



CIRCULAR

SEBI/HO/IMD/DF3/CIR/P/2017/126

December 4, 2017

**All Mutual Funds/Asset Management Companies (AMCs)/
Trustee Companies/Boards of Trustees of Mutual Funds**

Sir/ Madam,

Subject: Categorization and Rationalization of Mutual Fund Schemes

1. SEBI, vide circular no. SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 6, 2017, has issued guidelines regarding categorization and rationalization of Mutual Fund Schemes.
2. Upon consideration of the subsequent representation received from AMFI, it has been decided to partially modify the aforesaid circular as under:
 - i. In pt. 8 of the aforesaid circular, after clause c, an additional clause 'd' shall be added as follows:
 - d. *While preparing the single consolidated list of stocks, average full market capitalization of the previous six month of the stocks shall be considered.*
 - ii. In respect of sr. nos. 3, 4, 6, 7, 8 and 9 of Section B of Annexure to the aforesaid circular, it is clarified that Macaulay duration shall be at portfolio level and accordingly, the column 'Type of Scheme (Uniform description of scheme)' of the respective scheme of the aforesaid sr. nos. is modified and shall be read as given below:
'An open ended XYZ scheme investing in instruments such that the Macaulay duration of the portfolio is between A to B years (please refer to page no.____) #.'

Please refer to the page number of the Offer Document on which the concept of Macaulay's Duration has been explained
 - iii. With respect to the Medium Duration Fund and Medium to Long Duration Fund (sr. no. 7 and sr. no. 8 of Section B of the Annexure to the Circular), the characteristics of the scheme shall remain the same under normal circumstances as stated in the circular dated October 6, 2017. However, the fund manager, in the interest of investors, may reduce the portfolio duration of the aforementioned schemes upto 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. Thus, the modified scheme characteristics for the following categories of schemes would now read as follows:

Category of Schemes	Scheme Characteristics
Medium Duration Fund -	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 years – 4 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 4 years
Medium to Long Duration Fund -	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 4 years – 7 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 7 years

Also, 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.

- iv. Further, Corporate Bond Funds (Sr. No. 11 of Section B of the Annexure to the Circular) would be permitted to invest in AA+ and above rated instruments. Accordingly, the Credit Risk Fund (Sr. No. 12 of Section B of the Annexure to the Circular) would now be permitted to invest in AA and below rated instruments (excluding AA+ rated instruments). Thus, the scheme characteristics and Type of Scheme for the Corporate Bond Fund and Credit Risk Fund would now read as follows:

Category of Schemes	Scheme Characteristics	Type of Schemes
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.
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).
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* excludes AA+ rated corporate bonds

- v. Sr. no. 13 and 16 of Section B of the Annexure to the Circular , shall now read as follows:

Category of Schemes	Scheme Characteristics	Type of Schemes
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
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)

- Mutual Funds are required to submit their proposals to SEBI after obtaining due approvals from their Trustees as early as possible but not later than December 15, 2017.
- All other conditions specified in SEBI circular dated October 06, 2017 shall remain unchanged.
- This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provision of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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