective home jurisdiction.

1A.1.3.D Reduction of stake and disassociation of sponsor

- i. Considering the evolution of the Mutual Fund industry and significant shift in the nature of roles and responsibilities of the AMCs in the last few decades, most of the AMCs can be stated to be prepared enough to stand on their own and create trust among their investors. In view of the above, it has been decided to allow a sponsor to voluntarily reduce its stake in an AMC subject to certain conditions.
- ii. Regulations 7C (1) and 7C (2) of the MF Regulations permit a sponsor to disassociate itself from an AMC and a Mutual Fund and allow such AMC of an existing Mutual Fund to act as sponsor of the same Mutual Fund in the event of the sponsor disassociating itself from the AMC.

- iii. In view of the above, it has been decided that an AMC can become a “self- sponsored AMC”, subject to fulfilling the following conditions:
 - a. The AMC should have been carrying on business in financial services for a period of not less than 5 years;
 - b. The AMC should have positive net worth in all the immediately preceding five years;
 - c. Net profit of the AMC after providing for depreciation, interest and tax in each of the immediately preceding five years and average net annual profit after providing for depreciation, interest and tax during the immediately preceding 5 years should be at least INR 10 cr.
- iv. Any sponsor proposing to disassociate should have been a sponsor of the concerned Mutual Fund for at least 5 years before the proposed date of disassociation;
- v. The shareholding proposed to be reduced by a sponsor shall not be under any encumbrance or lock-in.
- vi. Any sponsor proposing to disassociate may undertake to reduce shareholding below 10% from the proposed date of disassociation as per the following timelines:
 - a. Within a period of 5 years in case of listed AMCs.
 - b. Within a period of 3 years in case of unlisted AMCs.

- c. During the above period, the obligations of an outgoing sponsor shall be as per the applicable regulatory framework for a sponsor.
- d. The sponsor shall commit to a graded stepwise reduction over the applicable time period.
- vii. Post disassociation of any sponsor from an AMC, all the shareholders of such AMC shall be classified as “financial investors” and there shall not be any sponsor of such AMC.
- viii. Post disassociation, the upper limit of shareholding for any financial investor shall be below 10%.
- ix. Any sponsor proposing to disassociate itself shall undertake to honour all the obligations applicable to it under Regulation 38 of MF Regulations (Guaranteed Returns) as on proposed date of disassociation.
- x. A self- sponsored AMC shall maintain the minimum net worth requirement as per SEBI MF Regulations on a continuous basis.
- xi. The statutory auditor of a Mutual Fund shall submit a compliance report on the fulfilment of eligibility criteria by a self- sponsored AMC, as defined at paragraph 1A.1.3.D (iii) above on an yearly basis. The trustees and Board of a self- sponsored AMC shall provide a compliance status to SEBI in the half yearly and quarterly compliance reports furnished by them respectively.
- xii. The constitution of trustee company of a self- sponsored AMC shall be as under:

- a. In case of trustee company of a MF with an unlisted AMC, the shareholding of trustee company shall be a mirror image of the shareholding of the AMC at all times.
 - b. In case of trustee companies of a MF with a listed AMC, the financial investors shall continue to hold shares in the trustee company that is a mirror image of their holding in the AMC. Further, the shareholding in the trustee company that is equivalent to the public shareholding in the AMC, shall be held with a trust whose beneficial owner shall be the erstwhile sponsor with Independent directors of the trustee company as its trustees.
- xiii. Regulation 14 of the MF Regulations has been amended specifying signatory to the trust deed in case of disassociation of the sponsor. In this regard, it has been decided that upon disassociation of the sponsor, the largest financial investor shall be the signatory to the trust deed instead of the sponsor.

1A.1.3.E Re- Association of the Sponsor(s)

- i. Regulation 7C (5) of the MF Regulations provides for the dissociated sponsor as described at paragraph 1A.1.3.D above or any new entity to become sponsor of the Mutual Fund managed by the self- sponsored AMC, in case the AMC fails to meet the conditions specified at paragraph 1A.1.3.D (iii) above.
- ii. In this regard, for the scenarios mentioned at paragraph 1A.1.3.E (i) above, it has been decided that a dissociated sponsor and/or any new entity can become sponsor of a Mutual Fund subject to the following conditions:

- a. If the AMC fails to meet the criteria of self-sponsored AMC as defined at paragraph 1A.1.3.D (iii) above, a cure period of one year shall be provided within which, the AMC shall be required to meet the criteria for self-sponsored AMCs.
 - b. If even after the cure period, the AMC fails to meet the conditions for self-sponsored AMCs, then either the disassociated sponsor or any new entity shall become sponsor of the concerned Mutual Fund.
 - c. The proposed sponsor should meet all the requirements and obligations specified in MF Regulations pertaining to the sponsors and,
 - d. The proposed sponsor shall follow due process of obtaining approval as a sponsor from SEBI.
- iii. In such cases, an exit option shall be provided to the unitholders of the existing schemes of the concerned Mutual Fund, without any exit load.

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)⁴⁴

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 Regulations⁴⁵, 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 Board⁴⁶ 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 format⁴⁷
- b. Details of the financial performance of the scheme(s) since inception in the format prescribed in SID⁴⁸ along with comparisons with appropriate benchmark(s)⁴⁹.
- c. The addendum to the SID detailing the modifications (if any) made to the scheme(s).

⁴⁴ SEBI Circular No. MFD/CIR No.22/2311/03 dated January 30, 2003.

⁴⁵ Regulation 33(3) of the SEBI (Mutual Funds), Regulations, 1996.

⁴⁶ SEBI Circular No. SEBI/IMD/Cir No 5/126096/08 dated May 23, 2008

⁴⁷ Refer to [format no. 3.C](#) on half yearly portfolio disclosure under section on formats.

⁴⁸ Please refer to [format no. 5.A](#). of SID under section on Formats.

⁴⁹ For examples of Benchmarks, refer to Chapter 1 – ‘Offer Documents for Schemes’