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2023, the guidelines/directions contained in the circulars listed out in the **Appendix** to that Master Circular were rescinded.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to 16 in the **Appendix** to this Master Circular, to the extent they relate to the Mutual Funds industry, shall stand rescinded.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 anything done or any action taken or purported to have been done or taken under the rescinded circulars, including registrations or approvals granted, fees collected, registration suspended or cancelled, any inspection or investigation or enquiry or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,

Peter Mardi
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POLICY RELATED LETTERS/ EMAIL ISSUED BY SEBI ---------- Refer the attachment

AMFI BEST PRACTICE GUIDELINES --Refer AMFI Website

ABBREVIATIONS

American Depository Receipt	ADR
Asset Management Company	AMC
Asset under Management	AUM
Association of Mutual Funds in India	AMFI
Authorized Dealer	AD
Bombay Stock Exchange	BSE
Central Board of Direct Taxes	CBDT
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 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 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 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].

[1.1.2A **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

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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

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 Regulations[7].

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[8].
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[9] 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 same[12], 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 Regulations[15].

b. In case of any difference, in nature of material alteration of the suggestions made by the Board[16] 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[17]

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

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[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 [18]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[19].

1.2.2 [20]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.

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[18]SEBI 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 [21]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[22]

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[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 Regulations[23], 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 SAI[24].

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 KIM[25]

1.6.2.1 AMCs shall prepare KIM in the prescribed format[26]. The contents of KIM shall follow the same sequence as prescribed in the format.

1.7 Easy Availability of Offer Document[27]

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[28]

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

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[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 justified[30].

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 Schemes*[31]

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:

<u>For Income / Debt Oriented Schemes</u>

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

<u>For Growth / Equity Oriented Schemes</u>

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

<u>For Hybrid and Solution Oriented Schemes:</u>

[31]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. 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) Period[32]

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.

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[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 AMCs[35]

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 Funds[36]

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 Fundament al Attributes[38]

1.14.1 The words "fundamental attributes"[39] are elaborated below:

1.14.1.1 <u>Type of a scheme</u>

a. Open ended/Close ended/Interval scheme
b. Equity Schemes, Debt Schemes, Hybrid Schemes, Solution Oriented Schemes and Other Schemes[40]

1.14.1.2 <u>Investment Objective(s)</u>

a. Main Objective - Growth/Income/Both.
b. [41]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 <u>Terms of Issue</u>

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

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[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 [42]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).

[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 Fund[43]

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 disassociated 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 Regulations[45], 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[46] 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[47]

b. Details of the financial performance of the scheme(s) since inception in the format prescribed in SID[48] along with comparisons with appropriate benchmark(s)[49].

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

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[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'

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*[50]

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 AMCs shall be required to comply with the Mutual Funds Regulations in this regard[51].

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; AMCs 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), AMCs 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

[50] SEBI Circular No. SEBI/MFD/CIR No.5/12031/03 dated June 23, 2003.
[51] 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[52].
2. Details of the financial performance of the concerned schemes since inception in the format prescribed in SID[53] 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.[54]
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[55].

2.2.2.4 Maintenance of Records:

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

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

to exit and net assets held by them and number of unit holders and net assets in the consolidated scheme shall be filed with the Board within 21 days from the date of closure of the exit option[56].

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[57]:

a. Fundamental attributes[58] 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 AMCs shall file such proposal with SEBI. SEBI would communicate its observations on the proposal within the time period prescribed[59].

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.

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

PART III – LAUNCH OF ADDITIONAL PLANS[60]

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[61]

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.

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[60] SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15, 2009
[61] 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[62]

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.

[62] 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[63]

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)[64]:

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

i. Equity Schemes

ii. Debt Schemes

iii. Hybrid Schemes

iv. Solution Oriented Schemes

v. Other Schemes

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[63] 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. Refer SEBI letter No. SEBI/HO/IMD/IMD-RAC-2/P/OW/2023/40331/1 dated September 26, 2023 & Refer SEBI letter No. SEBI/HO/IMD/IMD-SEC-3/P/OW/2023/ 43062/1 dated October 19, 2023.

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

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

A. Equity Schemes:

Sr. No.	Category of Schemes	Scheme Characteristics	Type of scheme (uniform description of scheme)
1	Multi Cap Fund	Minimum investment in equity & equity related instruments- 75% of total assets in the following manner:[65] a) Minimum investment in equity & equity related instruments of large cap companies - 25% of total assets; b) Minimum investment in equity & equity related instruments of mid cap companies - 25% of total assets; 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

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

3	Large & Mid Cap Fund	Minimum investment in equity & equity related instruments of large cap companies- 35% of total assets Minimum investment in equity & equity related instruments of mid cap stocks- 35% of total assets	Large & Mid Cap Fund- An open ended equity scheme investing in both large cap and mid cap stocks.
4	Mid Cap Fund	Minimum investment in equity & equity related instruments of mid cap companies- 65% of total assets	Mid Cap Fund- An open ended equity scheme predominantly investing in mid cap stocks
5	Small cap Fund	Minimum investment in equity & equity related instruments of small cap companies- 65% of total assets	Small Cap Fund- An open ended equity scheme predominantly investing in small cap stocks
6	Dividend Yield Fund	Scheme should predominantly invest in dividend yielding stocks. 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. 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. 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) 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[66] *(Also refer to para 3.11 of this Master Circular for sub-category for ESG investments)*	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)/ An open ended equity scheme following __ theme (mention the theme)
10	ELSS[67]	Minimum investment in equity & equity related instruments - 80% of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by Ministry of Finance)	An open ended equity linked saving scheme with a statutory lock in of 3 years and tax benefit
11	Flexi Cap Fund[68]	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

[66] Refer SEBI letter No. SEBI/H0/0W/IMD-II/DOF3/P/24098/2022 dated June 10, 2022
[67] Refer SEBI letter No. SEBI/HO/IMD- POD-2/P/OW/2023/1114/1 dated January 10, 2023
[68] SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/228 dated November 06, 2020

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.__) #.
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. 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. 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*[69].

$ 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

[69] SEBI/HO/IMD/DF2/CIR/P/2021/683 dated December 10, 2021

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[70].

@ For asset allocation limits considering minimum liquid assets requirement, refer Paragraph 4.6 of this Master Circular. For exclusion of investment in units of CDMDF from asset allocation limits, please refer Paragraph 2.10 of this Master Circular.

C. Hybrid Schemes

Sr. No.	**Category of Schemes**	**Scheme Characteristics**	**Type of scheme (uniform description of scheme)**
1	Conservative Hybrid Fund	Investment in equity & equity related instruments- between 10% and 25% of total assets; 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; Debt instruments- between 40% and 60% of total assets No Arbitrage would be permitted in this scheme	An open ended balanced scheme investing in equity and debt instruments

[70] SEBI circular no. SEBI/HO/IMD/DF3/CIR/P/2017/126 dated December 04, 2017

	Aggressive Hybrid Fund @	Equity & Equity related instruments- between 65% and 80% of total assets; 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 Minimum hedged & unhedged to be stated in the SID. Asset Allocation under defensive considerations may also be stated in the Offer Document	An open ended scheme investing in equity, arbitrage and debt

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

Foreign securities will not be treated as a separate asset class

D. Solution Oriented Schemes:

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.[71]

2.7 Definition of Large Cap, Mid Cap and Small Cap[72]:

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

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

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

[72] Refer SEBI email dated January 28, 2022

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[73].

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

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

2.8.2 [74]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[75]

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

[74] SEBI Circular no. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022
[75] 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.

2.10 Exclusion of investment in units of CDMDF from asset allocation limits[76]

2.10.1 For calculation of asset allocation limits of mutual fund schemes in terms of Part IV of this Chapter, investment in units of CDMDF shall be excluded from base of net assets.

[76] Inserted by SEBI Circular No. SEBI/HO/IMD/PoD2/P/CIR/2023/152 dated September 06, 2023

CHAPTER 3: NEW PRODUCTS

3.1 Fund of Funds Scheme[77]

3.1.1 The SID and the advertisements pertaining to Fund of Funds Scheme[78] 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[79].

3.1.3 Fund of funds mutual fund schemes shall adopt the total expense structures laid out in Regulations[80], which Asset Management Companies shall clearly indicate in the SIDs.

3.2 Gold Exchange Traded Fund Scheme[81]

3.2.1 A Gold Exchange Traded Fund (GETF) Scheme[82] shall invest primarily in:

3.2.1.1 Gold and

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[77] SEBI Circular No. MFD/CIR. No.04/11488/2003 dated June 12, 2003.
[78] Regulation 2(ma) of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O 632(E) dated May 29, 2003.
[79] SEBI Circular No. SEBI/IMD/CIR No 18/198647/2010 dated March 15, 2010
[80] Regulation 52(6)(a) of SEBI (Mutual Funds) Regulations, 1996
[81] 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.
[82] 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[83]. However investments in gold related instruments shall be done only after such instruments are specified by the Board[84]

3.2.1.3 Gold Deposit Scheme (GDS)[85] 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[86], in line with GDS of Banks.

3.2.1.4 Exchange Traded Commodity Derivatives (ETCDs)[87] 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

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[83] Regulations 2(mc) of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O. 38(E) dated January 12, 2006.

[84] SEBI Circular No. SEBI/IMD/CIR No. 4/58422/06 dated January 24, 2006.

[85] SEBI Circular No. CIR/IMD/DF/04/2013 dated February 15, 2013

[86] SEBI Circular No. CIR/IMD/DF/11/2015 dated December 31, 2015

[87] SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/65 dated May 21, 2019

the Board of the Asset Management Company and the Trustees. The policy should have provision to make it necessary for the mutual fund to obtain approval of trustees for investment proposal in GDS of any bank and GMS. The policy shall be reviewed by Trustees of 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[88].

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[89].

3.2.3 Determination of Net Asset Value[90]

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

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

[88] SEBI Circular No. CIR/IMD/DF/16/2013 dated October 18, 2013

[89] 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.

[90] SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.

3.2.4 Recurring Expenses[91]

3.2.4.1 The recurring expenses limits as per applicable regulations[92] shall be applicable to GETF Scheme(s).

3.2.5 Benchmarks for GETF Scheme[93]

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

3.2.6 Half yearly report by Trustees[94]

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[95] by trustees to SEBI.

3.2.7 Additional Norms for Gold ETFs[96]

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)[97]

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:

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91 SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.
92 Regulation 52(6)(b) of the SEBI (Mutual Funds) Regulations, 1996.
93 SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.
94 SEBI Circular No. Cir/IMD/DF/20/2010 dated December 06, 2010
95 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.
96 SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/668 dated November 24, 2021
97 SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2021/668 dated November 24, 2021.

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.

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.[98]

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,

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 **Dedicated Fund Manager:** 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 **Half Yearly Trustee Report:**

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.

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

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[99]

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.

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.

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

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[100]

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).

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.

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100 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

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 <u>Corporate Debt ETF/Index Funds: Debt ETFs/ Index Funds based on Index of Corporate Debt Securities</u>

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

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[101]

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

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[101] 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. SEBI letter No. SEBI/HO/IMD/IMD-PoD-2/P/OW/2023/17644/1 dated April 28, 2023, SEBI letter No. SEBI/HO/IMD-POD-2/P/OW/2023/43653/1 dated October 26, 2023 & SEBI letter No. SEBI/HO/IMD/POD-II/P/OW/2023/44633/1 dated November 06, 2023.

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[102].

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.

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

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. [103]This provision shall be applicable with effect from May 01, 2023.

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 <u>Tracking Error (TE)</u>

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

[103] 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

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[104]

3.7.1 The SID, KIM and advertisements pertaining to Capital Protection Oriented Scheme[105] 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.

[104] SEBI Circular No. SEBI/IMD/CIR No.9/74364/06 dated August 14, 2006.
[105] 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.

3.7.3 The Trustees shall continuously monitor the portfolio structure of the scheme and report the same in the Half Yearly Trustee Reports[106] to the Board. The AMC(s) shall also report on the same in its quarterly CTR(s)[107] 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[108].

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[109].

3.9 Real Estate Mutual Funds[110]:

3.9.1 A real estate mutual fund scheme[111] 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

[106] For format of Half Yearly Trustee Report, please refer format no. 2.C under the section on Formats
[107] For format of quarterly CTR, please refer format no. 2.B under the section on Formats
[108] SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997
[109] 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
[110] SEBI Circular No - SEBI/IMD/CIR No.4/124477/08 dated May 2,2008
[111]Regulation 49 A(a)(i) of SEBI (Mutual Fund) Regulations, 1996

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[112]

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.

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[113].

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**

[112] SEBI Circular No. CIR/IMD/DF/7/2013 dated April 23, 2013
[113] Please refer to format no. 5.D under the section on Formats

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[114]

3.10.4 **Investments by the IDF scheme**

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.

3.11 New category of Mutual Fund schemes for Environmental, Social and Governance ("ESG") Investing and related disclosures by Mutual Funds[115]

3.11.1 Under the then regulatory requirements, Mutual Funds were permitted to launch only one scheme with ESG investing under the thematic category for Equity schemes. In view of the industry

[114] SEBI Circular No. CIR/IMD/DF/20/2013 dated November 29, 2013
[115] Inserted vide SEBI Circular No. SEBI/HO/IMD/IMD-I –PoD1/P/CIR/2023/125 dated July 20, 2023

representations for allowing multiple schemes with different ESG strategies and considering the increasing need for green financing, it was decided to permit launch of multiple ESG schemes with different strategies by Mutual Funds.

3.11.2 The concept of ESG investments is emerging and therefore consistent, comparable, and decision-useful scheme disclosures is desirable to enable investors to make informed investment decision and to prevent greenwashing. In this regard, SEBI, vide letters dated February 08, 2022 and June 21, 2022 to AMFI, had prescribed disclosure norms for ESG schemes of Mutual Funds, as available under the 'Policy related letters/Emails issued by SEBI' section of this Master Circular.

3.11.3 In order to suggest further measures to improve transparency, with a particular focus on mitigation of risks of mis-selling and greenwashing, an ESG Advisory Committee was set up by SEBI which provided recommendations for expanding the disclosure norms for ESG funds. Considering the recommendations of the ESG Advisory Committee and pursuant to public consultation on the matter, the provisions of the SEBI (Mutual Funds) Regulations, 1996 were amended on June 27, 2023 (link) to inter-alia specify that the funds under ESG schemes shall be invested in the manner as specified by SEBI from time to time.

3.11.4 Accordingly, it has been decided to implement the following measures to facilitate green financing with thrust on enhanced disclosures and mitigation of green washing risk.

3.11.4.1 **Thematic schemes on ESG Strategies**

3.11.4.1.1 Previously, as Mutual Funds could launch only one ESG scheme under the thematic category of Equity schemes (*reference: paragraph 2.6.1(A)(9)*), it is decided to introduce a separate sub-category for ESG investments under the thematic category of Equity schemes. Any scheme under the ESG category shall be launched with one of the following strategies (details of strategies are at **Annexure 14**) –

a. Exclusion

b. Integration

c. Best-in-class & Positive Screening

d. Impact investing

e. Sustainable objectives

f. Transition or transition related investments

3.11.4.1.2 Minimum 80% of the total assets under management (AUM) of ESG schemes shall be invested in equity & equity related instruments of that particular strategy of the scheme (as per the above specified sub-strategies). The remaining portion of the investment shall not be in contrast to the strategy of the scheme. Mutual Funds shall endeavour to deploy a higher proportion of the assets towards the scheme's strategy under the ESG theme and make suitable disclosures.

3.11.4.1.3 AMCs shall ensure that the schemes launched by Mutual Funds are clearly distinct in terms of asset allocation, investment strategy etc.

3.11.4.1.4 The provision of new category for ESG schemes was applicable with effect from July 20, 2023.

3.11.4.2 **Investment criteria for ESG Schemes**

3.11.4.2.1 Previously, the ESG schemes of Mutual Funds were mandated to invest only in such companies which had comprehensive Business Responsibility and Sustainability Reporting (BRSR) disclosures. It is decided that an ESG scheme shall invest at least 65% of its AUM in companies which are reporting on comprehensive BRSR and are also providing assurance on BRSR Core disclosures (details on BRSR Core disclosures are as specified vide SEBI circular No. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122 dated July 12, 2023). The balance AUM of the scheme can be invested in companies having BRSR disclosures. This requirement shall be applicable with effect from October 01, 2024.

3.11.4.2.2 Such ESG schemes which are not in compliance with the aforesaid investment criteria as on October 01, 2024, shall ensure compliance with the requirement by September 30, 2025. During the said period of one year, ESG schemes shall not undertake any fresh investments in companies without assurance on BRSR Core.

3.11.4.3 **Disclosure requirements for ESG Schemes**

3.11.4.3.1 **Scheme strategy to be reflected in scheme name**

Mutual Funds shall clearly disclose the name of ESG strategy in the name of the concerned ESG fund/scheme. For eg., XYZ ESG Exclusionary Strategy Fund, ABC ESG Best-in-class Strategy Fund etc.

3.11.4.3.2 **ESG scores of securities**

a. Mutual Funds shall disclose the following in their monthly portfolio statements of ESG schemes:

i. Security wise BRSR Core scores {as and when the same is made available by SEBI registered ESG Rating Provider (ERPs)}, along with the BRSR scores.

ii. Name of the ERPs providing ESG scores for the ESG schemes, along with the ESG scores. In case there is a change in ERP, the reason for such change shall also be disclosed in the next monthly portfolio statements of ESG schemes.

b. These requirements were applicable with effect from July 20, 2023.

3.11.4.3.3 **Voting disclosures by ESG schemes**

a. Clauses 6.16.10 and 6.16.11 of this Master Circular requires the Mutual Funds to compulsory cast votes in respect of all resolutions of their investee companies. Further, the AMCs are required to make disclosures of votes cast on their website on a quarterly basis, along-with the specific rationale supporting their voting decision.

b. In addition to the above, in order to enhance transparency on votes cast by ESG schemes, it is decided that under the rationale for voting decisions (whether" in favour" or "against"), the AMCs shall categorically disclose whether the resolution has or has not been supported due to any environmental, social or governance reasons.

c. The disclosure of voting rationale may be made at the Mutual Fund level. However, in instances wherein the voting approach for ESG and non-ESG schemes of any Mutual Fund is not same, the details and rationale for votes cast on behalf of ESG schemes and non-ESG schemes shall be disclosed separately.

d. The enhanced voting disclosures are applicable from FY 2024-25 i.e. for Annual General Meetings held from April 01, 2024 onwards.

3.11.4.3.4 **Annual Fund Manager commentary and disclosure of case studies**

a. A ‘Fund Manager Commentary’ along with the additional disclosures with respect to engagements undertaken by Mutual Funds for ESG schemes, as required to be disclosed in terms of SEBI letter dated February 08, 2022, shall be provided in the Annual Report of the ESG schemes. The Fund Managers Commentary shall include the following:

i. Examples on how ESG strategy was applied on the fund, how engagements were carried out, any escalation strategy that the Fund Manager may have applied on the portfolio companies, annual tracking of ESG rating movements in the investee companies etc.

ii. Case studies where Fund Managers have engaged with portfolio companies with a clear objective of engagement and engagements carried out for exercise of votes.

iii. The details on number of engagements carried out in a year, the modes of communication employed, and if any outcomes were achieved in the reporting year shall be included in the fund managers’ commentary. If ESG schemes have a specific objective, then reporting shall be done on engagements and outcomes achieved (if any) in the reporting year based on that objective. Additional areas to be covered in case studies and minimum disclosures shall be specified by AMFI in consultation with SEBI.

iv. Annual tracking of ESG rating / score movements in the investee companies.

b. The Fund Manager commentary shall suitably disclose percentage of AUM invested in such companies where there is no BRSR disclosures (investments prior to October 01, 2022) and its impact, if any, on the Fund score.

c. In case there is a change in ERP, reason(s) for such change recorded by AMCs shall also be disclosed in the fund manager's commentary.

d. The requirement of Annual Fund Manager commentary are applicable from FY 2023-24. The disclosure of case studies at para a(ii) and a(iii) above are applicable from FY 2024-25 and the engagement details shall be disclosed from FY 2025-26 onwards.

3.11.4.3.5 **Assurance on ESG Schemes**

a. **Independent assurance**

i. The AMCs shall obtain an independent reasonable assurance on an annual basis regarding their ESG scheme's portfolio being in compliance with the strategy and objective of the scheme, as stated in respective Scheme Information Documents. Such an assurance was on a "comply or explain basis" for all ESG schemes for FY 2022-23 by December 31, 2023. Thereafter, disclosure of assurance shall mandatorily be made in the scheme's annual report.

ii. The Board of AMCs shall ensure that the assurance provider for an ESG scheme has the necessary expertise, for undertaking reasonable assurance.

iii. The AMCs shall also ensure that there is no conflict of interest with the assurance provider appointed for providing assurance on their ESG schemes. For instance, it shall be ensured that the assurance provider or any of its associates do not sell its products or provide any non-audit / non-assurance related service including consulting services, to the AMC or its group entities.

b. **Certification by the Board of AMCs**

i. The board of directors of AMCs, based on comprehensive internal ESG audit, shall certify the compliance of ESG schemes with the regulatory requirements including disclosures, in annual report of the scheme.

ii. The aforementioned internal ESG audit shall inter-alia include verifying the Scheme Information Documents, Stewardship Reporting and Responsible Investment Policy of the ESG Funds and any other relevant document, to ensure that what the statements made in these documents are factual.

iii. This certification shall be applicable with immediate effect. The board of directors of AMCs were to provide the certificate for FY 2022-23 by December 31, 2023.

Thereafter, the certification shall be disclosed in the Annual Reports of the schemes.

CHAPTER 4: RISK MANAGEMENT FRAMEWORK[116]

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.

[116] 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* [117]

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.

[117] SEBI Circular No. CIR/IMD/DF/03/2015 dated April 30, 2015. Refer SEBI email dated February 27, 2024.

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 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 [118]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.

4.3 *Internal Credit Risk Assessment[119]:*

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[120,121]*

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.

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

[119]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.

[120] 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

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

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.

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 enabling provision for segregated portfolio with detailed disclosures made in Statement of Additional Information (SAI). All new schemes shall have the enabling provision included in the SID for creation of segregated portfolio.][122]

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 **[123]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

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[122] Substituted vide SEBI Circular No. SEBI/HO/IMD/IMD-RAC-2/P/CIR/2023/000175 dated November 01, 2023. Prior to substitution, clause 4.4.3.5 read as under:
"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 schemes116 shall have the enabling provisions included in the SID for creation of segregated portfolio."
[123] SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021.

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 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