



MASTER CIRCULAR

SEBI/HO/IMD/DF3/CIR/P/2016/84

September 14, 2016

All Mutual Funds, Asset Management Companies (AMCs)
and Association of Mutual Funds in India (AMFI)

Dear Sir/ Madam,

Sub: Master Circular for Mutual Funds

For effective regulation of the Mutual Fund Industry, Securities and Exchange Board of India (SEBI) has been issuing various circulars from time to time. In order to enable the industry and other users to have an access to all the applicable circulars at one place, Master Circular for Mutual Funds has been prepared.

This Master Circular is a compilation of all the circulars issued by SEBI on the above subject, which are operational as on date of this circular

This Master Circular shall supersede the previous Master Circular CIR/IMD/DF/18/2014 dated October 01, 2014.

Yours faithfully,

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Deputy General Manager
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MASTER CIRCULAR FOR MUTUAL FUNDS

BY



SECURITIES AND EXCHANGE BOARD OF INDIA

1. This Master Circular includes circulars issued upto September 14, 2016.
2. In case of any inconsistency between the master circular and the applicable circulars, the contents of the relevant circular shall prevail.
3. Master Circular is a compilation of all the existing/applicable circulars issued by Investment Management Department of SEBI to Mutual Funds. Efforts have been made to incorporate certain applicable provisions of existing circulars (as on date) issued by other Departments/Divisions of SEBI relevant to Mutual Funds.

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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
Compliance Test Reports	CTR(s)
Common Account Statement	CAS
Contingent Deferred Sales Charge	CDSC
Compound Annual Growth Rate	CAGR
Depository Participant	DP
External Commercial Borrowings	ECB
Financial Action Task Force	FATF
Foreign Exchange Management Act	FEMA
Foreign Institutional Investor	FII
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
Monthly Cumulative Report	MCR
Monthly Average Assets Under Management	MAAUM

Multilateral Memorandum of Understanding	MMOU
National Stock Exchange	NSE
Net Asset Value	NAV
New Fund Offer	NFO
Non Performing Assets	NPA(s)
Permanent Account Number	PAN
Prevention of Money Laundering Act	PMLA
Qualified Foreign Investor	QFI
Regulation	Reg.
Rajiv Gandhi Equity Savings Scheme	RGESS
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
Uniform Client Code	UCC
Unit Confirmation Receipt	UCR

CHAPTER 1

OFFER DOCUMENT FOR SCHEMES

1.1 Filing of Offer Document with the Board¹

- 1.1.1 The Offer Document shall have two parts i.e. Scheme Information Document (SID) and Statement of Additional Information (SAI). SID shall incorporate all information pertaining to a particular scheme. SAI shall incorporate all statutory information on Mutual Fund.
- 1.1.2 The Mutual Funds shall prepare SID and SAI in the prescribed formats². Contents of SID and SAI shall follow the same sequence as prescribed in the format. The Board of the AMC and the Trustee(s) shall exercise necessary due diligence, ensuring that the SID/SAI and the fees paid³ are in conformity with the Mutual Funds Regulations⁴.
- 1.1.3 All offer documents (ODs) of Mutual Fund schemes shall be filed with SEBI in terms of the Regulations⁵.

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 – www.sebi.gov.in for 21 working days from the date of filing.
- 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

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

² For format of SID & SAI, please refer to the section on Formats

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.

⁴ SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997.

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

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 days⁶ shall be calculated from the date of refiling;⁷
- 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)⁸

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 alongwith printed copy of the same⁹, upload the SAI on its website and on AMFI website.

1.1.3.3 Filing of Final SID

- a. Final SID (after incorporating comments of the Board) must reach the Board before it is issued for circulation. Soft copy of the final SID in PDF format along with a printed copy should be filed with Board seven¹⁰ working days prior to the launch of

⁶ Regulation 29(3) of SEBI (Mutual Funds) Regulation 1996

⁷ SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997.

⁸ 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.

⁹ SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

¹⁰ SEBI Circular No – SEBI/HO/IMD/DF2/CIR/P/2016/68 dated August 10, 2016

the scheme. AMC shall also submit an undertaking to the Board while filing the soft copy that information contained in the soft copy of SID to be uploaded on SEBI website is current and relevant and matches exactly with the contents of the hard copy and that the AMC is fully responsible for the contents of the soft copy of SID. The soft copy of SID should also be uploaded on AMFI website two working days prior to launch of the scheme¹¹. Failure to submit the printed SID to the Board before it is issued for circulation shall invite penalties under the Mutual Funds Regulations¹².

- b. In case of any difference, in nature of material alteration of the suggestions made by the Board¹³ 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 Board¹⁴.

1.2 Updation of SID & SAI

1.2.1 Updation of SID

- 1.2.1.1 For the schemes launched in the first half of a financial year, the SID shall be updated within 3 months from the end of the financial year. However, for the schemes launched in the second half of a financial year, SID shall be updated within 3 months of the end of the subsequent financial year. *(For example, for a scheme launched in May,*

¹¹ SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

¹² SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997.

¹³Regulation 29(2) of the SEBI (Mutual Funds) Regulations, 1996

¹⁴The existing schemes shall adopt the SID and KIM format as soon as possible but not later than 12 months from the date of issuance of the circular- SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008. A confirmation in this regard shall be given in the half yearly trustee report.

2016 the SID shall be updated by June 30, 2017 and for a scheme launched in December 2015, the SID shall be updated by June 30, 2017) Thereafter, the SID shall be updated once every year.

1.2.1.2 The procedure to be followed in case of changes to the scheme shall be as under:

- a. In case of change in fundamental attributes in terms of Regulation¹⁵, SID shall be revised and updated immediately after completion of duration of the exit option.
- b. In case of other changes:
 1. The AMC shall be required to issue an addendum and display it on its website.
 2. The addendum shall be circulated to the entire distributors/brokers/Investor Service Centre (ISC) so that the same can be attached to copies of SID already in stock, till the SID is updated.
 3. In case any information in SID is amended more than once, the latest applicable addendum shall be a part of SID. *(For example, 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).*
 4. 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.

1.2.1.3 A copy of all changes made to the scheme shall be filed with Board within 7 days of the change. A soft copy of updated

¹⁵ Regulation 18 (15A) of SEBI (Mutual Funds) Regulation, 1996

SID shall be filed with Board in PDF Format along with printed copy of the same. 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 the SID¹⁶.

1.2.2 Updation of SAI

- 1.2.2.1 A printed copy of SAI shall be made available to the investor(s) on request. SAI shall be updated within 3 months from end of financial year and filed with SEBI.
- 1.2.2.2 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.
- 1.2.2.3 A soft copy of updated SAI shall be filed with SEBI in PDF format along with printed copy of the same. AMC shall also submit an undertaking to SEBI while filing the soft copy that information contained in the soft copy of SAI to be uploaded on SEBI website is current and relevant and matches exactly with the contents of the hard copy and that the AMC shall be fully responsible for the contents of soft copy of SAI¹⁷.

¹⁶ SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

¹⁷ SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

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 alongwith 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 Scheme¹⁸

- 1.4.1 In the certificate submitted by Trustees with regard to compliance of AMC with Regulations,¹⁹ 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 close ended schemes except for those close ended schemes which have the option of conversion into open ended schemes on maturity.

¹⁸SEBI Cir No IMD/CIR No.5/70559/06 dated June 30,2006

¹⁹Regulation 18 (4) of SEBI (Mutual Funds) Regulations, 1996.

1.5 Standard Observations

1.5.1 Standard Observations have been prescribed to ensure minimum level of disclosures in the SID and SAI²⁰.

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.

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

1.6 KIM

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

1.6.2 Format of KIM

1.6.2.1 Mutual Funds shall prepare KIM in the prescribed format²¹. The contents of KIM shall follow the same sequence as prescribed in the format.

1.6.3 Frequency of updation

1.6.3.1 KIM shall be updated at least once a year and shall be filed with SEBI.

1.6.3.2 In case of changes in the SID other than changes in fundamental attribute in terms of Reg 18 (15A), the addendum

²⁰For Standard Observations, please refer to the section on Formats

²¹ For format of KIM please refer to the section on Formats

circulated to all the distributors/brokers/investor Service Centre (ISC) shall be attached to KIM till the KIM is updated.

1.6.3.3 In case any information in SID is amended more than once, the latest applicable addendum shall be a part of KIM (For example, 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).

1.7 Easy Availability of Offer Document

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 Benchmarks²²

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

²²SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000, SEBI Circular No. MFD/CIR/16/400/02 dated March 26, 2002, SEBI Circular No. MFD/CIR/01/071/02 April 15, 2002.

500 etc.) as a benchmark index depending on the investment objective and portfolio.

1.8.2 Benchmarks for debt oriented and balanced fund schemes²³ developed by research and rating agencies recommended by the AMFI on a regular basis shall be used by the Mutual Funds.

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

1.8.4 These benchmark indices may be decided by the AMC(s) and Trustees. Any change at a later date in the benchmark index shall be recorded and reasonably justified²⁴.

1.8.5 Examples of benchmarks are illustrated below²⁵:

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

²³SEBI Circular No. MFD/CIR/01/071/02 dated April 15, 2002.

²⁴SEBI 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 section on governance norms.

²⁵SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000

selected from any equity index as above and the other 50% from an appropriate bond return index.

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

1.9 New Fund Offer (NFO) Period²⁶

- 1.9.1 In case of open ended and close ended schemes (except ELSS schemes), the NFO should be open for 15 days.
- 1.9.2 The NFO period in case of ELSS schemes shall continue to be governed by guidelines issued by Government of India.
- 1.9.3 The maximum period for which initial offering of Mutual Fund scheme eligible under RGESS shall be open for subscription shall be thirty days²⁷.
- 1.9.4 Mutual Funds/AMCs are allowed to deploy the NFO proceeds in CBLO^{28 29} before the closure of NFO period. However, AMCs shall not charge any investment management and advisory fees on funds deployed in CBLOs during the NFO period. The appreciation received from investment in CBLO 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 CBLO shall be returned to investors,

²⁶SEBI 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. The provisions mentioned shall be applicable for all NFOs launched on or after July 01, 2010

²⁷ SEBI Circular No. CIR/IMD/DF/02/2013 dated February 6, 2013

²⁸ SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016.

²⁹ will be applicable for NFOs launched on or after April 1, 2016

in proportion of their investments, along-with the refund of the subscription amount.

1.9.5 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, RGESS) shall be available for ongoing repurchase/sale/trading within five business days of allotment”. However, for Mutual Fund scheme eligible under RGESS, the period within which Mutual Fund/ AMC should allocate the units, refund money and issue statements of accounts, shall be fifteen days from the closure of the initial subscription³⁰.

1.10 Restriction on Redemption in Mutual Funds³¹

1.10.1 Presently in terms of circular SEBI/IMD/CIR No.5/126096/08 dated May 23, 2008, facility of restriction on redemption under any scheme of the mutual fund can be made only after the approval from the Board of Directors of the Asset Management Company (AMC) and the Trustees. The provisions are general in nature and do not specifically spell out the circumstances in which restriction on redemption may be applied; leading to discretionary disclosures and practices in the industry.

1.10.2 As a philosophy, restriction on redemption should apply during excess redemption requests that could arise in overall market crisis situations rather than exceptional circumstances of entity specific situations. The circumstances calling for restriction on redemption should be such that illiquidity is caused in almost all securities

³⁰ SEBI Circular No. CIR/IMD/DF/02/2013 dated February 6, 2013

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

affecting the market at large, rather than in any issuer specific securities.

1.10.3 Therefore, 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:

1.10.3.1 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:

1.10.3.1.1 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.

1.10.3.1.2 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.

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

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

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

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

1.10.3.4.1 No redemption requests upto INR 2 lakh shall be subject to such restriction.

1.10.3.4.2 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.

1.10.4 **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.

1.10.5 The circular shall be applicable immediately for (i) all schemes to be launched on or after the date of this circular and (ii) all the existing schemes with effect from July 01, 2016.

1.11 Discontinuation of the nomenclature – ‘Liquid Plus Scheme(s)’³²

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

1.12 Fundamental Attributes³³

1.12.1 The words "fundamental attributes"³⁴ are elaborated below:

1.12.1.1 Type of a scheme

- a. Open ended/Close ended/Interval scheme
- b. Sectoral Fund/Equity Fund/Balance Fund/Income Fund/Debt Fund/Index Fund/Any other type of Fund

1.12.1.2 Investment Objective(s)

- a. Main Objective - Growth/Income/Both.

³² SEBI/IMD/CIR No.13/150975 / 09 dated January 19, 2009

³³ SEBI Circular No- IIMARP/MF/CIR/01/294/98 dated February 4, 1998

³⁴ Clause (d) of sub-regulation (15) of Regulation 18 of SEBI (Mutual Funds) Regulations, 1996

- b. Investment pattern - The tentative Equity/Debt/Money Market portfolio break-up with minimum and maximum asset allocation, while retaining the option to alter the asset allocation for a short term period on defensive considerations.

1.12.1.3 Terms of Issue

- a. Liquidity provisions such as listing, repurchase, redemption.
- b. Aggregate fees and expenses charged to the scheme.
- c. Any safety net or guarantee provided.

CHAPTER 2
CONVERSION AND CONSOLIDATION OF SCHEMES AND LAUNCH
OF ADDITIONAL PLAN

PART I - CONVERSION OF SCHEMES

2.1 Conversion of Close Ended Scheme(s) to Open Ended Scheme(s)³⁵

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 Regulations³⁶, 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 Board³⁷ 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 format³⁸

³⁵ SEBI Circular No. MFD/CIR No.22/2311/03 dated January 30, 2003.

³⁶ Regulation 33(3) of the SEBI (Mutual Funds), Regulations, 1996.

³⁷ SEBI Circular No. SEBI/IMD/Cir No 5/126096/08 dated May 23, 2008

³⁸ Refer to format of half yearly portfolio disclosure under section on formats.

- b. Details of the financial performance of the scheme(s) since inception in the format prescribed in SID³⁹ along with comparisons with appropriate benchmark(s)⁴⁰.
- c. The addendum to the SID detailing the modifications (if any) made to the scheme(s).

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.

³⁹ Please refer to format of SID under section on Formats.

⁴⁰ For examples of Benchmarks, refer to chapter on SID

PART II – CONSOLIDATION OF SCHEMES

2.2 Consolidation of Schemes⁴¹

2.2.1 Any consolidation or merger of Mutual Fund schemes will be treated as a change in the fundamental attributes of the related schemes and Mutual Funds shall be required to comply with the Mutual Funds Regulations in this regard⁴².

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

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

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

2.2.2.2 Disclosures:

- a. Subsequent to approval from the Board of the AMC and Trustee(s), Mutual Funds shall file the proposal with the Board, along with the draft SID, requisite fees (if a new scheme emerges after such consolidation or merger) and draft of the letter to be issued to the unit holders of all the concerned schemes.

⁴¹ SEBI Circular No. SEBI/MFD/CIR No.5/12031/03 dated June 23, 2003.

⁴² Regulation 18(15A) of the Mutual Funds Regulations.

- b. The letter addressed to the unit holders, giving them the option to exit at prevailing NAV without charging exit load, shall disclose all relevant information enabling them to take well informed decisions. This information will include, *inter alia*:
1. Latest portfolio of the concerned schemes⁴³.
 2. Details of the financial performance of the concerned schemes since inception in the format prescribed in SID⁴⁴ 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 NPAs and percentage of total illiquid assets to net assets of each individual scheme(s) as well the consolidated scheme.
 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 scheme⁴⁵.

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 to exit and net assets held by them and number of unit holders

⁴³ Refer format of half yearly portfolio disclosure under section on Formats

⁴⁴ Please refer to SID Format under section on Formats

⁴⁵ Please refer to SID chapter for further details

and net assets in the consolidated scheme shall be filed with the Board within 21 days from the date of closure of the exit option⁴⁶.

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 met⁴⁷:

- a. Fundamental attributes⁴⁸ 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 unitholders of surviving scheme is not adversely affected.
- c. After approval by the Boards of AMCs and Trustees, the mutual funds shall file such proposal with SEBI. SEBI would communicate its observations on the proposal within the time period prescribed⁴⁹.
- d. The letter to unitholders 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.

⁴⁶ SEBI Circular No- SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

⁴⁷ SEBI Circular No- Cir / IMD / DF / 15/ 2010 dated October 22, 2010

⁴⁸ SEBI Circular No-IIMARP/MF/CIR/01/294/98 dated February 4, 1998

⁴⁹ Regulation 29(3) of SEBI (Mutual Funds) Regulations, 1996

PART III – LAUNCH OF ADDITIONAL PLANS⁵⁰

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 Plan⁵¹

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.

⁵⁰ SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15, 2009

⁵¹ SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

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

2.5 Direct Plan⁵²

- 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.

⁵² SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

CHAPTER 3
NEW PRODUCTS

3.1 Fund of Funds Scheme⁵³

- 3.1.1 The SID and the advertisements pertaining to Fund of Funds Scheme⁵⁴ 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 account⁵⁵.
- 3.1.3 Fund of funds mutual fund schemes shall adopt the total expense structures laid out in Regulations⁵⁶, which Asset Management Companies shall clearly indicate in the SIDs.

⁵³ SEBI Circular No. MFD/CIR. No.04/11488/2003 dated June 12, 2003.

⁵⁴ Regulation 2(ma) of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O 632(E) dated May 29, 2003.

⁵⁵ SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

⁵⁶ Regulation 52(6)(a) of SEBI (Mutual Funds) Regulations, 1996

3.2 Gold Exchange Traded Fund Scheme⁵⁷

3.2.1 A Gold Exchange Traded Fund (GETF) Scheme⁵⁸ shall invest primarily in:

3.2.1.1 Gold and

3.2.1.2 Gold related instruments⁵⁹. However investments in gold related instruments shall be done only after such instruments are specified by the Board⁶⁰

3.2.1.3 Gold Deposit Scheme (GDS)⁶¹ 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 instrument⁶², in line with GDS of Banks. Investment in GDS and GMS by Gold ETFs of mutual funds will be subject to following conditions:

- a. The cumulative Investment by Gold ETF in GDS and GMS will not exceed 20% of total AUM of such schemes.
- b. Before investing in GDS of Banks and GMS , mutual funds shall put in place a written policy with regard to investment in GDS and GMS with due approval from the Board of the Asset Management Company and the Trustees. The policy

⁵⁷ 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.

⁵⁸ Regulation 2(mb) of the SEBI (Mutual Funds) Regulations, 1996 introduced vide Gazette Notification No. S.O. 38(E) dated January 12, 2006.

⁵⁹ Regulations 2(mc) of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O. 38(E) dated January 12, 2006.

⁶⁰ SEBI Circular No. SEBI/IMD/CIR No. 4/58422/06 dated January 24, 2006.

⁶¹ SEBI Circular No.CIR/IMD/DF/04/2013 dated February 15, 2013

⁶² SEBI Circular No. CIR/IMD/DF/11/2015 dated December 31, 2015

should have provision to make it necessary for the mutual funds to obtain prior approval of their trustees for each investment proposal in GDS and GMS . The policy shall be reviewed by mutual funds, at least once a year.

c. Certificates issued in respect of investments made by Gold ETFs in GDS of Banks and GMS can be held by the mutual funds in dematerialized or physical form⁶³.

3.2.1.4 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 Regulations⁶⁴.

3.2.3 Determination of Net Asset Value⁶⁵

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

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

3.2.4 Recurring Expenses⁶⁶

⁶³ SEBI Circular No. CIR/IMD/DF/16/2013 dated October 18, 2013

⁶⁴ 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.

⁶⁵ SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.

⁶⁶ SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.

3.2.4.1 The recurring expenses limits applicable to equity schemes⁶⁷ shall be applicable to GETF Scheme(s).

3.2.5 Benchmarks for GETF Scheme⁶⁸

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

3.2.6 Half yearly report by Trustees⁶⁹

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 report⁷⁰ by trustees to SEBI.

3.3 Capital Protection Oriented Scheme⁷¹

3.3.1 The SID, KIM and advertisements pertaining to Capital Protection Oriented Scheme⁷² 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.

3.3.2 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

⁶⁷ Regulation 52(6) of the SEBI (Mutual Funds) Regulations, 1996.

⁶⁸ SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.

⁶⁹ SEBI Circular No. Cir/IMD/DF/20/2010 dated December 06, 2010

⁷⁰ Please refer to 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.

⁷¹ SEBI Circular No. SEBI/IMD/CIR No.9/74364/06 dated August 14, 2006.

⁷² 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.

achieving the objective of capital protection and the rating shall be reviewed on a quarterly basis.

3.3.3 The Trustees shall continuously monitor the portfolio structure of the scheme and report the same in the Half Yearly Trustee Reports⁷³ to the Board. The AMC(s) shall also report on the same in its bimonthly (CTR(s))⁷⁴ to the Board.

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

3.4 Real Estate Mutual Funds⁷⁵:

3.4.1 A real estate mutual fund scheme⁷⁶ can invest in real estate assets in the cities mentioned in:

3.4.1.1 List of Million Plus Urban Agglomerations/Cities; or

3.4.1.2 List of Million Plus Cities

3.4.2 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 4.

3.5 Rajiv Gandhi Equity Savings Scheme⁷⁷, 2012

3.5.1 As announced in the Union Budget 2012-13, the Finance Act 2012 has introduced a new section 80CCG on 'Deduction in respect of investment made under an equity savings scheme' to give tax benefits to new investors who invest up to Rs.

⁷³ For format of Half Yearly Trustee Report please refer section on Formats

⁷⁴ For format of bimonthly CTR please refer section on Formats

⁷⁵ SEBI Circular No - SEBI/IMD/CIR No.4/124477/08 May 2,2008

⁷⁶ Regulation 49 A(a)(i) of SEBI (Mutual Fund) Regulations, 1996

⁷⁷ SEBI Circular No. CIR/MRD/DP/32/2012 dated December 6, 2012

50,000 and whose gross total annual income is less than or equal to Rs. 10 lakhs. The objective of the scheme is to encourage flow of savings in the financial instruments and improve the depth of the domestic capital market.

- 3.5.2 Vide notification 51/2012 dated November 23, 2012, the scheme has been notified by the Department of Revenue, Ministry of Finance (MoF). The notification is available on the website of Income Tax Department under section “Notifications”.
- 3.5.3 AMCs / Trustees shall ensure that RGESS eligible Exchange Traded Funds (ETFs) and Mutual Funds (MFs) schemes are in compliance with the aforementioned notification.
- 3.5.4 With regard to implementation of the MoF notification, the following is clarified:
- a. For RGESS eligible close-ended Mutual Funds schemes, advice given by AMCs to the depository for extinguishment of units of close-ended schemes considered as settled through depository mechanism and therefore RGESS compliant.
 - b. AMCs shall disclose that the concerned RGESS eligible Exchange Traded Funds and Mutual Fund schemes is in compliance with the provisions of RGESS guidelines notified by Ministry of Finance vide notification no. 51/2012 F. No. 142/35/2012-TPL dated November 23, 2012, in Scheme Information Document (SID), in case of new fund offer, or by way of addendum, in case of existing RGESS eligible Exchange Traded Funds and Mutual Fund schemes.
 - c. Para 6(c) of the notification states that the eligible securities brought into the demat account will automatically be subject to lock-in during the first year, unless the new investor specifies otherwise and for such specifications, the new retail investors

shall submit a declaration indicating that such securities are not to be included within the above limit of investment. It is clarified that such declaration shall be submitted by an investor to its Depository Participant within a period of one month from the date of transaction.

- d. For transactions undertaken by investors through their RGESS designated demat account, Depositories may seek necessary transactional details from stock exchanges viz. Actual Trade value, Trading date, Settlement number, etc, for the purpose of enforcing lock-in and for generating reports mandated vide MoF notification on RGESS. On receipt of such request from depositories, stock exchanges shall provide the details to depositories on an immediate basis. It shall also be ensured that a uniform file structure is used by stock exchanges and depositories for such intimation of transaction details.
- e. With regard to the securities held in the RGESS designated account, treatment of the corporate actions shall be given in the prescribed format⁷⁸.

3.5.5 Mutual Funds / AMCs shall communicate list of RGESS eligible MF schemes / ETFs to the stock exchanges.

3.5.6 Mutual Funds / AMCs are directed to create wide publicity of the scheme among the investors, including displaying details on their website.

⁷⁸ Please refer to section on Formats for requisite formats

3.6 Infrastructure Debt Schemes⁷⁹

3.6.1 Placement Memorandum:

3.6.1.1 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.

3.6.1.2 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 format⁸⁰.

3.6.2 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.

3.6.3 **FPIs which are long term investors**

3.6.3.1 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. With reference to regulation 49L of the SEBI (Mutual Funds)

⁷⁹ SEBI Circular No. CIR/IMD/DF/7/2013 dated April 23, 2013

⁸⁰ Please refer to section on Formats for requisite Formats

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 FPIs⁸¹

3.6.4 **Investments by the IDF scheme**

- 3.6.4.1 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.

⁸¹ SEBI Circular No. CIR/IMD/DF/20/2013 dated November 29, 2013

CHAPTER 4

RISK MANAGEMENT SYSTEM⁸²

4.1 An Operating Manual⁸³ for Risk Management has been developed to ensure minimum standards of due diligence and Risk Management Systems for all the Mutual Funds in various operational areas (for e.g. Fund Management, Operations, Customer Service, Marketing and Distribution, Disaster Recovery and Business Contingency, etc.) and is enclosed herewith as Annexure 2.

4.2 **The Risk Management practices covered in the Operating Manual are under three categories as detailed below:**

4.2.1 Existing Industry Practices:

4.2.1.1 Under each head of risk, the Manual covers the exemplary practices followed by some / most of Mutual Funds in India. However, the extent and degree of observance of these practices differs among the Mutual Funds. Mutual Funds shall accordingly develop their systems and follow these practices.

4.2.2 Practices to be followed on Mandatory Basis:

4.2.2.1 Mutual Funds shall follow the practices which have been indicated as mandatory in the operating manual. These are Risk Management function that shall be assigned to Compliance Officer or Internal Risk Management Committee or to an external agency

a. Disaster Recovery and Business Contingency plans, and

b. Insurance cover against certain risks.

⁸² SEBI Circular No. MFD/CIR/15/19133/2002 dated September 30, 2002.

⁸³ The Manual has been developed by AMFI in association with Pricewaterhouse Coopers as a part of Indo-US Financial Institutions Reforms and Expansion Project.

4.2.3 Best Practices to be followed by Mutual Funds:

4.2.3.1 Mutual Funds shall adopt these practices as a part of their due diligence exercise after considering the size of their operations.

4.3 *Implementation of the Risk Management System*

4.3.1 Mutual Funds shall adopt the following approach to implement the Risk Management System:

4.3.2 Identification of observance of each recommendation:

4.3.2.1 Mutual Funds shall identify areas of current adherence as well as non-adherence of various Risk Management practices under each of the three categories. They shall examine the areas where development or improvement of systems is required.

4.3.2.2 After identifying the same, Mutual Funds shall review the progress made on implementation of the systems on a monthly basis and place the progress report in periodical meetings of the Board of the AMC and Trustees.

4.3.3 Review of Progress of implementation by Board of AMC and Trustee(s):

4.3.3.1 The Board of the AMC and Trustee(s) shall review the progress made by the Mutual Funds with regard to Risk Management practices and the same shall be reported to the Board at the time of sending CTR(s) and Half Yearly Trustee Reports.

4.3.4 Review by Internal Auditors:

4.3.4.1 The review of Risk Management Systems shall be a part of internal audit and the auditors shall check their adequacy on a continuing basis. Their reports shall be placed before the Board of the AMC and

Trustee(s) who shall comment on the adequacy of systems in the CTRs and Half Yearly Reports filed with the Board.

4.4 Stress Testing of Liquid Fund and Money Market Mutual Fund Schemes ⁸⁴

4.4.1 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).

4.4.2 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:

4.4.2.1 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.

4.4.2.2 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.

⁸⁴ SEBI Circular No. CIR/IMD/DF/03/2015 dated April 30, 2015.

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

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

4.4.2.4 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.

4.4.2.5 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.

4.4.2.6 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.

4.4.2.7 Further, Trustees shall be required to report compliance with this circular and steps taken to deal with adverse situations faced, if any, in the Half Yearly Trustee Report submitted to SEBI.

4.5 Internal Credit Risk Assessment ⁸⁵ ⁸⁶:

4.5.1 In order to ensure that MFs / AMC's are able to carry out their own credit assessment of assets and reduce reliance on credit rating agencies, all MFs/ AMC's are required to have an appropriate policy and system in place to conduct an in-house credit risk assessment / due diligence before investing in fixed income products.

⁸⁵ SEBI Circular No. SEBI/HO/IMD/DF2/CIR/2016/42 dated March 18, 2016.

⁸⁶ Will be effective from May 01, 2016.

CHAPTER 5
DISCLOSURES & REPORTING NORMS

PART I – DISCLOSURES

5.1 Monthly Portfolio Disclosures⁸⁷

- 5.1.1 Mutual funds/AMCs shall disclose portfolio (along with ISIN) as on the last day of the month for all their schemes on their respective website on or before the tenth day of the succeeding month in a user-friendly and downloadable format (preferably in a spreadsheet).
- 5.1.2 The format for monthly portfolio disclosure⁸⁸ shall be same as that of half yearly portfolio disclosures.
- 5.1.3 Mutual funds/AMCs may disclose additional information (such as ratios, etc.) subject to compliance with the Advertisement Code.

5.2 Half Yearly disclosure of Portfolios⁸⁹

- 5.2.1 Mutual Funds shall send a complete statement of Scheme Portfolio to the unit holders before the expiry of one month from the closure of each Half Year (i.e. March 31 and September 30), if such statement is not published by way of advertisement⁹⁰.
- 5.2.2 The Scheme Portfolio(s)⁹¹ shall also be disclosed on the Mutual Funds' web sites before the expiry of one month from the closure of each Half Year (i.e. March 31 and September 30) and a copy of the

⁸⁷ SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

⁸⁸ Please refer to section on Formats for requisite Formats

⁸⁹SEBI Circular No. MFD/CIR No.010/024/00 dated January 17, 2000, SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000, SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001, SEBI Circular No. MFD/CIR/14/18337/2002 dated September 19, 2002, SEBI Circular No. IMD/CIR 8/132968/2008 dated July 24, 2008

⁹⁰Regulation 59A of the Mutual Funds Regulations & SEBI Circular No. MFD/CIR No.010/024/00 dated January 17, 2000

⁹¹ For format of half yearly portfolio, please refer to the section on formats

same shall be filed with the Board along with the Half Yearly Results⁹².

5.2.3 Disclosure of derivatives in Half Yearly Portfolios⁹³

5.2.3.1 A format⁹⁴ for the purpose of uniform disclosure of investments in derivative instruments by Mutual Funds in half yearly portfolio disclosure, annual report or in any other disclosures is prescribed.

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

5.3 Unaudited Half Yearly Financials⁹⁵

5.3.1 The publication of the unaudited half-yearly results shall be made in line with provisions of the Regulations⁹⁶, in the format prescribed in Twelfth Schedule.

5.3.2 The half yearly disclosures⁹⁷ of the unaudited financial results on respective website should be made in a user-friendly and downloadable format (preferably in a spreadsheet).

5.4 Mailing of Schemewise Annual Report or Abridged Summary⁹⁸

5.4.1 Mailing of Schemewise Annual Reports⁹⁹ or abridged summary thereof shall be subject to the following:

⁹²SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001

⁹³ SEBI Circular Cir/ IMD/ DF/ 11/ 2010 dated August 18, 2010

⁹⁴ For formats on disclosure of derivatives, please refer to the section on Formats

⁹⁵ SEBI Circular MFD/CIR/1/200/2001 dated April 20, 2001 & SEBI Circular No. IMD/CIR No.8/132968/2008 dated July 24, 2008

⁹⁶ Regulation 59 of SEBI (Mutual Funds) Regulations, 1996

⁹⁷ SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

⁹⁸ SEBI Circular No. IMD/CIR No.8/132968/2008 dated July 24, 2008 and Circular No.Cir/IMD/DF/16/2011 dated September 8, 2011

⁹⁹ For format of abridged schemewise report, please refer the section on formats

- 5.4.1.1 In case of unitholders whose email addresses are available with the Mutual Fund, the AMCs shall communicate to them stating that henceforth, the scheme annual reports or abridged summary would only be sent by email.
- 5.4.1.2 In case of unitholders whose email addresses are not available with the Mutual Fund, the AMCs shall communicate to the unitholders to obtain their email addresses for registration of the same in their database.
- 5.4.1.3 The communication in both the above cases shall clearly mention that the scheme annual accounts or abridged summary would henceforth be sent to these email addresses and not as physical copies and the communication shall also have an option for the investors stating that those who still wish to receive the reports as physical copies may indicate as such.
- 5.4.1.4 In case of any request from these unitholders as detailed above for physical copies notwithstanding their registration of email addresses, AMCs shall provide the same without demur.
- 5.4.1.5 For the rest of the investors, i.e. whose email addresses are not available with the mutual fund, the AMCs shall continue to send physical copies of scheme annual reports or abridged summary.
- 5.4.1.6 The AMCs shall display the link of the scheme annual reports or abridged summary prominently on their websites and make the physical copies available to the investors at their registered offices at all times. These websites should also be linked with AMFI website so that the investors and analyst(s) can access the annual reports of all mutual funds at one place¹⁰⁰. However,

¹⁰⁰ SEBI Cir No – MFD/CIR/15/041/2002 dated March 14,2002

as per the Regulations¹⁰¹, a copy of Scheme wise Annual Report shall be also made available to unitholder(s) on payment of nominal fees.

5.5 Disclosure of large unit holdings¹⁰²

5.5.1 The number of investors holding over 25 % of the NAV¹⁰³ in a scheme and their total holdings in percentage terms shall be disclosed in the Statement of Accounts issued after the NFO and also in the Half Yearly and Annual Results¹⁰⁴.

5.6 Asset Under Management (AUM) disclosure¹⁰⁵

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

5.6.2 Mutual Funds shall disclose the following on monthly basis on their website and also share the same with Association of Mutual Funds in India (AMFI)¹⁰⁶:

- a. Monthly AAUM¹⁰⁷ from different categories of schemes such as equity schemes, debt schemes, etc.

¹⁰¹ Regulation 56(1) & 56(3) of SEBI (Mutual Funds) Regulations, 1996

¹⁰² SEBI Circular No. MFD/CIR No.3/211/2001 dated April 30, 2001.

¹⁰³ For further details, refer Section II – Scheme Governance in the Chapter on Governance Norms

¹⁰⁴ Please refer the section on Formats for requisite formats

¹⁰⁵ SEBI Circular No.Cir/IMD/DF/13/2011 dated August 22, 2011

¹⁰⁶ SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014

¹⁰⁷ SEBI Circular No. CIR/IMD/DF/07/2014 dated April 2, 2014

- b. Contribution to Monthly AAUM from B-15 cities (i.e. other than top 15 cities as identified by AMFI) and T-15 cities (Top 15 cities).
 - c. Contribution to Monthly AAUM from sponsor and its associates.
 - d. Contribution to Monthly AAUM from entities other than sponsor and its associates.
 - e. Contribution to Monthly AAUM from investors type (retail, corporate, etc.) in different scheme type (equity, debt, ETF, etc.).
 - f. Monthly AAUM garnered through sponsor group/ non-sponsor group distributors.
 - g. State-wise/Union Territory-wise contribution to MAAUM.
- 5.6.3 In order to have a holistic picture, Mutual Fund wise and consolidated data on the above parameters shall also be disclosed on AMFI website. The above shall be disclosed as per the format¹⁰⁸.
- 5.6.4 AMCs shall disclose the above on their website (in spreadsheet format) and forward to AMFI within 7 working days from the end of the month. AMFI in turn shall disclose the consolidated data in this regard on its website (in spreadsheet format).

5.7 Commission disclosure¹⁰⁹

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

- 5.7.1.1 Multiple point of presence (More than 20 locations)

¹⁰⁸ For formats, please refer to chapter on Formats

¹⁰⁹ SEBI Circular No.Cir/IMD/DF/13/2011 dated August 22, 2011

5.7.1.2 AUM raised over Rs.100 crore across industry in the non institutional category but including high networth individuals (HNIs).

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

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

5.7.2 Mutual Fund / AMCs shall, in addition to the total commission and expenses paid to distributors, make additional disclosures¹¹⁰ regarding distributor-wise gross inflows (indicating whether the distributor is an associate or group company of the sponsor(s) of the mutual fund), net inflows, average assets under management and ratio of AUM to gross inflows on their respective website on an yearly basis.

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

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

5.8 Scheme Related Disclosures ¹¹¹

In order to improve transparency as well as ease of access to Mutual Fund (MF) scheme related information, it has been decided that: ¹¹²

5.8.1 Mutual Funds shall provide the following additional disclosures in the offer documents (Scheme Information Document (SID) / Key

¹¹⁰ SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

¹¹¹ SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016

¹¹² Effective from June 30, 2016

Information Memorandum (KIM)) of Mutual Fund scheme (for existing scheme / new scheme, as applicable):

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

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

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

5.8.1.4 Scheme's portfolio turnover ratio.

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

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

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

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

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

5.8.4 Each MF is required to have a dashboard on their website providing performance and key disclosures pertaining to each scheme managed by AMC. The information should include scheme's AUM,

investment objective, expense ratios, portfolio details, scheme's past performance, among others. Such information shall be provided in a comparable, downloadable (spreadsheet) and machine readable format.

5.9 Annual report of the AMC ¹¹³

5.9.1 Annual report containing accounts of the asset management companies should be displayed on the website of the mutual funds. It should also be mentioned in the annual report of the mutual fund schemes that the unitholders, if they so desire, may request for a copy of the annual report of the asset management company.

5.10 Submission of bio data of key personnel¹¹⁴

5.10.1 AMCs are required to submit the bio data of all key personnel to Trustees and the Board. For this purpose, 'key personnel' would be the Chief Executive Officer (CEO), fund manager(s), dealer(s) & heads of other departments of the AMC¹¹⁵.

5.11 Disclosure Of Executive Remuneration¹¹⁶

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

¹¹³ MFD/CIR/9/120/2000 dated November 24, 2000

¹¹⁴ IIMARP/CIR /08/845/97 dated May 7,1997,IIMARP/MF/CIR/05/788/97 date April 28,1997

¹¹⁵ For format of bio-data of key personnel, please refer the section on Formats

¹¹⁶ SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016

- 5.11.1 Name, designation and remuneration of Chief Executive Officer (CEO), Chief Investment Officer (CIO) and Chief Operations Officer (COO) or their corresponding equivalent by whatever name called.
- 5.11.2 Name, designation and remuneration received of all employees of MF/AMC whose:
- 5.11.2.1 Annual remuneration was equal to or above INR 60 lakh for that year;
 - 5.11.2.2 Monthly remuneration in the aggregate is not less than INR 5 lakh per month, if the employee is employed for a part of the financial year.
- 5.11.3 The ratio of CEO's remuneration to median remuneration of MF/AMC employees.
- 5.11.4 MF's total AAUM, debt AAUM and equity AAUM and rate of growth over last three years.

For this purpose, remuneration shall mean remuneration as defined in clause (78) of section 2 of the Companies Act, 2013. The AMCs/MFs shall disclose this information within one month from the end of the respective financial year (effective from FY 2015-16).

5.12 Disclosure of investor complaints with respect to Mutual Funds¹¹⁷

- 5.12.1 Mutual Funds shall disclose¹¹⁸ on their websites, on the AMFI website as well as in their Annual Reports, details of investor complaints received by them from all sources. The said details should

¹¹⁷ SEBI Circular No. Cir /IMD/DF/2/2010 dated May 13, 2010

¹¹⁸ For disclosure format please refer to section on Formats.

be vetted and signed off by the Trustees of the concerned Mutual Fund.

5.12.2 The Mutual Funds are advised to:

5.12.2.1 Upload the report for the financial year within 2 months of the close of the financial year.

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

5.13 Brokerage and commission paid to associates¹¹⁹

5.13.1 Regulations¹²⁰ govern payment of brokerage or commission if any, to the sponsor or any of its associates, employees or their relatives.

5.13.2 Disclosures on brokerage and commission paid to associates/related parties/group companies of sponsor/Asset Management Company in the unaudited half yearly financial results, the abridged scheme wise annual report and the SAI, shall be made in the format as prescribed¹²¹.

¹¹⁹ SEBI Circular No. SEBI/IMD/CIR No 18/198647/2010 dated March 15, 2010

¹²⁰ Regulation 25 (8) of SEBI (Mutual Funds) Regulations, 1996

¹²¹ Please refer to the section on Formats

PART II – REPORTS

5.14 Monthly Cumulative Report (MCR)¹²²

5.14.1 Date and Mode of Submission:

5.14.1.1 MCR¹²³ shall be submitted to the Board by 3rd working day of each month by way of an email. Hard copy should also be sent by hand delivery/courier.

5.14.2 Other Guidelines:

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

5.14.2.2 Further, additional report on overseas investment¹²⁴ by Mutual Funds in ADRs/GDRs, foreign securities and overseas exchange traded funds (ETFs) shall also be provided as per the prescribed format. For format please refer to the section on formats.

¹²² SEBI circular MFD/CIR/07/206/2001 dated July 19, 2001, SEBI circular No IMD/Cir No.15/87045/2007 dated February 22, 2007, SEBI circular SEBI/IMD/CIR No 3/124444/08 dated April 30, 2008, SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016

¹²³ For format of MCR please refer to section on Formats.

¹²⁴ SEBI Circular No. SEBI/IMD/CIR NO 15/87045/07 dated February 22,2007

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

5.15 New Scheme Report (NSR)¹²⁵

5.15.1 All Mutual Funds shall submit the NSR to SEBI complete in all respects within 10 working days from the date of allotment in the prescribed format¹²⁶.

5.16 Bi-monthly Compliance Test Reports¹²⁷

5.16.1 AMC's shall do exception reporting on a bi-monthly basis. The details sought in the annexures of the CTR shall be furnished to the Board in case of non-compliance only along with exception report. This exception report shall also be placed before the Trustee(s).

5.16.2 The CTRs¹²⁸ should be submitted by the AMC to the Board once in every two months so as to reach within 21 days of completion of the two months period. As a compliance of SEBI Regulations is a continuous process, AMCs are advised to incorporate the modifications/additions under the relevant sections of the format, based on amendments to the Regulations/guidelines issued in the future from time to time.

¹²⁵ SEBI Circular No. SEBI/IMD/CIR NO 13/118899/08 dated February 29, 2008, SEBI Circular No MFD/CIR/12/16588/02 dated August 28, 2002 & SEBI Circular No IIMARP/MF/CIR/05/788/97 dated April 28, 1997, SEBI Circular No. IIMARP/10772/93 dated July 14,1993,

¹²⁶ For details on format of NSR please refer the section on Formats.

¹²⁷ SEBI Circular No. SEBI/IMD/CIR NO 6/98057/07 dated July 5, 2007, SEBI Circular No MFD/CIR/11/36222/2005 dated March 16,2005, SEBI Circular No IIMARP/MF/CIR/10/1076/97 dated June 05,1997 & SEBI Circular No.MFD/CIR/5/360/2000 dated July 4, 2000,

¹²⁸For CTR format, please refer the section on Formats.

5.17 Annual Statistical Report (ASR)¹²⁹

5.17.1 AMC should submit the annual statistical report to SEBI in the prescribed format by 30th of April each year¹³⁰.

5.18 Daily Transaction Report¹³¹

5.18.1 All Mutual Funds shall submit details of transactions in secondary market on daily basis in the prescribed format¹³². Accordingly, Mutual Funds are advised to make necessary arrangements with their custodians for the submission of reports on a daily basis. The report is to be submitted to the Board in both hard as well as soft copy.

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

¹²⁹ IIMARP/CIR /08/845/97 DATED May 7,1997, MFD/CIR/02/110/02 dated April 26,2002, SEBI Cir No- IMD/CIR No 6/72245/06 dated July 20,2006,

¹³⁰ For format of ASR refer the section on Formats

Quarterly Movement of Net Assets- SEBI CIR – IIMARP/MF/CIR/05/788/97 dated April 28, 1997 required mutual funds to submit the statement for quarterly movement of net assets. However, SEBI circular MFD/CIR/12/16588/02 dated August 28,2002 stated that such Statement of movement of net assets /portfolios are no more to be submitted

¹³¹SEBI Circular No.MFD/CIR/07/384/99 dated December 17, 1999 and MFD/CIR/08/23026/99 dated December 23, 1999

¹³² For format of daily transaction report, please refer the section on formats

5.19 Responsibilities of AMC(s) and Trustees¹³³

- 5.19.1 All information and documents relating to the compliance process shall be authenticated and/or adopted by the Board of the AMC(s) to strengthen the compliance mechanism.
- 5.19.2 The Trustee(s) shall also review all information and documents received from the AMC(s) as required under the compliance process.
- 5.19.3 AMC(s) shall develop a suitable Management Information System for reporting to the Trustees. The report shall contain specific comments on all issues related to the operation of the Mutual Fund as undertaken by the AMC including those provided in the format for reporting by AMC to Trustees¹³⁴.
- 5.19.4 The half-yearly report on the activities of the mutual fund to be submitted by the trustees to the Board under the Mutual Funds Regulations¹³⁵ shall cover all issues mentioned in the prescribed format as well as any other issue relevant to the operation of the Mutual Fund¹³⁶. The Trustees may mention in their report, if they so desire, that they have relied on the reports obtained from the independent auditor or internal/ statutory auditors or the Compliance Officer as the case may be. The report shall mention that the Trustees have satisfied themselves about the adequacy of compliance systems in the Mutual Fund.

¹³³SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000, SEBI Circular No. SEBI/MFD/CIR/10/039/2001 dated February 9, 2001.

¹³⁴ Please refer the formats section for format for reporting by AMC to Trustees

¹³⁵ Regulation 18(23)(a) of SEBI (MF) Regulations, 1996

¹³⁶ For format of Trustee Report, please refer to the formats section.

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

5.20 Filing of Annual Information Return by Mutual Funds¹³⁷

5.20.1 Mutual Funds are required to submit the Annual Information Return under section 285 BA in the Income-tax Act. As per this requirement, Trustees of Mutual Funds or such other person managing the affairs of the Mutual Funds (as may be duly authorized by the trustees in this behalf) have to report specified financial transactions in electronic media to Income Tax Department giving PAN of the transacting parties in an Annual Information Return (AIR).

5.20.2 Some common errors in these returns have been pointed out by the Directorate of Income Tax (Systems) as:

5.20.2.1 Not mentioning PAN or mentioning invalid PAN.

5.20.2.2 Entering incomprehensible/ incomplete names of transacting parties, e.g. names of 2 or 3 letters.

¹³⁷ SEBI cir no IMD/CIR No.8/73580/06 dated August 4,2006

It may be noted that Annual Information Returns (AIRs) constitute an important source of information to Income Tax Department and, as such, it is imperative that the data furnished to them is complete and accurate in all respects. It is therefore advised that to re-check the accuracy of the data furnished by your office for the Financial Year 2004-05 and ensure that all the columns are correctly filled-in and submit a 'Supplementary Information Report', if need be, to the Income Tax Department.

The AIRs for the financial year 2005-2006 are required to be filed before August 31, 2006.

- 5.20.2.3 Entering incomprehensible/ incomplete addresses of transacting parties, e.g. 'Nil', 'N/A', '_', in all address fields, incomplete postal addresses, names of buildings split into separate fields, names of two cities in address fields, wrong PIN codes, etc.
 - 5.20.2.4 Incorrect district and state codes.
 - 5.20.2.5 Incorrect transaction codes.
 - 5.20.2.6 Wrongly showing transaction as of 'Govt.' party.
- 5.20.3 In this regard, AIRs are required to be filed only by the Mutual Fund and no separate AIR has to be furnished for each scheme of the Mutual Fund.

CHAPTER 6

GOVERNANCE NORMS

PART I - FUND GOVERNANCE

6.1 *Formation of Audit and Valuation Committees by the Trustees and/or AMC*¹³⁸

6.1.1 *Audit Committee*

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

6.1.2 *Valuation Committee*

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

6.2 *Review and Reporting of Transactions*¹³⁹

6.2.1 *Reporting of transactions*

6.2.1.1 Transaction(s) by directors of the AMC

¹³⁸ SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000.

¹³⁹ SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000, SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000, SEBI Circular No. SEBI/MFD/CIR/10/039/2001 dated February 9, 2001.

- a. Directors of the AMC shall file with the trustees on a quarterly basis details of transactions in securities exceeding Rs.1 lac¹⁴⁰.

6.2.1.2 Trustee(s) Directors

- a. Trustees are required to report to Mutual Funds only those transactions in securities that exceed Rs.1 lac in value¹⁴¹.

6.2.2 **Review of transactions**

- 6.2.2.1 Trustees shall review all transactions of the Mutual Fund with the associates as defined below on a regular basis and ensure that Regulations are complied with¹⁴².

6.3 ***Role of Independent Director on the Board of the AMC and Independent Trustees***¹⁴³

- 6.3.1 An Independent Trustee shall not be associated in any manner with the Sponsor(s)¹⁴⁴. The independent directors on the Board of the AMC shall not be associate of, or associated in any manner with, the sponsor or any of its subsidiaries or the trustees¹⁴⁵.

- 6.3.2 An 'associate' shall be defined as:

¹⁴⁰ SEBI Circular No. SEBI/MFD/CIR/10/039/2001 dated February 9, 2001.

¹⁴¹ Regulation 18(11) of SEBI (MF) Regulations, 1996 and SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000.

¹⁴² Regulations 18(6) and 18(7) of SEBI (Mutual Funds), Regulations, 1996 and SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000.

¹⁴³ SEBI Circular No. MFD/CIR/11/354/2001 dated December 20, 2001, SEBI Circular No. MFD/CIR/13/16799/2002 dated August 29, 2002, SEBI Circular No. MFD/CIR/17/21105/2002 dated October 28, 2002.

¹⁴⁴ Regulation 16(5) of the SEBI (Mutual Funds) Regulations, 1996.

¹⁴⁵ Regulation 21(d) of the SEBI (Mutual Funds) Regulations, 1996

6.3.2.1 Relatives¹⁴⁶ of Sponsor(s) or directors of the Sponsor Company or relatives of Associate Directors of the AMC(s) and Trustee.

6.3.2.2 Persons providing any type of professional service to the Mutual Funds, the AMC and the Trustees and the Sponsor(s). Also, persons having a material pecuniary relationship with the above mentioned entities that may, in the judgment of the Trustees, affect their independence.

6.3.2.3 Nominees of the companies who are stakeholders in the Sponsor company or AMC(s) (even if they are not deemed sponsors by virtue of holding less than 40% of net worth of AMC(s)).

6.3.3 Cooling off Period

6.3.4 An “Associate”¹⁴⁷ as defined above cannot be appointed as Independent Director even after he ceases to be an “Associate” unless a cooling off period of three years has elapsed from the date of his disassociation.

6.3.5 Mutual Funds are required to have a minimum of 50 per cent. and two-third independent directors on the Board of the AMC(s) and Trustees respectively¹⁴⁸. In case the composition of the directors does not meet these requirements, Mutual Funds are required to inform the Board along with the steps proposed to ensure compliance.

6.3.6 AMC(s) or Trustees shall appoint Independent Directors in place of the resigning director(s) within a period of 3 months from the date of resignation. Where Mutual Funds are unable to meet this time

¹⁴⁶ As defined under Section 6 of the Companies Act 1956

¹⁴⁷ Regulation 2(c) of the SEBI (Mutual Funds) Regulations, 1996

¹⁴⁸ Regulation 21(d) and Regulation 16(5) of the SEBI (Mutual Funds) Regulations, 1996

limit, they shall report to the Board explaining the reasons for non compliance. Mutual Funds may maintain a panel of eligible persons who can be appointed as Independent Directors¹⁴⁹ as and when required. They may also consider appointing more than the required minimum number of Independent Directors to enhance the standards of corporate governance and also to meet the regulatory requirements in case of resignation of an independent director.

6.3.7 On appointment of new directors of the AMC or Trustee, their bio-data¹⁵⁰ shall be filed with the Board for information or approval respectively.

6.4 ***Investment and/or for / Trading in Securities by the employees of the AMC(s) and Trustee(s)***¹⁵¹

6.4.1 The Board of the AMC and Trustees shall ensure compliance with these Guidelines on a continuous basis and shall report any violations and remedial action taken by them in the periodical reports submitted to the Board¹⁵².

6.4.2 The guidelines enumerated below specify the minimum requirements that have to be followed. The AMC(s) and Trustees are free to set more stringent norms for investment and/or trading in securities by their employees.

6.4.3 Guidelines for Investment and/or Trading in Securities by Employees of AMC(s) and Trustees:

¹⁴⁹ For biodata of directors (AMC and Trustee), please refer to section on Formats

¹⁵⁰ For biodata of directors (AMC and Trustee), please refer to section on Formats

¹⁵¹ SEBI Circular No. MFD/CIR No.4/216/2001 dated May 8, 2001, SEBI Circular No. SEBI/IMD/CIR No.7/13391/03 dated July 11, 2003.

¹⁵² Regulation 25(9) & 23(b) of SEBI (MF) Regulations, 1996

6.4.3.1 Applicability

- a. These Guidelines shall be applicable to all employees of AMC(s) and Trustees and shall form a part of the Code of Conduct for employees adopted by the AMC(s) and/or Trustees. New employees shall be bound by these Guidelines from the date of joining the AMC(s) and/or Trustees.
- b. These Guidelines shall cover transactions for sale or purchase of securities made in the employees' name, either individually or jointly, and in the name of the employees' spouse and/or dependent children and transactions as a member of HUF.

6.4.3.2 The objectives and principles of these Guidelines are:

- a. To ensure that all securities transactions made by employees in their personal capacity are conducted in consonance with these Guidelines and in such manner as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility.
- b. The employees of AMC(s) and Trustees especially Access Persons shall not take undue advantage of any price sensitive information that they may have about any company. Access Person for the purpose of these Guidelines shall mean the Head of the AMC (designated as CEO/Managing Director/President or by any other name), the Fund Managers, Dealers, Research Analysts, all employees in the Fund Operations Department, Compliance Officer and Heads of all divisions and/or departments or any other employee as decided by the AMC(s) and/or Trustees.

- c. To guide employees of AMC(s) and Trustees in maintaining a high standard of probity that one would expect from an employee in a position of responsibility.

6.4.4 General

6.4.4.1 Investments Covered:

- a. These Guidelines cover transactions for purchase or sale of any securities such as shares, debentures, bonds, warrants, derivatives and units of Mutual Fund schemes.
- b. These Guidelines do not apply to the following investments by the employees:
 - 1. Investments in Fixed Deposits with banks and/or Financial Institutions and/or companies, Life Insurance Policies, Provident Funds (including Public Provident Fund) or investment in savings schemes such as National Savings Certificates, National Savings Schemes, Kisan Vikas Patra, or any other similar investment.
 - 2. Investments of a non-financial nature such as gold etc.,¹⁵³ where there is no likely conflict between the Mutual Fund's interest and the employees' interest.
 - 3. Investments in government securities, Money Market instruments, Money Market Mutual Fund schemes and liquid schemes¹⁵⁴.

¹⁵³ Real Estate has been deleted pursuant to the amendment to the Mutual Funds Regulations launching the Real Estate Mutual Funds Schemes wherein guidelines have been prescribed for employee investment in Real Estate.

¹⁵⁴ SEBI/IMD/DF/10/2014 dated May 22, 2014

6.4.4.2 No employee shall pass on information to anybody inducing him to buy/sell securities which are being bought and/or sold by the Mutual Fund of which the AMC is the investment manager.

6.4.4.3 Prior approval of personal investment transactions:

- a. All access persons except Compliance Officer shall apply in the form prescribed by the AMC(s) and/or Trustees to the Compliance Officer for prior approval of transactions for sale or purchase of securities other than those expressly stated to be exempt under these guidelines. The Compliance Officer shall apply to the Head of the AMC(s). The decision of the Compliance Officer shall be final and binding on the employee.
- b. In these Guidelines, in the case of the Compliance Officer's own transactions for purchase or sale of securities or disclosure or any other related matter, the term "Compliance Officer" wherever it appears, shall be read as "Head of the AMC."
- c. The Compliance Officer may coordinate with the Fund Management Department of the Mutual Fund, wherever necessary, to clear requests of investment and/or trading in securities by the employees.
- d. The approval of Compliance Officer for carrying out a transaction of sale or purchase of a security by the access person shall not be valid for more than seven calendar days from the date of approval¹⁵⁵.

¹⁵⁵ SEBI Circular No. SEBI/IMD/CIR No.7/13391/03 dated July 11, 2003.

- e. If a transaction approved by Compliance Officer has not been effected within seven¹⁵⁶ calendar days from the date of its approval, the access person shall be required to obtain approval once again from Compliance Officer prior to effecting the transaction.
- f. All employees shall refrain from profiting from the purchase and sale or sale and purchase of any security within a period of 30 calendar days from the date of their personal transaction¹⁵⁷. However, in cases where it is done, the employee shall provide a suitable explanation to the Compliance Officer, which shall be reported to the Board of the AMC and the Trustees at the time of review.

6.4.5 Investments in Shares and/or Debentures and/or Bonds and/or Warrants and/or Derivatives

Investments in securities shall broadly be classified into investments through (a) primary markets and (b) secondary markets.

6.4.5.1 Investments through the primary markets:

- a. An employee including access person is permitted to apply to a public issue of shares and/or debentures and/or bonds and/or warrants of any company, as long as the application is made in the normal course of the public issue. Such an application may be made without seeking the clearance from the Compliance Officer. Employees of AMC(s) and Trustees are prohibited from applying in any reserved quota such as promoters' quota, employees' quota etc. Employees shall not participate in any private placement of equity by any company.

¹⁵⁶ SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

¹⁵⁷ SEBI Circular No. SEBI/IMD/CIR No.7/13391/03 dated July 11, 2003.

- b. Notwithstanding anything stated in (a) above, an employee of an AMC(s) and/or Trustees may apply for shares and/or debentures and/or bonds and/or warrants in a preferential offer, in cases where such a preferential offer is being made by a company that belongs to the same industrial group as the company in which the employee already has an investment, provided that such a preferential offer is made to all shareholders and/or debenture holders of such companies. Details of such applications made shall be intimated to the Compliance Officer.

- c. The employees of the AMC(s) and/or Trustees including access person may apply for any rights offer of any company in which they are already shareholders. Applications for additional rights (over and above the normal rights entitlement) shares may be made by the employees including access person without getting the clearance from the Compliance Officer. An employee including access person may also sell and/or renounce his rights entitlement without getting the clearance from the Compliance Officer. However, if an access person wishes to purchase the “Rights renunciations” he shall get the clearance of the Compliance Officer for the same. Such purchases shall be done only at market prices. Details of any applications made in any rights issue, whether in the normal course, or through purchase of rights renunciations, shall be intimated to the Compliance Officer.

6.4.5.2 Investments through the secondary markets:

- a. An access person who wishes to make a secondary market transaction shall submit a written application to that effect to the Compliance Officer. Such an application shall specify the

name of the company whose securities the employee wishes to buy and/or sell, type of security, and the number of shares and/or debentures and/or bonds and/or warrants and/or derivatives that the access person wishes to buy/sell.

- b. The Compliance Officer shall clear these requests if the following conditions are met:
 1. If the shares and/or debentures and/or bonds and/or warrants of the company or derivatives specified by the access person are not held by any scheme of the Mutual Fund of which the AMC is the investment manager;
 2. If such shares and/or debentures and/or bonds and/or warrants of the company or derivatives specified by the employee are held by any scheme of the Mutual Fund of which the AMC is the investment manager, there should be a “cooling off” period of 15 calendar days. The Compliance Officer shall ensure that the last transaction in that particular security was done by the Mutual Fund at least 15 calendar days prior to the date of the written application by the access person. In other words, an application for a purchase /sale transaction on a personal basis would be cleared only if the Mutual Fund has not transacted in that particular security for at least 15 calendar days.
- c. The Compliance Officer shall keep a track of the transactions of the employees and transactions of the Mutual Fund to ensure that there is no conflict of interest between them i.e. the Compliance Officer should track whether the Mutual Fund has transacted in the same securities either before or after the employee’s transaction(s).

- d. The Compliance Officer shall maintain a record of all requests for pre clearance regarding the purchase or sale of a security, including the date of the request, the name of the access person, the details of the proposed transaction and whether the request was approved or denied and waivers given, if any, and its reasons.
- e. No employee shall purchase any security (including derivatives) on a “Carry Forward” basis or indulge in “Short Sale” of any security (including derivatives) i.e. employees who effect any purchase transaction(s) shall ensure that they take delivery of the securities purchased, before selling them.
- f. Any transaction of Front Running by any employee directly or indirectly is strictly prohibited. For this purpose, “Front Running” means any transaction of purchase and/or sale of a security carried by any employee whether for self or for any other person, knowing fully well that the AMC also intends to purchase and/or sell the same security for its Mutual Fund operations. To ascertain that the employee had no prior knowledge of the Mutual Fund's intended transactions, the Compliance Officer may take a declaration in this regard from the employee. Such declaration may be included in the application form itself.
- g. Any transaction of self dealing by any employee either directly or indirectly, whether alone or in concert with another person is prohibited. For this purpose, “Self Dealing’ means trading in the securities based on price sensitive information to which the employee has access by virtue of his office. Declaration to this effect may be taken from the employee while clearing the proposals for investment.

- h. The employees shall not insist or suggest to the concerned brokers to charge reduced brokerage, or accept any contract with a clause on reduced brokerage charge.

6.4.6 Investments in units of Mutual Fund Schemes

6.4.6.1 Access persons as well as other employees do not require prior permission of the Compliance Officer for purchase or sale of units of Mutual Fund schemes. However, details of each such transaction, excluding transactions in Money Market Mutual Fund schemes and liquid schemes¹⁵⁸ shall be reported by them to the Compliance Officer within 7 calendar days from the date of transaction.

6.4.6.2 In case of investments in SIP of any Mutual Fund scheme, the employees may report only at the time of making the first installment of the SIP.

6.4.6.3 Notwithstanding anything mentioned earlier, in the following cases employees of AMC & Trustees shall not purchase or sell /or repurchase or redeem units of any scheme, including Money Market Mutual Fund scheme and liquid scheme¹⁵⁹ of their Mutual Fund:

- a. There is a likelihood of a change in the investment objectives of the concerned Mutual Fund Scheme(s) and this has not been communicated to the investors;
- b. There is a likelihood of a rights and/or bonus issue in the concerned Mutual Fund Scheme(s) and this has not been communicated to the investors;

¹⁵⁸ SEBI/IMD/DF/10/2014 dated May 22, 2014

¹⁵⁹ SEBI/IMD/DF/10/2014 dated May 22, 2014

- c. The concerned Mutual Fund Scheme is contemplating to issue dividend to the unit holders and this has not been communicated to the investors;
- d. There is a likelihood of a change in the accounting policy, or a significant change in the valuation of any asset, or class of assets and the same has not been communicated to the investors;
- e. There is a likelihood of conversion of a close ended scheme to an open ended scheme and vice versa and this has not been communicated to the investors.

6.4.7 Periodic Disclosures

6.4.7.1 All access persons shall submit, in the form prescribed by the Mutual Fund of which the AMC is the investment manager, details of their personal transactions of purchase or sale of securities to the Compliance Officer. The details to be submitted are as follows:

- a. Details of transactions effected for purchase and/or sale of securities including transactions in rights entitlements through the secondary market within 7 calendar days from the date of transaction;
- b. Details of allotment received against application for public and rights issues within 7 calendar days from the date of receipt of the allotment advice;
- c. A statement of holding in securities as on March 31 within 30 calendar days from the end of every financial year ending March 31.

6.4.7.2 All employees other than access persons shall submit, in the form prescribed by the Mutual Fund, to the Compliance Officer:

- a. Details of each of their transactions for purchase or sale of securities including allotment in public and rights issues within 7 calendar days in tandem with SEBI (Insider Trading) Regulations.
- b. A statement of holding in securities as on March 31 within 30 calendar days (in tandem with SEBI (Insider Trading) Regulations) from the end of every financial year ending March 31.
- c. A declaration shall also be included in the reporting form on the lines of clause 6.4.5.2. (f) and 6.4.5.2. (g) regarding Front Running and Self Dealing.

6.4.8 Review by the Board of Directors of AMC and the Trustee(s)

6.4.8.1 The Board of the AMC and the Trustees shall review the compliance of these Guidelines in their periodic meetings. They shall review the existing procedures and recommend changes in procedures based on the AMCs experience, industry practices and/or developments in applicable laws and regulations. They shall report compliance and any violations and remedial action taken by them in their reports submitted to the Board.

6.5 ***Responsibilities of AMC & Trustees***¹⁶⁰

6.5.1 For effective discharge of their responsibilities under the Mutual Funds Regulations, the AMC(s) shall provide infrastructure and administrative support to the Trustees. The Mutual Fund may decide to appoint independent auditors and/or may have separate full fledged administrative set up for the Trustees. However, the expenditure incurred in this regard shall be within the limits as specified in Regulation 52(6) of the Mutual Funds Regulations. AMC(s) shall place correspondence and reports submitted to SEBI before the Trustees.

6.6 ***Applicability of Insider Trading Regulations***¹⁶¹

6.6.1 Securities and Exchange Board of India (Insider Trading) (Amendment) Regulations, 2002 shall be followed strictly by the trustee companies, asset management companies and their employees and directors.

¹⁶⁰ MFD/CIR/09/014/2000 dated January 5, 2000

¹⁶¹ SEBI Cir MFD/CIR/05/432/2002 June 20, 2002

PART II -SCHEME GOVERNANCE

6.7 *Minimum Number of investors*¹⁶²

6.7.1 Applicability for an open-ended scheme

6.7.1.1 The Scheme/Plan shall have:

- a. a minimum of 20 investors and
- b. no single investor shall account for more than 25% of the corpus of the Scheme/Plan(s).

6.7.1.2 If either/both of such limit(s) is breached during the NFO of the Scheme, it shall be ensured that within a period of three months or the end of the succeeding calendar quarter from the close of the NFO of the Scheme, whichever is earlier, the Scheme complies with these two conditions.

6.7.1.3 In case the Scheme / Plan(s) does not have a minimum of 20 investors in the stipulated period, the provisions of Regulation¹⁶³ would become applicable automatically without any reference from SEBI and accordingly the Scheme / Plan(s) shall be wound up and the units would be redeemed at applicable NAV.

6.7.1.4 If there is a breach of the 25% limit by any investor over the quarter, a rebalancing period of one month would be allowed and thereafter the investor who is in breach of the rule shall be given 15 days notice to redeem his exposure over the 25 % limit. Failure on the part of the said investor to redeem his exposure over the 25 % limit within the aforesaid 15 days would lead to

¹⁶² SEBI Circular No. SEBI/IMD/CIR No.10/22701/03 dated December 12, 2003, SEBI Circular No. SEBI/IMD/CIR No.1/42529/05 dated June 14, 2005.

¹⁶³ Regulation 39(2)(c) of the SEBI (MF) Regulations, 1996

automatic redemption by the Mutual Fund on the applicable Net Asset Value on the 15th day of the notice period.

6.7.1.5 The two conditions mentioned above shall also be complied within each subsequent calendar quarter thereafter, on an average basis, as specified by SEBI.

6.7.1.6 The Fund shall adhere to the requirements prescribed by SEBI from time to time in this regard.

6.7.2 Applicability for a Close ended scheme/Interval scheme

6.7.2.1 The Scheme(s) and individual Plan(s) under the Scheme(s) shall have:

- a. A minimum of 20 investors and
- b. No single investor shall account for more than 25% of the corpus of the Scheme(s)/Plan(s).

6.7.2.2 These conditions will be complied with immediately after the close of the NFO itself i.e. at the time of allotment.

6.7.2.3 In case of non-fulfillment with the condition of minimum 20 investors, the Scheme(s)/Plan(s) shall be wound up in accordance with Regulation¹⁶⁴ automatically without any reference from SEBI.

6.7.2.4 In case of non-fulfillment with the condition of 25% holding by a single investor on the date of allotment, the application to the extent of exposure in excess of the stipulated 25% limit would be liable to be rejected and the allotment would be effective only to the extent of 25% of the corpus collected. Consequently, such

¹⁶⁴ Reg. 39 (2) (c) of SEBI (MF) Regulations, 1996

exposure over 25% limits will lead to refund within 6 weeks of the date of closure of the New Fund Offer.

6.7.2.5 For interval scheme the aforesaid provision will be applicable at the end of NFO and specified transaction period.

6.7.2.6 Requisite disclosure in this regard shall be made in the SID.

6.7.3 Determination of breach:

6.7.3.1 The average shall be calculated, at the end of each quarter, on the basis of number of investors at the end of the business hours of the scheme on a daily basis.

6.7.3.2 To determine breach of 25% holding limit by an investor, net assets under the scheme shall be calculated daily and the daily holding limit shall be determined accordingly. At the end of the quarter, average daily holding by each investor shall be calculated and any breach of the 25% holding limit will be accordingly determined.

6.7.4 Applicability

6.7.4.1 These Guidelines are applicable at the Portfolio level.

6.7.4.2 These Guidelines are not applicable to Exchange Traded Funds (ETFs).

6.7.5 Redemptions

6.7.5.1 Redemptions effected pursuant to these Guidelines shall be completed within 10 days from the day of winding up of the scheme(s) and/or plan(s).

6.7.6 Reporting to the Board

6.7.6.1 Compliance with these Guidelines shall be reported in Compliance Test Reports (CTRs) and Half Yearly Trustee Reports.

6.8 ***Minimum Assets under Management (AUM) of Debt Oriented Schemes*** ¹⁶⁵

6.8.1 It has been observed that many debt oriented schemes are operating with a very low AUM. In the interest of investors, it is important that debt oriented schemes have an adequate corpus to ensure adherence to the investment objectives as stated in Scheme Information Document and compliance with investment restrictions specified under SEBI (Mutual Funds) Regulations, 1996.

6.8.2 In this regard, it has been decided that:

- a) The minimum subscription amount of debt oriented and balanced schemes at the time of new fund offer shall be at least 20 crore and that of other schemes shall be at least 10 crore.
- b) An average AUM of 20 crore on half yearly rolling basis shall be maintained for open ended debt oriented schemes.
- c) The existing open ended debt oriented schemes shall comply with point (b) stated above within one year from the date of issue of this circular.
- d) In case of breach of points (b) and (c) above, the AMC shall scale up the AUM of such scheme within a period of six months so as to comply with point (b) stated above, failing which the provisions of Regulation 39 (2) (c) of SEBI (Mutual Funds) Regulations, 1996 would become applicable.

¹⁶⁵ SEBI Circular No. Cir/IMD/DF/15/2014 dated June 20, 2014

e) The confirmation on compliance of the above shall be reported to SEBI in the Half Yearly Trustee Reports.

6.9 ***Scheme Performance Review***

6.9.1 AMCs and Trustees shall review the performance of their schemes on periodic basis¹⁶⁶. Such review can take place by comparing the performance of the schemes with benchmark indices as well as in light of the performance of the entire Mutual Funds industry by relying on data published from time to time by independent research agencies and financial newspapers and journals. Corrective action if required may be taken in case of unsatisfactory performance. Its compliance should be reported in the bimonthly CTRs of AMCs and half-yearly reports of the Trustees to SEBI (while reporting compliance of Regulation 25(2) on exercise of due diligence in investment decisions).

¹⁶⁶ SEBI Circular No. dated July 27, 2000 & SEBI Cir 16/400/02 dated March 26, 2002.

PART III -SYSTEMS AUDIT OF MUTUAL FUNDS¹⁶⁷

- 6.10 Mutual funds shall have a systems audit conducted by an independent CISA/CISM qualified or equivalent auditor.
- 6.11 The systems audit should be comprehensive encompassing audit of systems and processes inter alia related to examination of integration of front office system with the back office system, fund accounting system for calculation of net asset values, financial accounting and reporting system for the AMC, Unit-holder administration and servicing systems for customer service, funds flow process, system processes for meeting regulatory requirements, prudential investment limits and access rights to systems interface.
- 6.12 Mutual Funds/ AMCs should get the above systems audit conducted once in two years.
- 6.13 The Systems Audit Report and compliance status should be placed before the Trustees of the mutual fund.
- 6.14 The systems audit report/findings along with trustee comments should be communicated to SEBI.
- 6.15 For the financial years April 2008 – March 2010, the systems audit should be completed by September 30, 2010.

¹⁶⁷ SEBI Circular No SEBI/IMD/CIR No. 9/176988/2009 dated September 16, 2009

PART IV – ROLE OF MUTUAL FUNDS IN CORPORATE GOVERNANCE OF PUBLIC LISTED COMPANIES¹⁶⁸

- 6.16 MFs should play an active role in ensuring better corporate governance of listed companies.
- 6.17 AMCs shall disclose their general policies and procedures for exercising the voting rights in respect of shares held by them on the website of the respective AMC as well as in the annual report distributed to the unit holders from the financial year 2010-11.
- 6.18 AMCs are required to disclose on the website of the respective AMC as well as in the annual report distributed to the unit holders from the financial year 2010-11, the actual exercise of their proxy votes in the AGMs/EGMs of the investee companies in respect of the following matters.
- 6.18.1 Corporate governance matters, including changes in the state of incorporation, merger and other corporate restructuring, and anti-takeover provisions
- 6.18.2 Changes to capital structure, including increases and decreases of capital and preferred stock issuances.
- 6.18.3 Stock option plans and other management compensation issues;
- 6.18.4 Social and corporate responsibility issues.
- 6.18.5 Appointment and Removal of Directors.
- 6.18.6 Any other issue that may affect the interest of the shareholders in general and interest of the unit-holders in particular.

¹⁶⁸ SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

- 6.19 AMCs shall be required to record and disclose specific rationale supporting their voting decision (for, against or abstain) with respect to each vote proposal¹⁶⁹.
- 6.20 AMCs shall additionally be required to publish summary of the votes cast across all its investee company and its break-up in terms of total number of votes cast in favor, against or abstained from.
- 6.21 AMCs shall be required to make disclosure of votes cast on their website (in spreadsheet format) on a quarterly basis, within 10 working days from the end of the quarter. Further, AMCs shall continue disclosing voting details in their annual report. The votes cast by the Mutual Funds may be given in the revised format¹⁷⁰ for disclosure of vote cast in respect of resolutions passed in general meetings of the investee companies and in the format¹⁷¹ for presenting summary of votes cast.
- 6.22 Further, on an annual basis, AMCs shall be required to obtain certification on the voting reports being disclosed by them. Such certification shall be obtained from a “scrutinizer” in terms of Rule 20 (3) (ix) of Companies (Management and Administration) Rules, 2014 and any future amendment/s to the said Rules thereof. The same shall be submitted to the trustees and also disclosed in the relevant portion of the Mutual Funds' annual report & website.¹⁷²
- 6.23 Board of AMCs and Trustees of Mutual Funds shall be required to review and ensure that AMCs have voted on important decisions that may affect the interest of investors and the rationale recorded for vote decision is prudent and adequate. The confirmation to the

¹⁶⁹ SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014

¹⁷⁰ For formats, please refer to chapter on Formats

¹⁷¹ For formats, please refer to chapter on Formats

¹⁷² SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/68 dated August 10, 2016

same, along with any adverse comments made by auditors, shall have to be reported to SEBI in the half yearly trustee reports.

6.24 The format¹⁷³ for disclosure of voting by mutual funds in general meetings of listed companies is provided.

¹⁷³ For disclosure of voting by mutual funds in general meetings of listed companies, please refer to the section on formats

CHAPTER 7

SECONDARY MARKET ISSUES

7.1 *Non Applicability of Listing Deposit*¹⁷⁴

7.1.1 The requirement of collecting listing deposit as specified under Circular Letter No. SE/12936 dated April 6, 1992 shall not be applicable to Mutual Fund schemes seeking listing on the Stock Exchanges.

7.2 *Payment of Margins*¹⁷⁵

7.2.1 The applicable margins shall be paid as per the guidelines issued by SEBI and as directed by stock exchanges from time to time.

7.3 *Unique Client Codes*¹⁷⁶

7.3.1 Mutual Funds are not permitted to operate in the securities market without furnishing a valid Unique Client Code (UCC).¹⁷⁷ Mutual Funds are required to obtain UCC from the Bombay Stock Exchange Ltd. (BSE) or The National Stock Exchange Ltd. (NSE) whenever a new scheme(s) or plan(s) (wherever the portfolio of the plans is different) is

¹⁷⁴ SEBI Circular No. SMD-II(N)/2113/94 dated April 12, 1994. Further, in this regard, circulars issued by SEBI from time to time may be considered.

¹⁷⁵ SEBI Circular No. MFD/CIR/9/230/2001 dated August 14, 2001

¹⁷⁶ SEBI Circular No. MFD/CIR No.8/290/01 dated July 30, 2001, SEBI Circular No. SEBI/SMD/SE/11/2003/31/03 dated March 31, 2003, SEBI Circular No. SEBI/IMD/CIR No.01/1756/04 dated January 27, 2004, SEBI Circular No. MRD/DoP/SE/Cir-35/2004 dated October 26, 2004, SEBI Circular No. SEBI/IMD/CIR No.2/46603/05 dated August 10, 2005. Further, in this regard, circulars issued by SEBI from time to time may be considered

¹⁷⁷ SEBI Circular No. SMDRP/Policy/Cir-39/2001 dated July 18, 2001.

launched¹⁷⁸. Such UCC should be obtained before commencing the trading on behalf of the scheme(s)/plan(s). At the time of entering an order, the UCC pertaining to the parent Mutual Fund shall be provided and the allocation to individual schemes shall be done in the post closing session.¹⁷⁹ The UCC can be shared with the unit holders to facilitate tax benefits linked to payment of Securities Transaction Tax (STT).

7.4 Trading in Exchange Traded Derivatives Contracts¹⁸⁰

7.4.1 For trading in Exchange Traded Derivatives Contracts, following should be observed:

7.4.1.1 Mutual Fund schemes can participate in derivatives market as per the guidelines issued by SEBI in this regard from time to time.¹⁸¹

7.4.1.2 The Mutual Funds shall be treated at par with a registered FII in respect of position limits in index futures, index options, stock options and stock futures contracts. The Mutual Funds will be considered as trading members like registered FIIs and the schemes of Mutual Funds will be treated as clients like sub-accounts of FIIs.

7.4.1.3 Appropriate disclosures shall be made in the offer document regarding the extent and manner of participation of the schemes of the Mutual Funds in derivatives and the risk factors, which should be explained by suitable numerical examples.

¹⁷⁸ SEBI Circular No. SEBI/IMD/CIR No.01/1756/04 dated January 27, 2004.

¹⁷⁹ SEBI Circular No. MRD/DoP/SE/Cir-35/2004 dated October 26, 2004.

¹⁸⁰ SEBI Circular No. DNP/DoP/SE/Cir-29/2005 dated September 14, 2005; SEBI Circular No. DNP/DoP/SE/Cir-30/2006 dated January 20, 2006, SEBI Circular No. SEBI/DNP/DoP/Cir-31/2006 dated September 22, 2006.

¹⁸¹ SEBI Circular No. DNP/DoP/SE/Cir-29/2005 dated September 14, 2005.

7.4.1.4 The participation of existing schemes of the Mutual Funds in the derivatives market shall be subject to the following conditions:

- a. The extent and the manner of the proposed participation in derivatives shall be disclosed to the unit holders.
- b. The risks associated with such participation shall be disclosed and explained by suitable numerical examples.
- c. Positive consent shall be obtained from majority of the unit holders.
- d. An exit option shall be provided to the dissenting unit holders. Such option shall be kept open for a period of one month prior to the scheme commencing trading in derivatives.
- e. No exit load shall be charged to the unit holders exercising such exit options.

7.4.1.5 Positions limits as specified by SEBI for Mutual Funds and its schemes from time to time shall be applicable¹⁸².

7.5 Trading in Interest Rate Derivatives¹⁸³

7.5.1 Mutual Fund schemes are permitted to undertake transactions in Forward Rate Agreements and Interest Rate Swaps with banks, PDs & FIs as per applicable RBI Guidelines¹⁸⁴, mutual funds can also trade in interest rate derivatives through the Stock Exchanges subject to requisite disclosures in the SID¹⁸⁵.

¹⁸² Please refer SEBI Circular No DNPD/Cir – 29/2005 Dated September 14, 2005 for position limits and subsequent circulars issued in this regard from time to time.

¹⁸³ SEBI Circular No. SEBI/MFD/CIR No.03/158/03 dated June 10, 2003.

¹⁸⁴ RBI Circular dated November 1, 1999.

¹⁸⁵ SEBI Circular No. SEBI/MFD/CIR No.03/158/03 dated June 10, 2003.

7.5.2 The following position limits¹⁸⁶ in IRF shall be applicable for Mutual Fund level and scheme level:

- a. Mutual Funds shall have position limits as applicable to trading members presently.
- b. Schemes of Mutual Funds shall have position limits as applicable to clients presently.

7.6 Transactions of mutual funds in Government Securities in dematerialised form¹⁸⁷

7.6.1 According to Regulation¹⁸⁸, the Mutual Funds having an aggregate of securities worth Rs.10 crore or more are required to settle their transactions only through dematerialised securities. All Mutual Funds should enter into transactions relating to government securities only in dematerialised form.

¹⁸⁶ SEBI Circular No. CIR/MRD/DRMNP/26/2014 dated September 15, 2014

¹⁸⁷ SEBI Circular No. MFD/CIR/05/432/2002 dated June 20, 2002

¹⁸⁸ Regulation 44(1A) of SEBI (Mutual Funds) Regulations, 1996

CHAPTER 8

NET ASSET VALUE¹⁸⁹

8.1 Disclosure of Net Asset Value¹⁹⁰

- 8.1.1 The NAV of schemes shall be published on a daily basis by the Mutual Funds at least in two daily newspapers¹⁹¹.
- 8.1.2 NAV and sale/repurchase price of all Mutual Fund schemes except for Fund of Fund Schemes shall be updated on AMFI's website and the Mutual Funds' websites by 9 p.m. of the same day¹⁹².
- 8.1.3 Fund of Fund Schemes shall have an extended time up to 10 a.m. the following business day in this regard¹⁹³ and the NAVs shall be published in newspapers with an asterisk to indicate the one day time lag/or the actual time lag.
- 8.1.4 Delay beyond 10 a.m. of the following business day in case of Fund of Fund schemes and 9 p.m. on the same day for all other schemes shall be explained in writing to AMFI and the Board and shall also be reported in the CTR(s)¹⁹⁴ in terms of number of days of non adherence of time limit for uploading NAV on AMFI's website and the reasons for

¹⁸⁹ Regulation 48(1) of SEBI (Mutual Funds) Regulations, 1996

¹⁹⁰ SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997, SEBI Circular No. MFD/CIR No.11/171/01 dated February 9, 2001, SEBI Circular No. MFD/CIR/13/087/2001 dated March 28, 2001; SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006, SEBI Circular No. SEBI/IMD/CIR No.5/96576/2007 dated June 25, 2007, SEBI Cir No. SEBI/IMD/Cir No.12/147132/08 dated December 11,2008

¹⁹¹ Regulation 48(2) of SEBI (Mutual Funds) Regulations, 1996

¹⁹² SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006.

¹⁹³ SEBI Circular No. SEBI/IMD/CIR No.5/96576/2007 dated June 25, 2007.

¹⁹⁴ For format of CTR, please refer to section on formats

the same. Corrective steps taken by AMC to reduce the number of occurrences shall also be disclosed¹⁹⁵.

8.1.5 In case the NAVs are not available before the commencement of business hours on the following day due to any reason, Mutual Funds shall issue a press release giving reasons for the delay and explain when they would be able to publish the NAVs¹⁹⁶.

8.2 Rounding off NAVs¹⁹⁷

8.2.1 To ensure uniformity, Mutual Funds shall round off NAV up to four decimal places for index funds and all types of debt & liquid/money market schemes.

8.2.2 For all equity oriented and balanced fund schemes, Mutual Funds shall round off NAVs up to two decimal places. However, Mutual Funds can round off the NAVs up to more than two decimal places in case of equity oriented and balanced fund schemes also, if they so desire¹⁹⁸. Relevant disclosure in this regard shall be made in the SID/SAI¹⁹⁹.

8.3 Uniform Cut off Timings for applicability of Net Asset Value of Mutual Fund scheme(s) and/ or plan(s)²⁰⁰

8.3.1 Mutual Funds should follow the Guidelines enumerated below with respect to uniform Cut -off Timings:

¹⁹⁵ SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006.

¹⁹⁶ SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006.

¹⁹⁷ SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002, SEBI Circular No. MFD/CIR/11/16159/2002 dated August 22, 2002.

¹⁹⁸ SEBI Circular No. MFD/CIR/11/16159/2002 dated August 22, 2002.

¹⁹⁹ SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002.

²⁰⁰ SEBI Circular No. SEBI/IMD/CIR No. 11/78450/06 dated October 11, 2006.

8.3.2 Definitions:

8.3.2.1 In these Guidelines, unless the context otherwise requires:

- a. 'Cut-off Timing', in relation to an investor making an application to a Mutual Fund for purchase or sale of units, shall mean, the outer limit of timing within a particular day which is relevant for determination of the NAV applicable for his transaction;
- b. 'International scheme' means a Mutual Fund scheme having substantial investments in foreign securities valued as per time zones other than Indian Standard Time zone;
- c. 'Liquid fund schemes and plans' shall mean the schemes and plans of a Mutual Fund as specified in the guidelines²⁰¹ issued by SEBI in this regard²⁰².

8.3.3 Applicability

8.3.3.1 The Guidelines on Cut off Timings for applicability of Net Asset Value of Mutual Fund scheme(s) and/ or plan(s) shall be applicable to all schemes and plans of Mutual Funds except:

- a. International schemes and
- b. Transactions in Mutual Fund units undertaken on a recognized Stock Exchange.

²⁰¹ Please refer to the Section on liquid schemes

²⁰² SEBI Circular No.SEBI/IMD/CIR No.13/150975/09 dated January 19, 2009

8.3.4 Fixation of uniform Cut-off Timings

8.3.4.1 Mutual Funds shall reckon the Cut-off Timings for their schemes and plans in compliance with these Guidelines and the same shall be uniformly implemented for all investors.

8.3.4.2 Mutual Funds shall ensure that each payment instrument for subscription or purchase of units is deposited in a bank expeditiously by utilization of the appropriate banking facility, so as to comply with the requirement in Clause 8.3.4.1 above.

8.3.4.3 AMCs shall compensate any loss occasioned to any investor or to the scheme and/or plan on account of non compliance with Clause 8.3.4.2 above.

8.3.5 Cut-off Timings for liquid fund schemes and plans

For determining the applicable NAV²⁰³:

8.3.5.1 The following cut-off timings shall be observed by a mutual fund in respect of purchase of units in liquid fund schemes and their plans, and the following NAVs shall be applied for such purchase:

- a. where the application is received upto 2.00 p.m. on a day and funds are available for utilization before the cut-off time without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the day of receipt of application;
- b. where the application is received after 2.00 p.m. on a day and funds are available for utilization on the same day without availing any

²⁰³ SEBI Circular No SEBI/IMD/DF/15/2010 dated November 26, 2010

credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the next business day ; and

- c. irrespective of the time of receipt of application, where the funds are not available for utilization before the cut-off time without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the day on which the funds are available for utilization.

8.3.5.2 For allotment of units in respect of purchase in liquid schemes, it shall be ensured that:

- a. Application is received before the applicable cut-off time.
- b. Funds for the entire amount of subscription/purchase as per the application are credited to the bank account of the respective liquid schemes before the cut-off time.
- c. The funds are available for utilization before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective liquid schemes.

8.3.5.3 For allotment of units in respect of switch-in to liquid schemes from other schemes, it shall be ensured that:

- a. Application for switch-in is received before the applicable cut-off time.
- b. Funds for the entire amount of subscription/purchase as per the switch-in request are credited to the bank account of the respective switch-in liquid schemes before the cut-off time.
- c. The funds are available for utilization before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective switch-in schemes.

8.3.5.4 The following Cut-off Timings shall be observed by Mutual Funds with respect to repurchase of units in liquid fund schemes and plans and the following NAVs shall be applied for such repurchase:

- a. Where the application is received up to 3.00 pm – the closing NAV of day immediately preceding the next business day; and
- b. Where the application is received after 3.00 pm – the closing NAV of the next business day.

8.3.5.5 Mutual Funds shall calculate NAV for each calendar day for their liquid fund schemes and plans.

- a. *Explanation:* “Business Day” does not include a day on which the Money Markets are closed or otherwise not accessible.

8.3.6 Cut-off Timings for schemes and plans other than liquid fund schemes and plans

8.3.6.1 A Mutual Fund shall reckon only prospective NAV, in accordance with this clause, in respect of all their schemes and plans i.e. for other than liquid fund schemes and plans

8.3.6.2 The following Cut-off Timings shall be observed by Mutual Funds in respect of purchase of units in other schemes and plans and following NAVs shall be applied for such purchase:

- 8.3.6.2.1 Where the application is received up to 3.00 pm with a local cheque or demand draft payable at par at the place where it is received – closing NAV of the day on which the application is received;

8.3.6.2.2 Where the application is received after 3.00 pm with a local cheque or demand draft payable at par at the place where it is received – closing NAV of the next business day; and

8.3.6.2.3 Where the application is received with an outstation cheque or demand draft which is not payable on par at the place where it is received – closing NAV of day on which the cheque or demand draft is credited.

In respect of purchase of units of mutual fund schemes (other than liquid schemes), the closing NAV of the day on which the funds are available for utilization shall be applicable for application amount equal to or more than Rs. 2 lakh, irrespective of the time of receipt of such application²⁰⁴.

8.3.6.3 For allotment of units in respect of purchase in income/debt oriented mutual fund schemes/plans other than liquid schemes, it shall be ensured that²⁰⁵:

8.3.6.3.1 Application is received before the applicable cut-off time (3 pm).

8.3.6.3.2 Funds for the entire amount of subscription/purchase as per the application are credited to the bank account of the respective schemes before the cut-off time (3 pm).

8.3.6.3.3 The funds are available for utilization before the cut-off time (3 pm) without availing any credit facility whether intra-day or otherwise, by the respective scheme.

²⁰⁴ SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

²⁰⁵ SEBI Circular No. SEBI/IMD/DF/15/2010 dated November 26, 2010

8.3.6.4 For allotment of units in respect of switch-in to income/debt oriented mutual fund schemes/plans other than liquid schemes from other schemes, it shall be ensured that:

8.3.6.4.1 Application for switch-in is received before the applicable cut-off time.

8.3.6.4.2 Funds for the entire amount of subscription/purchase as per the switch-in request are credited to the bank account of the respective switch-in income/debt oriented mutual fund schemes/plans before the cut-off time.

8.3.6.4.3 The funds are available for utilization before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective switch-in income/debt oriented mutual fund schemes/plans.

8.3.6.5 The following Cut-off Timings shall be observed by Mutual Funds in respect of repurchase of units in its other schemes and their plans, and the following NAVs shall be applied for such repurchase:

8.3.6.5.1 Where the application is received up to 3.00 pm – closing NAV of the day on which the application is received; and

8.3.6.5.2 An application received after 3.00 pm – closing NAV of the next business day.

8.3.7 Switch and Sweep Transactions

8.3.7.1 Paragraphs 8.3.5 and 8.3.6 shall apply to ‘switch in’ transactions as if they were purchase transactions and to ‘switch out’ transactions as if they were repurchase transactions.

8.3.7.2 Paragraphs 8.3.5 and 8.3.6 shall apply to ‘sweep’ transactions as if they were purchase transactions and to ‘reverse sweep’ transactions as if they were repurchase transactions.

8.3.7.3 In case of ‘switch’ transactions from one scheme to another, the allocation shall be in line with redemption payouts.

8.3.8 Time Stamping

8.3.8.1 Application from investors shall be received by Mutual Funds only at official points of acceptance, addresses of which shall be disclosed in the SID and on Mutual Funds’ websites.

8.3.8.2 Cut off timings as prescribed under Paragraphs 8.3.5 and 8.3.6 shall apply with reference to the point of time at which the applications are received at such official points of acceptance.

8.3.8.3 Time stamping machines at all official points of acceptance shall be in compliance with the requirements mentioned in Section 8.4.

8.3.9 Compliance Reporting

8.3.9.1 Status of compliance with these Guidelines shall be reported to the Board in the CTR(s)²⁰⁶ of the AMC(s) and the Half Yearly Trustee Reports²⁰⁷.

8.3.9.2 The Half Yearly Trustee Reports shall contain a declaration on whether the Trustees are satisfied with the systems and procedures of the Mutual Fund designed for the purpose of compliance with these Guidelines.

²⁰⁶ for CTR format, please refer to the section on formats

²⁰⁷ For Trustee report, please refer to the section on formats

8.3.9.3 Further, the substance of these Guidelines shall be disclosed to investors in the SID or in any addendum thereto.

8.3.9.4 **Encumbrance of the scheme property**²⁰⁸

Regulations²⁰⁹ provides that the AMC shall not acquire any of the assets out of the scheme property which involves the assumption of any liability which is unlimited or which may result in encumbrance of the scheme property in any way. AMC's are advised to strictly adhere to the said provision.

8.4 Requirements with respect to time stamping machines [pursuant to Clause 8(3)]

8.4.1 For every machine, running serial number shall be stamped from the first number to the last number as per its capacity before repetition of the cycle.

8.4.2 Every application for purchase shall be stamped on the face and the corresponding payment instrument shall be stamped on the back indicating the date and time of receipt and running serial number. The application and the payment instrument shall contain the same serial number.

8.4.3 Every application for redemption shall be stamped on the face thereof and on the investor's acknowledgment copy (or twice on the application if no acknowledgment is issued) indicating the date and time of receipt and running serial number.

8.4.4 Different applications shall not be bunched together with the same serial number.

²⁰⁸ SEBI Circular No SEBI/IMD/DF/15/2010 dated November 26, 2010

²⁰⁹ Fourth Schedule of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996

- 8.4.5 Blank papers shall not be time stamped. Genuine errors, if any, shall be recorded with reasons and the corresponding applications requests shall also be preserved.
- 8.4.6 The time stamping machine shall have a tamper proof seal and the ability to open the seal for maintenance or repairs must be limited to vendors or nominated persons of the mutual fund, to be entered in a proper record.
- 8.4.7 Breakage of seal and/or breakdown of the time stamping process shall be duly recorded and reported to the Trustees.
- 8.4.8 Every effort should be made to ensure uninterrupted functioning of the time stamping machine. In case of breakdown, the Mutual Funds shall take prompt action to rectify the situation. During the breakdown period, Mutual Funds shall adopt an alternative time stamping method that has already been approved by the Board of the AMC and the Trustee(s). An audit trail shall be available to check and ensure the accuracy of the time stamping process during the said period.
- 8.4.9 Any alternate mode of application that does not have any physical or electronic trail shall be converted into a physical piece of information and time stamped in accordance with these Guidelines.
- 8.4.10 Mutual Funds shall maintain and preserve all applications/ requests, duly time stamped as aforesaid, at least for a period of eight years²¹⁰ to be able to produce them as and when required by the Board or auditors appointed by the Board.

²¹⁰ Regulation 50(2) of SEBI (Mutual Funds) Regulations, 1996

8.5 Uniformity in calculation of sale and repurchase price²¹¹

8.5.1 The following method is being prescribed

8.5.1.1 To streamline the calculation of sale and repurchase price of mutual fund units²¹²,

8.5.1.2 To avoid variation in the amounts payable to investors and/or number of units allotted to them, and

8.5.1.3 To make the calculations more comprehensible to the investors.

8.5.2 Exit loads shall be charged as a percentage of the NAV i.e. applicable load as a percentage of NAV will be subtracted from the NAV to calculate the repurchase price.

8.5.3 The formula for the same is as follows:

8.5.3.1 Sale Price = Applicable NAV

8.5.3.2 Repurchase Price = Applicable NAV *(1 – Exit Load, if any)

²¹¹ SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002 & SEBI Circular No. SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009

²¹² Regulation 49(3) of the SEBI (Mutual Funds) Regulations, 1996.

CHAPTER 9

VALUATION

9.1 Definitions²¹³

9.1.1 Non Traded Securities²¹⁴

9.1.1.1 When a security (other than Government Securities) is not traded on any Stock Exchange for a period of thirty days prior to the valuation date, the scrip shall be treated as a non traded security.

9.1.2 Thinly Traded Securities

9.1.2.1 Thinly traded equity/ equity related securities:²¹⁵

- a. When trading in an equity and/or equity related security (such as convertible debentures, equity warrants etc.) in a month is both less than Rs.5 lacs and the total volume is less than 50,000 shares, the security shall be considered as thinly traded security and valued accordingly.
- b. In order to determine whether a security is thinly traded or not, the volumes traded in all recognized Stock Exchanges in India may be taken into account.
- c. For example, if the volume of trade is 1,00,000 and value is Rs.4,00,000, the shares do not qualify as thinly traded. Also if the volume traded is 40,000, but the value of trades is Rs.6,00,000, the shares do not qualify as thinly traded.

²¹³SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000, SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001 and SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

²¹⁴ SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

²¹⁵ SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001.

- d. Where a Stock Exchange identifies the thinly traded securities by applying the above parameters for the preceding calendar month and publishes or provides the required information along with the daily quotations, the same can be used by the Mutual Funds.
- e. If the shares are not listed on the Stock Exchanges which provide such information, then Mutual Funds shall make their own analysis in line with the above criteria to check whether such securities are thinly traded or not and then value them accordingly.

9.1.3 Thinly traded Debt Securities²¹⁶

9.1.3.1 A debt security (other than Government Securities) shall be considered as a thinly traded security if, on the valuation date, there are no individual trades in that security in marketable lots (currently applicable) on the principal Stock Exchange or any other Stock Exchange.

9.2 Valuation of Securities

9.2.1 Traded Securities:²¹⁷

9.2.1.1 When a security (other than debt securities) is not traded on any Stock Exchange on a particular valuation day, the value at which it was traded on the selected Stock Exchange, as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to valuation date.

²¹⁶ SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

²¹⁷ SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

9.2.1.2 When a debt security (other than Government Securities) is not traded on any Stock Exchange on any particular valuation day, the value at which it was traded on the principal Stock Exchange or any other Stock Exchange, as the case may be, on the earliest previous day may be used provided such date is not more than fifteen days prior to valuation date. When a debt security (other than Government Securities) is purchased by way of private placement, the value at which it was bought may be used for a period of fifteen days beginning from the date of purchase.

9.2.2 Non-Traded /and/or Thinly Traded Securities:²¹⁸

9.2.2.1 AMCs shall value non traded and/or thinly traded securities “in good faith” based on the Valuation norms prescribed below:

9.2.3 Non-traded/ and/or thinly traded equity securities:

9.2.3.1 Based on the latest available Balance Sheet, Net Worth shall be calculated as follows:

- a. Net Worth per share = [Share Capital+ Reserves (excluding Revaluation Reserves) – Miscellaneous expenditure and Debit Balance in Profit and Loss Account] / Number of Paid up Shares.
- b. Average Capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent i.e. only 25 per cent. Of the industry average P/E shall be taken as Capitalization rate (P/E ratio). Earnings per share (EPS) of the

²¹⁸ SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

latest audited annual accounts shall be considered for this purpose.

- c. The value as per the Net Worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 10 per cent. for illiquidity so as to arrive at the fair value per share.
- d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.
- e. In case where the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.
- f. In case an individual security accounts for more than 5 per cent. of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent. of the total assets of the scheme, it shall be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs will be compared on the date of valuation²¹⁹.
- g. In case trading in an equity security is suspended up to thirty days, then the last traded price shall be considered for valuation of that security. If an equity security is suspended for more than thirty days, then the AMC(s) or Trustees shall decide the valuation norms to be followed and such norms shall be documented and recorded.

²¹⁹ SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001

9.2.4 Non traded/thinly Traded Debt security

9.2.4.1 A thinly traded debt security as defined above shall be valued as per the norms for non traded debt security.

a. Valuation²²⁰ of money market and debt securities with residual maturity of upto 60²²¹ days:

1. All money market and debt securities, including floating rate securities, with residual maturity of upto 60 days shall be valued at the weighted average price at which they are traded on the particular valuation day. When such securities are not traded on a particular valuation day they shall be valued on amortization basis. It is further clarified that in case of floating rate securities with floor and caps on coupon rate and residual maturity of upto 60 days then those shall be valued on amortization basis taking the coupon rate as floor.

b. Valuation of money market and debt securities with residual maturity of over 60²²² days:

1. All money market and debt securities, including floating rate securities, with residual maturity of over 60 days shall be valued at weighted average price at which they are traded on the particular valuation day. When such securities are not traded on a particular valuation day they shall be valued at benchmark yield/ matrix of spread over risk free benchmark yield obtained from agency(ies) entrusted for the said purpose by AMFI.

²²⁰ SEBI Circular No. SEBI/IMD/CIR No.16/ 193388/2010 dated February 02, 2010

²²¹ SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012

²²² SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012

2. The approach in valuation of non traded debt securities is based on the concept of using spreads over the benchmark rate to arrive at the yields for pricing the non traded security.
3. The Yields for pricing the non traded debt security would be arrived at using the process as defined below.

Step 1: A Risk Free Benchmark Yield is built using the government securities as the base. Government securities are used as the benchmarks as they are traded regularly; free of credit risk; and traded across different maturity spectrums every week.

Step 2: A Matrix of spreads (based on the credit risk) are built for marking up the benchmark yields. The matrix is built based on traded corporate paper on the wholesale debt segment of an appropriate stock exchange and the primary market issuances. The matrix is restricted only to investment grade corporate paper.

Step 3: The yields as calculated above are Marked-up/Marked-down for ill-liquidity risk

Step 4: The Yields so arrived are used to price the portfolio.

9.3 Methodology:

9.3.1 Construction of Risk Free Benchmark²²³

9.3.1.1 Using Government of India dated securities; the Benchmark shall be constructed as below:

²²³ SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

- a. Government of India dated securities will be grouped into various duration buckets such as 0.164-0.25 yrs²²⁴, 0.25- 0.5 yrs²²⁵, 0.5-1 year, 1-2 years, 2-3 years, 4-5 years, 5-6 years and 6 years and the volume weighted yield would be computed for each bucket. These duration buckets may be changed to reflect the market value more closely by any agency suggested by AMFI giving benchmark yield/matrix of spreads over benchmark yield.
- b. The benchmark as calculated above will be set at least weekly, and in the event of any significant movement in prices of Government Securities on account of any event impacting interest rates on any day such as a change in the Reserve Bank of India (RBI) policies, the benchmark will be reset to reflect any change in the market conditions.

9.3.2 Building a Matrix of Spreads for Marking-up the Benchmark Yield²²⁶

9.3.2.1 Mark up for credit risk over the risk free benchmark YTM as calculated in 9.3.1 above, will be determined using the trades of corporate debentures/bonds of different ratings. All trades on appropriate stock exchange during the fortnight prior to the benchmark date will be used in building the corporate YTM and spread matrices. Initially these matrices will be built only for corporate securities of investment grade. The matrices are dynamic and the spreads will be computed every week. The matrix will be built for all duration buckets for which the benchmark GOI matrix is built to effectively link the corporate matrix with the GOI securities matrix. Accordingly:

²²⁴ SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012

²²⁵ SEBI/IMD/CIR No.16/ 193388/2010 dated February 02, 2010

²²⁶ SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

- a. All traded paper (with minimum traded value of RS.1 crore) will be classified by their ratings and grouped into 7 duration buckets; for rated securities, the most conservative publicly available rating will be used;
- b. For each rating category, average volume weighted yield will be obtained both from trades on the appropriate stock exchange and from the primary market issuances
- c. Where there are no secondary trades on the appropriate stock exchange in a particular rating category and no primary market issuances during the fortnight under consideration, then trades on appropriate stock exchange during the 30 day period prior to the benchmark date will be considered for computing the average YTM for such rating category;
- d. If the matrix cannot be populated using any or all of the above steps, then credit spreads from trades on appropriate stock exchange of the relevant rating category over the AAA trades will be used to populate the matrix;
- e. In each rating category, all outliers will be removed for smoothening the YTM matrix;
- f. Spreads will be obtained by deducting the YTM in each duration category from the respective YTM of the GOI securities;
- g. In the event of lack of trades in the secondary market and the primary market the gaps in the matrix would be filled by extrapolation. If the spreads cannot be extrapolated for the reason of practicality, the gaps in the matrix will be filled by carrying the spreads from the last matrix.
- h. Accordingly, all Mutual Funds shall provide transaction details of various types of debt securities like NCDs, Mibor linked floaters and CPs on daily basis in the prescribed format enclosed at Annexure 3 to the agency recommended by AMFI. Submission of data would help

in daily matrix generation, would improve uniformity and accuracy of valuation in the Mutual Funds industry²²⁷.

9.3.3 Mark-up/Mark-down Yield

9.3.3.1 The Yields calculated would be marked-up/marked-down to account for the illiquidity risk, promoter background, finance company risk and the issuer class risk. As the level of illiquidity risk would be higher for non rated securities the marking process for rated and non rated securities would be differentiated as follows:

a. Adjustments for Securities rated by external rating agencies²²⁸

Category	Discretionary mark up/mark down	
	+	-
Rated instruments with duration upto 2 years	100 bps	50 bps
Rated instruments with duration over 2 years	75 bps	25 bps

1. The rationale for the above discount structure is to take cognizance of the differential interest rate risk of the securities. This structure will be reviewed periodically.

b. Adjustments for Internally Rated Securities²²⁹

1. To value an un-rated security, the fund manager shall assign an internal credit rating, which will be used for valuation. Since un-rated instruments tend to be more illiquid than rated securities,

²²⁷ SEBI Circular No. MFD/CIR.No 23 / 066 /2003 dated March 7,2003

²²⁸ SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

²²⁹ SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

the yields would be marked up by adding discretionary discount as under:

Category	Discretionary discount
Unrated instruments with duration upto 2 years	Discretionary discount of upto +50 bps over and above mandatory discount of +50 bps
Unrated instruments with duration over 2 years	Discretionary discount of upto +50 bps over and above mandatory discount of +25 bps

2. The benchmark yield/ matrix of spreads over risk free benchmark yield obtained from any agency suggested by AMFI, must be applied for valuation of securities on the day of release of such bench mark yield/ matrix of spreads by the aforesaid agency.²³⁰

9.3.3.2 Chief Executive Officer (whatever his designation may be) of the AMC shall give prior approval to the use of discretionary mark up or down limit.

9.4 Valuation of securities with Put/Call Options:²³¹

9.4.1 The option embedded securities would be valued as follows:

9.4.1.1 Securities with call option

- a. The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option. In case there are multiple call

²³⁰ SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

²³¹ SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

9.4.1.2 Securities with Put option

- a. The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option. In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instruments.

9.4.1.3 Securities with both Put and Call option on the same day

- a. The securities with both Put and Call option on the same day would be deemed to mature on the Put/Call day and would be valued accordingly.

9.5 Valuation of Government Securities

- 9.5.1 Government securities will be valued at prices for government securities released by an agency suggested by AMFI to ensure uniformity in calculation of NAVs²³².

²³² SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

9.6 *Illiquid Securities*²³³

- 9.6.1 Aggregate value of “illiquid securities” under a scheme, which are defined as non-traded, thinly traded and unlisted equity shares, shall not exceed 15 per cent of the total assets of the scheme and any illiquid securities held above 15 per cent. of the total assets shall be assigned zero value.
- 9.6.2 All Mutual Funds shall disclose as on March 31 and September 30 the scheme wise total illiquid securities in value and percentage of the net assets while disclosing Half Yearly Portfolios to the unit holders. In the list of investments, an asterisk mark shall be given against all such investments which are recognised as illiquid securities.
- 9.6.3 Mutual Funds shall not be allowed to transfer illiquid securities among their schemes.

²³³ SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

1. Provided that in case any scheme has illiquid securities in excess of 15% of total assets as on September 30, 2000 then such a scheme shall within a period of two years bring down the ratio of illiquid securities within the prescribed limit of 15 per cent. in the following time frame:
 - a. All the illiquid securities above 20 per cent. of total assets of the scheme shall be assigned zero value on September 30, 2001.
 - b. All the illiquid securities above 15 per cent. of total assets of the scheme shall be assigned zero value on September 30, 2002.
2. In respect of closed ended funds, for the purposes of valuation of illiquid securities, the limits of 15 per cent. and 20 per cent. applicable to open ended funds should be increased to 20 per cent. and 25 per cent. respectively.
3. Where a scheme has illiquid securities as at September 30, 2001 not exceeding 15% in the case of an open-ended fund and 20% in the case of closed fund, the concessions of giving time period for reducing the illiquid security to the prescribed limits would not be applicable and at all time the excess over 15% or 20% shall be assigned nil value

9.7 Guidelines for Identification and Provisioning for Non Performing Assets (Debt Securities)²³⁴

9.7.1 Definition of a Non Performing Asset (NPA)

9.7.1.1 An 'asset' shall be classified as NPA if the interest and/or principal amount have not been received or remained outstanding for one quarter from the day such income and/or installment was due.

9.7.2 Effective date for classification and provisioning of NPAs

9.7.2.1 The definition of NPA may be applied after a quarter past due date of the interest. For e.g. if the due date for interest is 30.06.2016, it will be classified as NPA from 01.10.2016.

9.7.3 Treatment of income accrued on the NPA and further accruals

9.7.3.1 After the expiry of the 1st quarter from the date the income has fallen due, there will be no further interest accrual on the asset i.e. if the due date for interest falls on 30.06.2016 and if the interest is not received, accrual will continue till 30.09.2016 after which there will be no further accrual of income. In short, taking the above example, from the beginning of the 2nd quarter there will be no further accrual on income.

9.7.3.2 On classification of the asset as NPA from a quarter past due date of interest, all interest accrued and recognized in the books of accounts of the Mutual Fund till the date shall be provided for. For e.g. if interest income falls due on 30.06.2016, accrual of interest will continue till 30.09.2016 even if the income as on 30.06.2016 has not been received. Further, no accrual will take place from

²³⁴ SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

01.10.2016 onwards. Full provision will be made for interest accrued and outstanding as on 30.06.2016.

9.7.4 Provision for NPAs – Debt Securities

9.7.4.1 Both secured and unsecured investments, once they are recognized as NPAs, call for provisioning in the same manner and where these are related to close ended schemes, the phasing would be such that to ensure full provisioning prior to the closure of the scheme or the scheduled phasing which ever is earlier.

9.7.4.2 The value of the asset shall be provided in the following manner or earlier at the discretion of the Mutual Fund. Mutual Funds will not have discretion to extend the period of provisioning. The provisioning against the principal amount or installments shall be made at the following rates irrespective of whether the principal is due for repayment or not.

- a. 10 percent of the book value of the asset shall be provided for after 6 months past due date of interest i.e. 3 months from the date of classification of the asset as NPA.
- b. 20 percent of the book value of the asset should be provided for after 9 months past due date of interest i.e. 6 months from the date of classification of the asset as NPA.
- c. Another 20 percent of the book value of the assets shall be provided for after 12 months past due date of interest i.e. 9 months from the date of classification of the asset as NPA.
- d. Another 25 percent of the book value of the assets shall be provided for after 15 months past due date of interest i.e. 12 months from the date of classification of the asset as NPA.

e. The balance 25 percent of the book value of the asset shall be provided for after 18 months past due date of the interest i.e. 15 months from the date of classification of the assets as NPA.

9.7.4.3 Book value for the purpose of provisioning for NPAs shall be taken as a value determined as per the prescribed valuation method.

9.7.4.4 This can be explained by an illustration:

a. Let us consider that interest income is due on a half yearly basis and the due date falls on 30.06.2016 and the interest is not received till 1st quarter after due date i.e. 30.09.2016. The provisioning will be done in the following phased manner:

10% provision	01.01.2016	6 months past due date of interest i.e. 3 months from the date of classification of asset as NPA (01.10.2016)
20% provision	01.04.2016	
20% provision	01.07.2016	
25% provision	01.10.2016	
25% provision	01.01.2017	

b. Thus, one and half years past the due date of income or one year and three months from the date of classification of the 'asset' as an NPA, the 'asset' will be fully provided for. If any installment is fallen due, during the period of interest default, the amount of provision shall be the installment amount or above provision amount, whichever is higher.

9.7.5 Reclassification of assets

9.7.5.1 Upon reclassification of assets as 'performing assets':

a. In case a company has fully cleared all the arrears of interest, the interest provisions can be written back in full.

- b. The asset will be reclassified as performing on clearance of all interest arrears and if the debt is regularly serviced over the next two quarters.
- c. In case the company has fully cleared all the arrears of interest, the interest not credited on accrual basis shall be credited at the time of receipt.
- d. The provision made for the principal amount can be written back in the following manner
 - 1. 100% of the asset provided for in the books will be written back at the end of the 2nd quarter where the provision of principal was made due to the interest defaults only.
 - 2. 50% of the asset provided for in the books will be written back at the end of the 2nd quarter and 25% after every subsequent quarter where both installments and interest payment were in default earlier.
 - 3. *Explanation:* The words “2nd quarter” wherever appear, shall mean 2nd calendar quarter.²³⁵
- e. An asset is reclassified as 'standard asset' only when both, the overdue interest and overdue installments are paid in full and there is satisfactory performance for a subsequent period of 6 months.

9.7.6 Receipt of past dues:

9.7.6.1 When the Mutual Fund has received income/ principal amount after their classifications as NPAs:

- a. For the next 2 quarters, income shall be recognized on cash basis and thereafter on accrual basis. The asset will be continued to be classified as NPA for these two quarters.

²³⁵ SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001.

- b. During this period of two quarters although the asset is classified as NPA no provision needs to be made for the principal if the same is not due and outstanding.
- c. If part payment is received towards principal, the asset continues to be classified as NPA and provisions are continued as per the norms set at 9.7.4 above any excess provision will be written back.

9.7.7 Classification of Deep Discount Bonds as NPAs

9.7.7.1 Investments in Deep Discount Bonds can be classified as NPAs, if any two of the following conditions are satisfied:

- a. If the rating of the Bond comes down to Grade 'BB' (or its equivalent) or below
- b. If the company is defaulting in their commitments in respect of other assets, if available.
- c. Full Net worth erosion.

9.7.7.2 Provision should be made as per the norms set at 9.7.4 above as soon as the asset is classified as NPA.

9.7.7.3 Full provision can be made if the rating comes down to Grade 'D' (or its equivalent).

9.7.8 Rescheduling of an asset

9.7.8.1 In case a company defaults in payment of either interest or principal amount and the Mutual Fund has accepted a rescheduling of the schedule of payments, then the following practice shall be adhered to:

- a. In case it is a first rescheduling and only payment of interest is in default, the classification of the asset as NPA shall be continued and existing provisions shall not be written back. This practice shall be continued for two quarters of regular servicing of the debt.

Thereafter, this be classified as 'performing asset' and the interest provided can be written back.

- b. If the reschedulement is done due to default in interest and principal amount, the asset shall continue as NPA for a period of 4 quarters, even though the asset is continued to be serviced during these 4 quarters regularly. Thereafter, the asset can be classified as 'performing asset' and all the interest provided till such date shall be written back.
- c. If the reschedulement is done for a second/ third time or thereafter, the characteristics of NPA should be continued for eight quarters of regular servicing of the debt. The provision shall be written back only after the asset is reclassified as 'performing asset'.

9.7.9 Disclosure in the Half Yearly Portfolio Reports

9.7.9.1 Mutual Funds shall make scrip wise disclosures of NPAs on Half Yearly basis along with the Half Yearly Portfolio Disclosure in the format prescribed²³⁶.

9.7.9.2 The total amount of provisions made against the NPAs shall be disclosed in addition to the total quantum of NPAs and their proportion to the assets of the Mutual Fund scheme. In the list of investments and asterisk mark shall be given against such investments which are recognized as NPAs. Where the date of redemption of an investment has lapsed, the amount not redeemed shall be shown as 'Sundry Debtors' and not investment, provided, that where an investment is redeemable by installments, that will be shown as an investment until all installments have become overdue.

²³⁶ For formats of Half yearly disclosure, please refer to the section on Formats

9.8 Investment in Unlisted Equity Shares²³⁷

9.8.1 To ensure uniformity in calculation of NAV the following guidelines are issued:

9.8.1.1 Methodology for Valuation - unlisted equity shares of a company shall be valued "in good faith" as below:

- a. Based on the latest available audited balance sheet, Net Worth shall be calculated as the lower of item (1) and (2) below:
 1. Net Worth per share = [Share Capital + Free Reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares.
 2. After taking into account the outstanding warrants and options, Net Worth per share shall again be calculated and shall be = [Share Capital + consideration on exercise of Option and/or Warrants received/receivable by the Company + Free Reserves (excluding Revaluation Reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares plus Number of Shares that would be obtained on conversion and/or exercise of Outstanding Warrants and Options.
 3. The lower of (1) and (2) above shall be used for calculation of Net Worth per share and for further calculation in (c) below.
- b. Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and

²³⁷ SEBI Circular No. MFD/CIR/03/526/2002 dated May 9, 2002.

changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent. i.e. only 25 per cent of the industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose.

- c. The value as per the Net Worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 15 per cent for illiquidity so as to arrive at the fair value per share.

9.8.1.2 The above valuation methodology shall be subject to the following conditions:

- a. All calculations shall be based on audited accounts.
- b. If the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.
- c. If the Net Worth of the company is negative, the share would be marked down to zero.
- d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.
- e. In case an individual security accounts for more than 5 per cent of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent of the total assets of the scheme, it shall be valued in accordance with the procedure as mentioned above on the date of valuation.

9.8.2 At the discretion of the AMCs and with the approval of the Trustees, unlisted equity shares may be valued at a price lower than the value derived using the aforesaid methodology.

9.8.3 Due Diligence

9.8.3.1 Mutual Funds shall not make Investment in unlisted equity shares at a price higher than the price obtained by using the aforesaid methodology. However, this restriction is not applicable for investment made in the Initial Public Offers (IPOs) of the companies or firm allotment in public issues where all the regulatory requirements and formalities pertaining to public issues have been complied with by the companies and where the Mutual Funds are required to pay just before the date of public issue.

9.8.3.2 The Board of the AMC and Board of Trustees shall lay down the parameters for investing in unlisted equity shares. They shall pay specific attention as to whether due diligence was exercised while making such investments and shall review the performance of such investments in their periodical meetings²³⁸.

9.8.4 Reporting of Compliance

9.8.4.1 Comments on compliance of these Guidelines shall be indicated by the AMCs and Trustees in their CTRs²³⁹ and Half Yearly Reports²⁴⁰ filed with the Board.

²³⁸ SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

²³⁹ For CTR format please refer to the section on formats

²⁴⁰ For Half Yearly Reports, please refer to the section on formats

9.9 Valuation of securities not covered under the current valuation policy²⁴¹:

9.9.1 In case of securities purchased by mutual funds do not fall within the current framework of the valuation of securities then such mutual fund shall report immediately to AMFI regarding the same. Further, at the time of investment AMCs shall ensure that the total exposure in such securities does not exceed 5% of the total AUM of the scheme.

9.9.2 AMFI has been advised that the valuation agencies should ensure that the valuation of such securities gets covered in the valuation framework within six weeks from the date of receipt of such intimation from mutual fund.

9.9.3 In the interim period, till AMFI makes provisions to cover such securities in the valuation of securities framework, the mutual funds shall value such securities using their proprietary model which has been approved by their independent trustees and the statutory auditors.

9.10 Dissemination of information:

9.10.1 All mutual funds shall provide transaction details, including inter scheme transfers, of money market and debt securities on daily basis to the agency entrusted for providing the benchmark yield/ matrix of spread over risk free benchmark yield. Submission of data²⁴² would help in daily matrix generation and would improve uniformity and accuracy of valuation in the mutual funds industry.

²⁴¹ SEBI/IMD/CIR No.16/193388/2010 dated February 02, 2010 and Cir/IMD/DF/4/2010 dated June 21, 2010

²⁴² SEBI Circular No.MFD/CIR/23 /066 / 2003 dated March 7, 2003. For disclosure of transaction details, please refer to the section on Formats

9.10.2 The AMCs shall also disclose all details of debt and money market securities transacted (including inter scheme transfers) in its schemes portfolio on its website and the same shall be forwarded to AMFI for consolidation and dissemination as per format²⁴³. These disclosures shall be made settlement date wise on daily basis with a time lag of 30 days²⁴⁴.

9.11 Consistency

9.11.1 All AMC's shall ensure that similar securities held under its various schemes shall be valued consistently.

²⁴³ For format please refer to the section on formats

²⁴⁴ SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012

CHAPTER 10

LOADS, FEES, CHARGES AND EXPENSES

10.1 Limits on fees and expenses charged to schemes²⁴⁵

10.1.1 Mutual Funds may charge certain expenses to a scheme, as specified under Regulations.²⁴⁶ Apart from the these expenses, any other expense as may be approved by SEBI under clause (xiii) of Sub Regulation 52(4) can also be charged to the Mutual Fund schemes. Other expenses directly attributable to a scheme may be charged with the approval of trustees within the overall limits as provided in the Regulation 52(6).²⁴⁷

10.1.2 Additional TER²⁴⁸ can be charged up to 30 basis points on daily net assets of the scheme as per Regulation 52²⁴⁹, if the new inflows from beyond top 15 cities are at least (a) 30% of gross new inflows in the scheme or (b) 15% of the average assets under management (year to date) of the scheme, whichever is higher.

In case inflows from beyond top 15 cities is less than the higher of (a) or (b) above, additional TER on daily net assets of the scheme shall be charged as follows:

Daily net assets X 30 basis points X New inflows from beyond top 15 cities

365* X Higher of (a) or (b) above

* 366, wherever applicable.

²⁴⁵ SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997, SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998, SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

²⁴⁶ Regulation 52(4) of the Mutual Funds Regulations, 1996

²⁴⁷ SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

²⁴⁸ SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

²⁴⁹ Regulation 52 of the Mutual Funds Regulations, 1996

The top 15 cities shall mean top 15 cities based on Association of Mutual Funds in India (AMFI) data on 'AUM by Geography – Consolidated Data for Mutual Fund Industry' as at the end of the previous financial year.

10.1.3 The additional TER on account of inflows from beyond top 15 cities so charged shall be clawed back in case the same is redeemed within a period of 1 year from the date of investment.

10.1.4 Mutual funds/AMCs shall make complete disclosures in the half yearly report of Trustees to SEBI regarding the efforts undertaken by them to increase geographical penetration of mutual funds and the details of opening of new branches, especially at locations beyond top 15 cities.

10.1.5 Brokerage and transaction cost²⁵⁰ incurred for the purpose of execution of trade may be capitalized to the extent of 12bps and 5bps for cash market transactions and derivatives transactions respectively. Any payment towards brokerage and transaction cost, over and above the said 12 bps and 5bps for cash market transactions and derivatives transactions respectively may be charged to the scheme within the maximum limit of Total Expense Ratio (TER) as prescribed under regulation 52²⁵¹. Any expenditure in excess of the said prescribed limit (including brokerage and transaction cost, if any) shall be borne by the AMC or by the trustee or sponsors.

10.1.6 Soft-dollar arrangement refers to an arrangement between AMCs and brokers in which the AMC executes trades through a particular broker and in turn the broker may provide benefits such as free research,

²⁵⁰ SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012 & SEBI Circular No. CIR/IMD/DF/24/2012 dated November 19, 2012.

²⁵¹ Regulation 52 of the SEBI (Mutual Funds) Regulations, 1996

hardware, software or even non-research-related services, etc., to the AMC. It may be noted that such arrangements between AMCs and brokers should be limited to only benefits (like free research report, etc.) that are in the interest of investors and the same should be suitably disclosed²⁵².

10.1.7 Investor Education and Awareness²⁵³:

10.1.7.1 Mutual Funds/AMCs shall annually set apart at least 2 basis points on daily net assets within the maximum limit of TER as per regulation 52 of the Regulations for investor education and awareness initiatives. Mutual Funds shall make complete disclosures in the half yearly trustee report to SEBI regarding the investor education and awareness initiatives undertaken.

10.1.8 The following expenses cannot be charged to the schemes of Mutual Funds:

10.1.8.1 Penalties and fines for infraction of laws.

10.1.8.2 Interest on delayed payment to the unit holders.

10.1.8.3 Legal, marketing, publication and other general expenses not attributable to any scheme(s).

10.1.8.4 Fund Accounting Fees.

10.1.8.5 Expenses on investment management/general management.

10.1.8.6 Expenses on general administration, corporate advertising and infrastructure costs.

²⁵² SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016

²⁵³ SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

- 10.1.8.7 Depreciation on fixed assets and software development expenses.
- 10.1.8.8 Such other costs as may be prohibited by the Board.
- 10.1.9 The expenditure and/or fee payable by Mutual Funds to the Depositories may either be capitalized or included as part of recurring expenditure within the limits prescribed under Regulation 52(6) of the Mutual Funds Regulations²⁵⁴.
- 10.1.10 Further, each item of expenditure accounting for more than 10% of total expenditure shall be disclosed in the accounts or the notes thereto of the schemes²⁵⁵.
- 10.1.11 Provision of charging of additional management fees by the Asset Management Companies in case of schemes launched on no load basis²⁵⁶.
- 10.1.11.1 AMC shall not collect any additional management fees referred to in Regulation²⁵⁷.
- 10.1.11.2 Mutual Fund Schemes to be launched including those for which observation letter have been issued under Regulation²⁵⁸ would be required to carry out the changes in SID and file the same with SEBI before the launch.

²⁵⁴ SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998.

²⁵⁵ SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

²⁵⁶ SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

²⁵⁷ Regulation 52(3) of SEBI Mutual Funds Regulation, 1996 and SEBI Circular No. SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009

²⁵⁸ Regulation 29 of SEBI (Mutual Funds) Regulations, 1996

10.2 Restriction on paying brokerage or commission²⁵⁹

10.2.1 In case of investments made by the Sponsor(s), no brokerage or commission shall be paid.

10.3 Restriction on charging Service Tax²⁶⁰

10.3.1 AMC(s) can charge Service Tax, as per applicable Taxation Laws, to the scheme(s) within the limits prescribed under Regulations²⁶¹

10.3.2 Mutual funds /AMCs may charge service tax on investment and advisory fees to the scheme in addition to the maximum limit of TER as prescribed in Regulation 52²⁶².

10.3.3 Service tax on other than investment and advisory fees, if any, shall be borne by the scheme within the maximum limit of TER as per Regulation 52²⁶³.

10.3.4 Service tax on exit load, if any, shall be paid out of the exit load proceeds and exit load net of service tax, if any, shall be credited to the scheme.

10.3.5 Service tax on brokerage and transaction cost²⁶⁴ paid for execution of trade, if any, shall be within the limit prescribed under regulation 52 of the Regulations.

²⁵⁹ SEBI Circular No. MFD/CIR No.3/211/2001 dated April 30, 2001, SEBI Circular No. MFD/CIR No.5/153/2001 dated May 24, 2001.

²⁶⁰ SEBI Circular No. MFD/CIR/04/430/2002 dated June 19, 2002, SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

²⁶¹ Reg.52(6) of the SEBI (Mutual Funds) Regulations, 1996.

²⁶² Regulation 52 of SEBI (Mutual Funds) Regulations, 1996

²⁶³ Regulation 52 of SEBI (Mutual Funds) Regulations, 1996

²⁶⁴ SEBI Circular No. CIR/ IMD/ DF/ 24/2012 dated November 19, 2012

10.4 Empowering investors through transparency in payment of commission and load structure²⁶⁵

10.4.1 In order to empower investors in deciding the commission paid to distributors in accordance with the level of service received, it has been mandated that:

10.4.1.1 There shall be no entry load²⁶⁶ for all Mutual Fund schemes.

10.4.1.2 The scheme application forms shall carry a suitable disclosure to the effect that the upfront commission to distributors will be paid by the investor directly to the distributor, based on his assessment of various factors including the service rendered by the distributor.

10.4.1.3 The load balances are maintained as 'liabilities' in the books of the scheme and are not included in the net asset value (NAV). The usage²⁶⁷ of the load account shall be subject to the following:

- a. The load balance shall be segregated into two accounts in the books of accounts of the scheme - one to reflect the balance as on July 31, 2009 and the other to reflect accretions since August 01, 2009.
- b. However, not more than one- third of load balance as on July 31, 2009 shall be used in any financial year. It is clarified though the unutilized balances can be carried

^{265, 219} SEBI Circular No SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009

²⁶⁶ Waiver of load for direct applications - Vide SEBI Circular No. SEBI/IMD/CIR No.10/112153/07 dated December 31, 2007, SEBI mandated w.e.f January 4, 2009 no entry load shall be charged for applications received directly by the AMC(s) through internet or submitted directly to the AMC(s) or Collection Center/Investor Service Centre and not routed through any distributor or agent or broker. This waiver was applicable to both additional purchases under the same folio and 'switch in' to a scheme from other schemes also done directly by the investor. AMCs shall follow the provisions pertaining to informing the unitholders upon a change in load structure as per clause 3(d) of standard observations.

²⁶⁷ SEBI Circular No.CIR/IMD/DF/4/2011 dated March 9, 2011

forward, yet in no financial year the total spending can be more than one third of the load balances on July 31, 2009.

The accretions after July 31, 2009 can be used by mutual funds for marketing and selling expenses including distributor's/agent's commissions without any restrictions mentioned in Para (b) above.

10.4.1.4 The exit load charged²⁶⁸, if any, after the commencement of SEBI (Mutual Funds) (Second Amendment) Regulations, 2012, shall be credited to the scheme.

10.4.1.5 The distributors should disclose all the commissions (in the form of trail commission or any other mode) payable to them for the different competing schemes of various Mutual Funds from amongst which the scheme is being recommended to the investor.

10.4.2 The above guidelines became applicable for:

10.4.2.1 Investments in mutual fund schemes (including additional purchases and switch-in to a scheme from other schemes) w.e.f August 1, 2009

10.4.2.2 Redemptions from mutual fund schemes (including switch-out from other schemes) w.e.f August 1, 2009

10.4.2.3 New mutual fund schemes launched on or after August 1, 2009

10.4.2.4 Systematic Investment Plans (SIP) registered on or after August 1, 2009²⁶⁹.

10.4.3 The AMCs are required to bring the contents of these guidelines to the notice of their distributors and monitor compliance.

²⁶⁸ Regulation 51A of SEBI (Mutual Funds) Regulations, 1996.

²⁵⁵ SEBI Circular No.MFD/CIR/04/430/2002 dated June 19, 2002, SEBI Circular No. CIR/IMD/df/21/2012 dated September 13, 2012

10.5 Transaction Charges²⁷⁰

- 10.5.1 A transaction charge per subscription of Rs.10,000/- and above be allowed to be paid to the distributors of the Mutual Fund products. However, there shall be no transaction charges on direct investments. The transaction charge shall be subject to the following:
- 10.5.1.1 For existing investors in a Mutual Fund, the distributor may be paid Rs.100/- as transaction charge per subscription of Rs.10,000/- and above.
- 10.5.1.2 As an incentive to attract new investors, the distributor may be paid Rs.150/- as transaction charge for a first time investor in Mutual Funds.
- 10.5.1.3 The terms and conditions relating to transaction charge shall be part of the application form in bold print.
- 10.5.1.4 The transaction charge, if any, shall be deducted by the AMC from the subscription amount and paid to the distributor; and the balance shall be invested.
- 10.5.1.5 The statement of account shall clearly state that the net investment as gross subscription less transaction charge and give the number of units allotted against the net investment.
- 10.5.1.6 Distributors shall be able to choose to opt out of charging the transaction charge. However, the 'opt-out' shall be at distributor level and not investor level i.e. a distributor shall not charge one investor and choose not to charge another investor. Further, Distributors shall have also the option to either opt in or

²⁷⁰ SEBI Circular no. CIR/IMD/DF/13/2011 dated August 22, 2011

opt out of levying transaction charge based on type of the product²⁷¹.

- 10.5.1.7 The AMCs shall be responsible for any malpractice/mis-selling by the distributor while charging transaction costs.
- 10.5.1.8 There shall be no transaction charge on subscription below Rs.10,000/-
- 10.5.1.9 In case of SIPs, the transaction charge shall be applicable only if the total commitment through SIPs amounts to Rs.10,000/- and above. In such cases the transaction charge shall be recovered in 3-4 installments.
- 10.5.1.10 There shall be no transaction charge on transactions other than purchases/ subscriptions relating to new inflows.
- 10.5.2 Mutual Funds shall institute systems to detect if a distributor is splitting investments in order to enhance the amount of transaction charges and take stringent action including recommendations to AMFI to take appropriate action.
- 10.5.3 Mutual Funds/AMCs shall carry out an exercise of de-duplication of folios across all Mutual Funds within a period of 6 months from August 22, 2011.

²⁷¹ SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012

10.6 No Load on Bonus Units and Units allotted on Reinvestment of Dividend²⁷²

10.6.1 AMC(s) shall not charge entry and/or exit load on bonus units and units allotted on reinvestment of dividend. Necessary disclosures in this regard shall be made in the SID filed with the Board²⁷³

10.7 Filing fees²⁷⁴

10.7.1 Revised filing fee²⁷⁵ as per the SEBI (Payment of Fees) Amendment Regulations 2014 would be applicable to those scheme(s) whose SID has been filed with SEBI on or after May 23, 2014.

10.8 Exit load parity

10.8.1 While charging exit loads, no distinction among unit holders should be made based on the amount of subscription²⁷⁶. While complying with the same, Mutual Funds should ensure that “any imposition or enhancement in the load shall be applicable on prospective investments only.²⁷⁷

10.8.2 Further, the parity among all classes of unit holders in terms of charging exit load shall be made applicable at the portfolio level.²⁷⁸

²⁷² SEBI Circular No. SEBI/IMD/CIR No. 14/120784/08 dated March 18, 2008

²⁵⁹ SEBI Circular No. CIR/IMD/DF/24/2012 dated November 19, 2012

²⁷⁴ SEBI Cir No. SEBI / IMD / CIR No. 5 / 169030 / 2009 dated July 8, 2009

²⁷⁵ Gazettee Notification No. LAD-NRO/GN/20014-15/03/1089 on SEBI (Payment of Fees) (Amendment) Regulations, 2014 dated 23 May, 2014

²⁷⁶ SEBI Circular No. SEBI / IMD / CIR No. 6 / 172445 / 2009 dated August 7, 2009 All Mutual Funds shall ensure compliance with this circular on or before August 24, 2009

²⁷⁷ SEBI Circular No - SEBI / IMD / CIR No. 7 / 173650 / 2009 dated August 17, 2009 and SEBI circular No. SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008 (clause 16 of the standard observations)

²⁷⁸ SEBI Circular No - SEBI / IMD / CIR No. 7 / 173650 / 2009 dated August 17, 2009

CHAPTER 11

DIVIDEND DISTRIBUTION PROCEDURE^{279, 280}

11.1 Regulations²⁸¹ permit Mutual Funds to distribute returns including dividend. To introduce uniform practices in dividend distribution, the following guidelines should be followed:

11.2 These guidelines are applicable to all Mutual Fund schemes/plans which intend to declare the dividend irrespective of their dates of launch.²⁸²

11.2.1 Unlisted Scheme(s)/ Plan(s)

11.2.1.1 The Trustees shall decide the quantum of dividend and the record date in their meeting²⁸³. Dividend so decided, shall be paid, subject to availability of distributable surplus.

11.2.1.2 Record date shall be the date which will be considered for the purpose of determining the eligibility of investors whose names appear on the register of unit holders for receiving dividends. The NAV shall be adjusted to the extent of dividend distribution and statutory levy, if applicable, at the close of business hours on record date.

11.2.1.3 Within one calendar day of the decision of the Trustees with respect to the dividend to be distributed, the AMC(s) shall issue a notice to the public communicating the decision including the record date. The record date shall be five calendar days from the issue of public notice.

²⁷⁹ SEBI Circular No. SEBI/IMD/CIR No.1/64057/06 dated April 4, 2006.

²⁸⁰ For details on advertisement on dividend please refer to Chapter on 'Advertisements'

²⁸¹ Regulation 53(a) of the SEBI (Mutual Funds) Regulations, 1996

²⁸² SEBI Circular No SEBI/IMD/CIR No. 3/65370/06 dated April 21,2006

²⁸³ Clause 20 of Third Schedule of SEBI (Mutual Funds) Regulations, 1996

11.2.1.4 Before the issue of such notice, no communication whatsoever indicating the probable date of dividend declaration shall be issued by any Mutual Fund or its distributors of its products.

11.2.1.5 Such notice shall be given in at least one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the head office of the Mutual Fund is situated.

11.2.1.6 The notice shall, in font size 10, bold, categorically state that pursuant to dividend distribution, NAV of the scheme would fall to the extent of payout and statutory levy (if applicable).

11.2.2 Liquid / Debt Schemes with frequent dividend distribution

11.2.2.1 The requirement of giving notice is not mandatory for scheme(s)/ plan(s)/ option(s) with dividend distribution frequency ranging from daily up to monthly distribution if requisite disclosures in this regard are made in the SID.

11.2.3 Listed Schemes/Plans

11.2.3.1 Listed scheme(s)/ plan(s) shall follow the requirements stipulated in the Listing Agreement for dividend declaration and distribution.

11.3 Non availability of Unit Premium Reserve for dividend distribution²⁸⁴

11.3.1 Regulations²⁸⁵ provide the accounting policies to be followed for determining distributable surplus and accounting the sale and repurchase of units in the books of the Mutual Fund. The format for Scheme Balance Sheet (including Abridged) provides for disclosure of Unit Premium Reserve.

11.3.2 Unit Premium Reserve, which is part of the sales price of units that is not attributable to realized gains, cannot be used to pay dividend. Therefore:

11.3.2.1 When units of an open-ended scheme are sold, and sale price is higher than face value of the unit, part of sale proceeds that represents unrealized gains shall be credited to a separate account (Unit Premium Reserve) and shall be treated at par with unit capital and the same shall not be utilized for the determination of distributable surplus.

11.3.2.2 When units of an open-ended scheme are sold, and sale price is less than face value of the unit, the difference between the sale price and face value shall be debited to distributable reserves and the dividend can be declared only when distributable reserves become positive after adjusting the amount debited to reserves as per Regulations²⁸⁶.

²⁸⁴ SEBI circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

²⁸⁵ Ninth and Eleventh Schedule of SEBI (Mutual Funds) Regulations, 1996

²⁸⁶ Paragraph 2(a) (ix) of Eleventh Schedule of SEBI (Mutual Funds) Regulations, 1996

CHAPTER 12

INVESTMENT BY SCHEMES²⁸⁷

12.1 Investments by Index Funds:²⁸⁸

12.1.1 Investments by index funds shall be in accordance with the weightage of the scrips in the specific index as disclosed in the SID²⁸⁹ In case of sector or industry specific scheme, the upper ceiling on investments may be in accordance with the weightage of the scrips in the representative sectoral index or sub index as disclosed in the SID or 10% of the NAV of the scheme, whichever is higher.

12.2 Investments by Liquid Schemes and plans²⁹⁰

12.2.1 The 'liquid fund schemes and plans' shall make investment in /purchase debt and money market securities with maturity of upto 91 days only ²⁹¹. This shall also be applicable in case of inter scheme transfer of securities ²⁹²

12.2.1.1 Explanation:

- a. In case of securities where the principal is to be repaid in a single payout the maturity of the securities shall mean residual maturity. In

²⁸⁷ Investments in Money Market instruments (MMIs)

In case of the existing schemes (i.e. existing on date of issue of SEBI Circular No - SEBI / IMD / CIR No.3 / 166386 / 2009 dated June 15, 2009) where the investments in money market instruments of an issuer are not in compliance with the Gazette Notification No. LAD – NRO/GN/2009-10/07/165404 dated June 5, 2009, AMC shall ensure compliance within a period of 3 months from the date of notification.

²⁸⁸ SEBI Circular No - MFD/CIR/09/014/2000 dated January 5, 2000

²⁸⁹ See Clause 10, Seventh Schedule of Mutual Funds Regulations.

²⁹⁰ SEBI Circular No - SEBI/IMD/CIR No.13/150975 / 09 dated January 19, 2009

²⁹¹ With effect from February 01, 2009 make investment in /purchase debt and money market securities with maturity of upto 182 days only.

²⁹² Transition provision:

Inter-scheme transfers of securities having maturity upto 365 days and held in other schemes as on February 01, 2009 shall be permitted till October 31, 2009. With effect from November 1,

case the principal is to be repaid in more than one payout then the maturity of the securities shall be calculated on the basis of weighted average maturity of security.

- b. In case of securities with put and call options (daily or otherwise) the residual maturity of the securities shall not be greater than 91 days²⁹³
- c. In case the maturity of the security falls on a non-business day then settlement of securities will take place on the next business day.

12.2.2 The above requirements shall be disclosed in the SID and shall form part of the investment allocation pattern. Any deviation from these requirements shall be viewed as violation of investment restrictions.

12.3 Investments by close ended debt schemes:

12.3.1 Close ended debt schemes shall invest only in such securities which mature on or before the date of the maturity of the scheme²⁹⁴

12.4 Prudential limits and disclosures on portfolio concentration risk in debt oriented mutual fund schemes²⁹⁵

12.4.1 Mutual Funds/AMCs shall ensure that total exposure of debt schemes of mutual funds in a particular sector (excluding investments in Bank CDs, CBLO, G-Secs, T-Bills and AAA rated securities issued by Public Financial Institutions and Public

2009 the requirements stated at paragraph 12.2.1 above shall apply to such inter-se scheme transfers also.

²⁹³ w.e.f May 01, 2009.

²⁹⁴ SEBI Circular No IMD/CIR No 12/147132/08 dated December 11, 2008.

²⁹⁵ SEBI Circular No.CIR/IMD/ DF/ 21/ 2012 dated September 13, 2012 and SEBI Circular No. CIR/IMD/DF/24/2012 dated November 19, 2012 SEBI/ HO/ IMD/ DF2/CIR/P/2016/35 dated February 15, 2016 and SEBI Circular No. SEBI/ HO/ IMD/ DF2/CIR/P/2016/68 dated August 10, 2016

Sector Banks), short term deposits of scheduled commercial banks²⁹⁶) shall not exceed 25% of the net assets of the scheme;

Provided that an additional exposure to financial services sector (over and above the limit of 25%) not exceeding 10% of the net assets of the scheme shall be allowed only by way of increase in exposure to Housing Finance Companies (HFCs) ;

Provided further that the additional exposure to such securities issued by HFCs are rated AA and above and these HFCs are registered with National Housing Bank (NHB) and the total investment/ exposure in HFCs shall not exceed 25% of the net assets of the scheme."

12.4.2 Appropriate disclosures shall be made in Scheme Information Document (SID) and Key Information Memorandum (KIM) of debt schemes.

12.4.3 Group exposure –

a) Mutual Funds/ AMCs shall ensure that total exposure of debt schemes of mutual funds in a group (excluding investments in securities issued by Public Sector Units, Public Financial Institutions and Public Sector Banks) shall not exceed 20% of the net assets of the scheme. Such investment limit may be extended to 25% of the net assets of the scheme with the prior approval of the Board of Trustees.

b) For this purpose, a group means a group as defined under regulation 2 (mm) of SEBI (Mutual Funds) Regulations, 1996 (Regulations) and shall include an entity, its subsidiaries, fellow subsidiaries, its holding company and its associates.

²⁹⁶ SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014

12.4.4 Trustee shall review exposure of a mutual fund, across all its schemes, towards individual issuers, group companies and sectors. Trustee should satisfy themselves on the levels of exposure and confirm the same to SEBI in the half-yearly trustee report starting from the half-year ending March 31, 2016.

12.4.5 The revised investment restrictions at issuer level, sector level and group level shall be applicable to all new schemes and fresh investments by existing schemes from the date of this circular (i.e. February 15, 2016).

12.4.6 Existing mutual fund schemes shall comply with the revised investment restrictions at issuer level, sector level and group level within a period of one year from the date of issue of this circular (i.e. February 15, 2016). Existing close ended schemes shall not be required to sell their investments to comply with the restrictions. However, if existing close ended schemes sell their investments then their fresh investments shall be subject to the restrictions.

12.5 Stock Lending Scheme²⁹⁷

12.5.1 The following guidelines are issued to facilitate lending of securities by Mutual Funds through intermediaries approved by the Board in accordance with the Stock Lending & Borrowing Scheme.²⁹⁸

12.5.2 Disclosure Requirements

12.5.2.1 The following information shall be disclosed in the SID to enable the investors and unit holders to take an informed decision:

- a. Intention to lend securities belonging to a particular Mutual Fund scheme in accordance with the guidelines on securities lending and borrowing scheme issued by SEBI from time to time.²⁹⁹
- b. Exposure limit with regard to securities lending, both for the scheme as well as for a single intermediary.
- c. Risks factors such as loss, bankruptcy etc. associated with such transactions.

12.5.3 Reporting Requirement

12.5.3.1 The AMC(s) shall report to the Trustees on a quarterly basis about the level of lending, in terms of value, volume and intermediaries and also earnings and/or losses, value of collateral security etc.

12.5.3.2 The Trustees shall periodically review the securities lending contract and take reasonable steps to ensure that the same is not,

²⁹⁷ SEBI Circular No MFD/CIR/01/047/99 dated February 10, 1999.

²⁹⁸ Regulation 44(4) of the SEBI (Mutual Funds) Regulations, 1996.

²⁹⁹ SEBI Circular No - SEBI / IMD / CIR No 14 / 187175 / 2009 dated December 15,2009

in any way, detrimental to the interests of the unit holders of the scheme.

12.5.3.3 The Trustees shall offer their comments on the above aspects in the Half Yearly Trustee Report filed with the Board.³⁰⁰

12.5.4 Existing schemes

12.5.4.1 In case an existing SID does not provide for lending of securities, Mutual Funds may still lend securities belonging to the scheme, in accordance with the SEBI Guidelines, provided approval is obtained from the Trustees and the intention to lend securities is conveyed to the unit holders.

12.6 Approval for Investment in Unrated Debt Instruments³⁰¹

12.6.1 Mutual Funds may, for the purpose of operational flexibility, constitute committees to approve investment proposals in unrated instruments. However, detailed parameters for investment in unrated debt instruments have to be approved by the Board of the AMC and Trustees. Details of such investments shall be communicated by the AMCs to the Trustees in their periodical reports, along with clear indication as to how the parameters set for investments have been complied with. Prior approval of the Board of the AMC and Trustees shall be required in case investment is sought to be made in an unrated security falling outside the prescribed parameters.

³⁰⁰ Regulation 18(23)(a) of the Mutual Funds Regulations. Further, for format of Half Yearly Trustee Report please refer to section on Formats.

³⁰¹ SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

12.7 Investments in Units of Venture Capital Funds³⁰²

12.7.1 Mutual Fund schemes can invest in listed or unlisted securities or units of Venture Capital Funds within the prescribed investment limits as applicable.³⁰³

12.8 Investment limits for Government guaranteed debt securities³⁰⁴

12.8.1 Prudential investment norms as per Regulations stipulating limits for investments in debt securities³⁰⁵ issued by a single issuer are applicable to all debt securities issued by public bodies or institutions such as electricity boards, municipal corporations, state transport corporations etc. guaranteed by either State / Central Government. Government securities issued by Central and/or State Government or on its behalf, by the RBI are however exempt from these limits.

12.9 Investment Restrictions for Securitised Debt³⁰⁶

12.9.1 For investments made in Securitised Debt (mortgage backed securities and asset backed securities), restrictions as per Clause 1 of Seventh Schedule³⁰⁷ shall not apply at the originator level.

³⁰² SEBI Circular No. MFD/CIR/9/230/2001 dated August 14, 2001.

³⁰³ Clauses 10 and 11, Seventh Schedule of SEBI (Mutual Funds), Regulations, 1996.

³⁰⁴ SEBI Circular No. SEBI/IMD/CIR No.8/18944/03 dated October 6, 2003.

³⁰⁵ Clauses 1 and 1A, Seventh Schedule of SEBI (Mutual Funds), Regulations, 1996.

³⁰⁶ SEBI Circular No. SEBI/IMD/CIR No.6/63715/06 dated March 29, 2006.

³⁰⁷ Clause I of Schedule VII of SEBI (Mutual Fund), Regulations, 1996

12.10 Investments in Short Term Deposits of Scheduled Commercial Banks³⁰⁸

12.10.1 The guidelines for deployment of funds in short term deposits of commercial banks for schemes are as under:

12.10.1.1 “Short Term” for parking of funds by Mutual Funds shall be treated as a period not exceeding 91 days.³⁰⁹

12.10.1.2 Such deposits shall be held in the name of the concerned scheme.

12.10.1.3 No mutual fund scheme shall park more than 15% of their net assets in short term deposits of all scheduled commercial banks put together. This limit however may be raised to 20% with prior approval of the Trustees. Also, parking of funds in short term deposits of associate and sponsor scheduled commercial banks

³⁰⁸ SEBI Circulars No. SEBI/IMD/CIR No.9/20306/03 dated November 12, 2003, SEBI Circular No. SEBI/IMD/Cir No.1/91171/07 dated April 16, 2007, SEBI and Clause 8 of Seventh Schedule of Mutual Funds Regulations, 1996.

³⁰⁹ SEBI Circular No. SEBI/IMD/Cir No.1/91171/07 dated April 16, 2007.

together shall not exceed 20% of the total deployment by the Mutual Fund in short term deposits.

- 12.10.1.4 No mutual fund scheme shall park more than 10% of the net assets in short term deposits with any one scheduled commercial bank including its subsidiaries.
- 12.10.1.5 Trustees shall ensure that funds of a particular scheme are not parked in short term deposit of a bank which has invested in that scheme.
- 12.10.1.6 In case of liquid and debt oriented schemes, AMC(s) shall not charge any investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks.
- 12.10.1.7 Half Yearly portfolio statements shall disclose all funds parked in short term deposit(s) under a separate heading. Details shall also include name of the bank, amount of funds parked, percentage of NAV.
- 12.10.1.8 Trustees shall, in the Half Yearly Trustee Reports certify that provisions of the Mutual Funds Regulations pertaining to parking of funds in short term deposits pending deployment are complied with at all points of time. The AMC(s) shall also certify the same in its CTR(s).
- 12.10.1.9 Investments made in short term deposits pending deployment of funds³¹⁰ shall be recorded³¹¹ and reported to the Trustees including the reasons for the investment especially comparisons

³¹⁰ Clause 8, Schedule Seven, SEBI (Mutual Funds), Regulations, 1996.

³¹¹ SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

with interest rates offered by other scheduled commercial banks.³¹²

12.10.1.10 Except for clause (12.9.1.7) the above guidelines shall not apply to term deposits placed as margins for trading in cash and derivatives market³¹³. However, duration of such term deposits shall be disclosed in the Half Yearly Portfolio³¹⁴.

12.11 Reconciliation Procedure for Investment in Government Securities³¹⁵

12.11.1 According to the RBI guidelines³¹⁶ issued to all SGL account holders, to make transactions in government securities transparent, a monthly reconciliation system has been introduced between RBI and Mutual Funds maintaining SGL/CSGL accounts with respect to Government Securities on an ongoing basis.

12.11.2 Mutual Funds shall reconcile the balances reported in the monthly statements furnished by RBI with the transactions undertaken by them.

12.11.3 The reconciliation procedure shall be made part of internal audit and the auditors shall on a continuous basis, check the status of reconciliation and submit a report to the Audit Committee. These reports shall be placed in the meetings of the Board of the AMC and Trustees. Mutual Funds shall submit, on a quarterly basis to the RBI, a certificate confirming compliance with these requirements and any other guidelines issued by the RBI from time to time in this regard.

³¹² SEBI Circular No. SEBI/IMD/CIR No.9/20306/03 dated November 12, 2003.

³¹³ SEBI Circular No. SEBI/IMD/Cir No.7/129592/08 dated June 23, 2008.

³¹⁴ SEBI Circular No. SEBI/IMD/Cir No.7/129592/08 dated June 23, 2008

³¹⁵ SEBI Circular No. MFD/CIR/19/22474/2002 dated November 20, 2002.

³¹⁶ RBI Circular No.P.D.O.SGL.CIRR/1945/2002-2003 dated November 1, 2002.

Compliance shall also be reported to the Board in the CTRs of AMC(s) and Half Yearly Trustee Reports.

12.12 Participation of mutual funds in repo in corporate debt securities³¹⁷

12.12.1 Mutual funds can participate in repos in corporate debt securities as per the guidelines issued by RBI from time to time, subject to the following conditions:

12.12.1.1 The gross exposure of any mutual fund scheme to repo transactions in corporate debt securities shall not be more than 10 % of the net assets of the concerned scheme.

12.12.1.2 The cumulative gross exposure through repo transactions in corporate debt securities along with equity, debt and derivatives shall not exceed 100% of the net assets of the concerned scheme.

12.12.1.3 Mutual funds shall participate in repo transactions only in AA³¹⁸ and above rated corporate debt securities.

12.12.1.4 In terms of Regulation 44 (2) of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, mutual funds shall borrow through repo transactions only if the tenor of the transaction does not exceed a period of six months.

12.12.1.5 The Trustees and the Asset Management Companies shall frame guidelines about, *inter alia*, , the following in context of these

³¹⁷ SEBI Circular No. CIR/IMD/DF/19/2011 dated November 11, 2011

³¹⁸ SEBI Circular No. CIR/IMD/DF/23/2012 dated November 15, 2012

transactions keeping in mind the interest of investors in their schemes:

- a. Category of counterparty
- b. Credit rating of counterparty
- c. Tenor of collateral
- d. Applicable haircuts

12.12.1.6 Mutual funds shall ensure compliance with the Seventh Schedule of the Mutual Funds Regulations about restrictions on investments, wherever applicable, with respect to repo transactions in corporate debt securities.

12.12.1.7 The details of repo transactions of the schemes in corporate debt securities, including details of counterparties, amount involved and percentage of NAV shall be disclosed to investors in the half yearly portfolio statements and to SEBI in the half yearly trustee report.

12.12.1.8 To enable the investors in the mutual fund schemes to take an informed decision, the concerned Scheme Information Document shall disclose the following:

- a. The intention to participate in repo transactions in corporate debt securities in accordance with directions issued by RBI and SEBI from time to time;
- b. The exposure limit for the scheme; and
- c. The risk factors associated with repo transactions in corporate bonds

12.13 Overseas Investment³¹⁹

12.13.1 Applicable limits:

12.13.1.1 Aggregate ceiling for overseas investments is US \$ 7 billion³²⁰ and within this overall limit, Mutual Funds can make overseas investments subject to a maximum of US \$ 300 million per Mutual Fund.

12.13.1.2 Aggregate ceiling for investment by Mutual Funds in overseas Exchange Traded Fund (ETF(s)) that invest in securities is US \$ 1 billion subject to a maximum of US \$ 50 million per Mutual Fund.

12.13.2 Permissible investments:

12.13.2.1 ADR(s) and/or GDR(s) issued by Indian or foreign companies.

12.13.2.2 Equity of overseas companies listed on recognized Stock Exchanges overseas.

12.13.2.3 Initial and Follow on Public Offerings for listing at recognized Stock Exchanges overseas.

12.13.2.4 Foreign debt securities in the countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited/ registered credit rating agencies.

³¹⁹ SEBI Circular No. SEBI/IMD/CIR No.7/104753/07 dated September 26, 2007 & SEBI Circular No. SEBI/IMD/CIR No.2/122577/08 dated April 8, 2008.

³²⁰ SEBI Circular No. SEBI/IMD/CIR No.2/122577/08 dated April 8, 2008.

- 12.13.2.5 Money Market Instruments rated not below investment grade.
- 12.13.2.6 Repos in form of investment, where the counterparty is rated not below investment grade; repo shall not however involve any borrowing of funds by Mutual Funds.
- 12.13.2.7 Government securities where the countries are rated not below investment grade.
- 12.13.2.8 Derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities.
- 12.13.2.9 Short term deposits with banks overseas where the issuer is rated not below investment grade.
- 12.13.2.10 Units / securities issued by overseas Mutual Funds or unit trusts registered with overseas regulators and investing in
- a. Aforesaid Securities
 - b. Real Estate Investment Trusts listed on recognized Stock Exchanges overseas or
 - c. Unlisted overseas securities, not exceeding 10% of their net assets

12.13.3 Other Conditions: Funds Regulations and guidelines issued from time to time, Mutual Funds shall adhere to the following specific guidelines while making overseas investments:

12.13.3.1 Appointment of a Dedicated Fund Manager:

- a. A dedicated fund manager shall be appointed for making the above overseas investments stipulated under clause 12.13.2.1 to 12.13.2.10.

12.13.3.2 Due Diligence:

- a. The Board of the AMC and Trustees shall exercise due diligence in making investment decisions and record the same.³²¹ They shall make a detailed analysis of risks and returns of overseas investment and how these investments would be in the interest of investors. Investment shall be made in liquid actively traded securities /instruments.
- b. The Board of the AMC and Trustees may prescribe detailed parameters for making such investments which may include identification of countries, country rating, country limits etc. They shall satisfy themselves that the AMC has experienced key personnel, research facilities and infrastructure for making such investments. Other specialized agencies and service providers associated with such investments e.g. custodian, bank, advisors etc. shall also have adequate expertise and infrastructure facilities. Their past track record of performance and regulatory compliance record, if they are registered with foreign regulators, should also be considered. Necessary agreements may be entered into with them as required.

12.13.3.3 Mandatory Disclosure Requirements for Mutual Fund schemes proposing overseas investments:

- a. Intention to invest in foreign securities and/or ETF(s) shall be disclosed in the SID. The attendant risk factors and returns ensuing from such investments shall be explained clearly in the SID. Mutual Funds shall also disclose as to how such investments will help in the furtherance of the investment objectives of the

³²¹ SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

scheme(s). Such disclosures shall be in a language comprehensible to an average investor

- b. Mutual Funds shall disclose the name of the Dedicated Fund Manager for making overseas investments as stipulated under paragraph 12.13.3.2.a.
- c. Mutual Funds shall disclose exposure limits i.e. the percentage of assets of the scheme they would invest in foreign securities / ETF(s).
- d. Such investments shall be disclosed while disclosing Half Yearly portfolios in the prescribed format under a separate heading "Foreign Securities and/or overseas ETF(s)." Scheme wise percentage of investments made in such securities shall be disclosed while publishing Half Yearly Results in the prescribed format³²² as a footnote.

12.13.3.4 Investment by Existing Schemes:

- a. Existing schemes of Mutual Funds where the SID provides for investment in foreign securities and attendant risk factors but which have not yet invested, may invest in foreign securities, consistent with the investment objectives of the schemes, provided a Dedicated Fund Manager has been appointed as stipulated in paragraph 12.13.3.2. Additional disclosures specified above shall be included by way of addendum and unit holders will be informed accordingly.
- b. In case the SID of an existing scheme does not provide for overseas investment, the scheme, if it so desires, may make such investments in accordance with these Guidelines, provided that

³²² For Half Yearly Results, please refer to the section on Formats

prior to the overseas investments for the first time, the AMC shall ensure that a written communication about the proposed investment is sent to each unit holder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the Mutual Fund is situated. The communication to unit holders shall also disclose the risk factors associated with such investments.

12.13.3.5 Detailed periodic reporting to Trustees by AMC(s) shall include:

- a. Performance of overseas investments
- b. Amount invested in various schemes and any breach of the exposure limit laid down in the SID.

12.13.3.6 Review of Performance:

- a. The Board of the AMC and Trustees shall review the performance of schemes making overseas investments with appropriate benchmark(s) as disclosed in the SID.

12.13.3.7 Reporting to the Board:

- a. The Trustees shall offer their comments on the compliance of these guidelines in the Half Yearly Reports filed with the Board.

12.13.3.8 Prudential Investment Norms:

- a. Investment restrictions specified in Schedule Seven of the Mutual Funds Regulations are applicable to overseas investments stipulated under paragraph 12.13.2.1- 12.13.2.10

- b. However, Clause 4 of the Seventh Schedule of the Mutual Funds Regulations that restricts investments in Mutual Fund units up to 5% of net assets and prohibits charging of fees, shall not be applicable to investments in Mutual Funds in foreign countries made in accordance with these Guidelines.
- c. Management fees and other expenses charged by the Mutual Funds in foreign countries along with the management fee and recurring expenses charged to the domestic Mutual Fund scheme shall not exceed the total limits on expenses as prescribed under Regulation 52(6) of the Mutual Funds Regulations. Where the scheme is investing only a part of the net assets in overseas Mutual Funds, the same principle shall be applicable for that part of investment. Details of calculation for charging such expenses shall be reported to the Board of the AMC and the Trustees and shall also be disclosed in the Annual Report of the scheme
- d. The application³²³ for seeking approval for investing in foreign securities, ADR/GDR/overseas ETF(s) shall be made in advance of making investments. On receipt of approval from the Board, intimation may be sent by the AMC(s) to Overseas Investment Division, Foreign Exchange Department, RBI.

12.14 Investments in Indian Depository Receipts (IDRs)³²⁴

12.4.1 Mutual funds can invest in Indian Depository Receipts³²⁵ [Indian Depository Receipts as defined in Companies (Issue of Indian Depository Receipts) Rules, 2004] subject to compliance with SEBI (Mutual Funds) Regulations 1996 and guidelines issued there under,

³²³ Please refer the section on formats for format of proposal for investments in foreign securities and ETFs

³²⁴ SEBI Circular No. IMD/CIR. No.1/165935/2009 dated June 09, 2009

³²⁵ Regulation 43(1) of SEBI (Mutual Funds) Regulations, 1996

specifically investment restrictions as specified in the Seventh Schedule of the Regulations.'

12.15 Investment Restrictions³²⁶

12.15.1 All investment restrictions as contained in the Regulations³²⁷ shall be applicable at the time of making investment.

12.16 Recording of Investment Decisions³²⁸

12.16.1 AMC(s) shall exercise due diligence and care in all investment decisions as would be exercised by other persons engaged in the same business.³²⁹ Further AMC(s) shall maintain records in support of each investment decision which will indicate data, facts and opinion leading to that decision. While broad parameters for investments can be prescribed by the Board of Directors of the AMC, the basis for taking individual scrip wise investment decision in equity and debt securities shall be recorded. A detailed research report analyzing various factors for each investment decision taken for the first time shall be maintained and the reasons for subsequent purchase and sales in the same scrip shall also be recorded. The contents of the research reports may be decided by the AMC(s) and the Trustees.

12.16.2 The Board of the AMC shall develop a mechanism to verify that due diligence is being exercised while making investment decisions especially in cases of investment in unlisted and privately placed securities, unrated debt securities, NPAs, transactions where

³²⁶ SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000.

³²⁷ Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996.

³²⁸ SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

³²⁹ Regulation 25(2) of the SEBI (Mutual Funds) Regulations, 1996.

associates are involved and instances where the performance of the scheme(s) is poor.

12.16.3 AMC(s) shall report compliance with these requirements in their periodical reports to the Trustees and the Trustees shall report the same to the Board in the Half Yearly Trustee Reports³³⁰. Trustees shall also check compliance with these Guidelines through independent auditors or internal and/or statutory auditors or other systems developed by them.

12.17 Norms for investment and disclosure by Mutual Funds in derivatives³³¹

12.17.1 Exposure Limits

12.17.1.1 The cumulative gross exposure through equity, debt and derivative positions should not exceed 100% of the net assets of the scheme.

12.17.1.2 Mutual Funds shall not write options or purchase instruments with embedded written options.

12.17.1.3 The total exposure related to option premium paid must not exceed 20% of the net assets of the scheme.

12.17.1.4 Cash or cash equivalents with residual maturity of less than 91 days may be treated as not creating any exposure.

³³⁰ For Half Yearly Trustee Report please refer to the section on Formats

³³¹ SEBI Circular No. Cir/ IMD/ DF/ 11/ 2010 dated August 18, 2010

12.17.1.5 Exposure due to hedging positions may not be included in the above mentioned limits subject to the following:

- a. Hedging positions are the derivative positions that reduce possible losses on an existing position in securities and till the existing position remains.
- b. Hedging positions cannot be taken for existing derivative positions. Exposure due to such positions shall have to be added and treated under limits mentioned in Point 12.16.1.1.
- c. Any derivative instrument used to hedge has the same underlying security as the existing position being hedged.
- d. The quantity of underlying associated with the derivative position taken for hedging purposes does not exceed the quantity of the existing position against which hedge has been taken.

12.17.1.6 Mutual Funds may enter into plain vanilla interest rate swaps for hedging purposes. The counter party in such transactions has to be an entity recognized as a market maker by RBI. Further, the value of the notional principal in such cases must not exceed the value of respective existing assets being hedged by the scheme. Exposure to a single counterparty in such transactions should not exceed 10% of the net assets of the scheme.

12.17.1.7 Exposure due to derivative positions taken for hedging purposes in excess of the underlying position against which the hedging position has been taken, shall be treated under the limits mentioned in point 12.16.1.1.

Definition of Exposure in case of Derivative Positions

12.17.1.8 Each position taken in derivatives shall have an associated exposure as defined under. Exposure is the maximum possible loss that may occur on a position. However, certain derivative positions may theoretically have unlimited possible loss. Exposure in derivative positions shall be computed as follows:

Position	Exposure
Long Future	Futures Price * Lot Size * Number of Contracts
Short Future	Futures Price * Lot Size * Number of Contracts
Option bought	Option Premium Paid * Lot Size * Number of Contracts.

12.17.1.9 The provisions shall be applicable for all new schemes launched post the issue of the aforementioned guidelines. For all existing schemes, compliance with the guidelines shall be effective from October 01, 2010.

12.18 Interval Schemes/Plans³³²

12.18.1 Certain SIDs provide that the subscription to the scheme can be made during a specific period (known as specified transaction period) and the repurchase of units is permitted on all business days subject to applicable loads (except for redemption during specified transaction period when no load is charged). These schemes are generally referred to as 'interval schemes'.

12.18.2 For all interval schemes/plans³³³:

12.18.2.1 The units shall be mandatorily listed.

³³² SEBI Circular No. CIR/IMD/DF /19/2010 dated November 26, 2010

³³³ Applicability:

12.18.2.2 No redemption/repurchase of units shall be allowed except during the specified transaction period (the period during which both subscription and redemption may be made to and from the scheme). The specified transaction period shall be of minimum 2 working days.

12.18.2.3 Minimum duration of an interval period in an interval scheme/plan shall be 15 days.

12.18.2.4 Investments shall be permitted only in such securities which mature on or before the opening of the immediately following specified transaction period.

Explanation:

In case of securities with put and call options the residual time for exercising the put option of the securities shall not be beyond the opening of the immediately following transaction period.

12.19 CDS – mutual funds as users (protection buyers)³³⁴

12.19.1 Mutual funds have been permitted to participate in CDS market, as per the guidelines issued by RBI from time to time , subject to the following conditions:

- a. Mutual funds shall participate in CDS transactions only as users (protection buyer). Thus, mutual funds are permitted to buy credit protection only to hedge their credit risk on corporate bonds they hold. They shall not be allowed to sell

The AMC shall ensure compliance with the requirements mentioned in Clause 12.16.2 from the date of next specified transaction period or April 1, 2011 whichever is later. Schemes for which observations (final) under Regulation 29 of SEBI (Mutual Funds) Regulations, 1996 have been issued but are yet to be launched would be required to carry out the changes in Scheme Information Document and file the same with SEBI before the launch.

³³⁴ SEBI Circular No. CIR/IMD/DF/23/2012 dated November 15, 2012.

protection and hence not permitted to enter into short positions in the CDS contracts. However, they shall be permitted to exit their bought CDS positions, subject to para (d) below.

- b. Mutual funds can participate as users in CDS for the eligible securities as reference obligations, constituting from within the portfolio of only Fixed Maturity Plans (FMP) schemes having tenor exceeding one year.
- c. Mutual funds shall buy CDS only from a market maker approved by the RBI and enter into Master Agreement with the counterparty as stipulated under RBI Guidelines. Exposure to a single counterparty in CDS transactions shall not exceed 10% of the net assets of the scheme.
- d. The cumulative gross exposure through credit default swap in corporate bonds along with equity, debt and derivative positions shall not exceed 100% of the net assets of the scheme.
- e. The total exposure related to premium paid for all derivative positions, including CDS, shall not exceed 20% of the net assets of the scheme.
- f. Before undertaking CDS transactions, mutual funds shall put in place a written policy on participation in CDS approved by the Board of the Asset Management Company and the Trustees as per the guidelines specified by RBI and Securities and Exchange Board of India (SEBI). The policy shall be reviewed by mutual funds, at least once a year.

- g. To enable the investors in the mutual funds schemes to take an informed decision, the concerned Scheme Information Document (SID) shall disclose the intention to participate in CDS transaction in corporate debt securities in accordance with directions issued by RBI and SEBI from time to time, and related information as appropriate in this regard.
- h. Mutual funds shall also disclose the details of CDS transactions of the scheme in corporate debt securities in the monthly portfolio statements as well as in the half yearly trustee report, as per the format³³⁵. Further, mutual funds shall disclose the scheme wise details of CDS transactions in the notes to the accounts of annual report of the mutual fund as per the format³³⁶.

12.19.2 Mutual funds participating in CDS transactions, as users, shall be required to comply with the guidelines issued by RBI, vide notification no IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011 and subsequent guidelines issued by RBI and SEBI from time to time.

³³⁵ Please refer to section on Formats for requisite formats

³³⁶ Please refer to section on Formats for requisite formats

CHAPTER 13

ADVERTISEMENTS³³⁷

13.1 Advertisement shall be in terms of Sixth Schedule³³⁸.

13.2 In addition to the provisions of the Sixth Schedule, mutual funds shall comply with the following:³³⁹

13.2.1 While advertising pay out of dividends, all advertisements shall disclose the dividends declared or paid in rupees per unit along with the face value of each unit of that scheme and the prevailing NAV at the time of declaration of the dividend.

13.2.2 Impact of Distribution Taxes: While advertising returns by assuming reinvestment of dividends, if distribution taxes are excluded while calculating the returns, this fact shall also be disclosed.

13.2.3 Pay out of Dividend/ Bonus: While advertising pay outs, all advertisements shall disclose, immediately below the pay out figure (in percentage or in absolute terms) that the NAV of the scheme, pursuant to pay out would fall to the extent of payout and statutory levy (if applicable).

13.3 **Transparency of Information**³⁴⁰

13.3.1 When the scheme has been in existence for more than three years:

³³⁷SEBI Circular No.Cir/IMD/DF/13/2011 dated August 22, 2011 and SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012

³³⁸ Sixth Schedule of SEBI (Mutual Funds) Regulations, 1996 as amended via gazette notification No. LAD-NRO/GN/2011-12/38/4290 dated February 21, 2012

³³⁹ SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012

³⁴⁰ SEBI Circular No.Cir/IMD/DF/13/2011 dated August 22, 2011

- 13.3.1.1 Point-to-point returns on a standard investment of Rs.10,000/- shall also be shown in addition to CAGR for a scheme in order to provide ease of understanding to retail investors.
- 13.3.1.2 Performance advertisement shall be provided since inception and for as many twelve month periods as possible for the last 3 years, such periods being counted from the last day of the calendar quarter preceding the date of advertisement, along with benchmark index performance for the same periods.
- 13.3.2 Where scheme has been in existence for more than one year but less than three years, performance advertisement of scheme(s) shall be provided for as many as twelve month periods as possible, such periods being counted from the last day of the calendar quarter preceding the date of advertisement, alongwith benchmark index performance for the same periods.
- 13.3.3 Where the scheme has been in existence for less than one year, past performance shall not be provided.
- 13.3.4 In case of Money Market schemes or cash and liquid schemes³⁴¹, wherein investors have very short investment horizon, the performance can be advertised by simple annualisation of yields if a performance figure is available for at least 7 days, 15 days and 30 days provided it does not reflect an unrealistic or misleading picture of the performance or future performance of the scheme.
- 13.3.5 For the sake of standardization, a similar return in INR and by way of CAGR must be shown for the following apart from the scheme benchmarks:

³⁴¹ SEBI Circular No.Cir/IMD/DF/6/2012 dated February 28, 2012

Scheme Type	Benchmark
Equity Scheme	Sensex or Nifty
Long term debt scheme	10 year dated GOI security
Short term debt fund	1 year T-bill

These disclosures shall form a part of the Statement of Additional Information and all advertisements of Mutual Funds.

13.3.6 Any disclosure regarding quarterly/ half yearly/ yearly performance shall pertain to respective **calendar** quarterly/ half yearly/ yearly only.

13.3.7 When the performance of a particular Mutual Fund scheme is advertised, the advertisement shall also include the performance data of all the other schemes managed by the fund manager of that particular scheme.

In case the number of schemes managed by a fund manager is more than six, then the AMC may disclose the total number of schemes managed by that fund manager along with the performance data of top 3 and bottom 3 schemes (in addition to the performance data of the scheme for which the advertisement is being made) managed by that fund manager in all performance related advertisement. However, in such cases AMCs shall ensure that true and fair view of the performance of the fund manager is communicated by providing additional disclosures, if required.

13.4 Indicative portfolios and yields in mutual funds schemes³⁴²

13.4.1 Mutual Funds shall not offer any indicative portfolio and indicative yield. No communication regarding the same in any manner whatsoever shall be issued by any Mutual Fund or distributors of its products. The compliance of the same shall be monitored by the AMC and Trustees and reported in their respective reports to SEBI.

13.4.2 Indicative portfolio or yield in close ended debt oriented mutual fund schemes³⁴³

Mutual Funds (MFs) / AMCs may make following additional disclosures in the SID/SAI and KIM without indicating the portfolio or yield, directly or indirectly:

13.4.2.1 MFs/AMCs shall disclose their credit evaluation policy for the investments in debt securities.

13.4.2.2 MFs/AMCs shall also disclose the list of sectors they would not be investing.

13.4.2.3 MFs shall disclose the type of instruments which the schemes propose to invest viz. CPs, CDs, Treasury bills etc

13.4.2.4 MFs shall disclose the floors and ceilings within a range of 5% of the intended allocation (in %) against each sub asset class/credit rating. For example, it may be disclosed that x-y % would be in AAA rated bank CD as per the sample matrix below:

³⁴² SEBI Circular No. IMD/CIR No. 14/1510/2009 dated January 19, 2009

³⁴³ SEBI Circular No. CIR/IMD/DF/12/2011 dated August 01,2011

Credit Rating	AAA	AA	A	BBB
Instruments				
CDs				
CPs				
NCDs				
Securitized debt				
Any Other				

13.4.2.5 After the closure of NFO, the AMC's will report in the next meeting of AMC's and Trustees the publicized percentage allocation and the final portfolio. Variations between indicative portfolio allocation and final portfolio will not be permissible.

CHAPTER 14

INVESTOR RIGHTS & OBLIGATIONS

PART I – INVESTOR RIGHTS

14.1 Payment of interest for delay in dispatch of redemption and/or repurchase proceeds and/or dividend³⁴⁴

14.1.1 In the event of failure to dispatch:

- a. Redemption or repurchase proceeds within 10 working days from the date of receipt of such requests and/ or
- b. Dividend within the stipulated 30 day period³⁴⁵,

14.1.2 The AMC(s) shall be liable to pay interest @ 15 per cent per annum to the unit holders.³⁴⁶ AMC(s) must ensure that the interest amount due for the period of delay in dispatch of repurchase or redemption and/or dividend is added to the proceeds when such payments are made to the investors. Such interest shall be borne by the AMC(s).

14.1.3 Details of such payments shall be sent to the Board along with the CTR(s).³⁴⁷ Investors shall also be informed about the rate and amount of interest paid to them. Non compliance with these directions may invite action under the Mutual Funds Regulations.

³⁴⁴ SEBI Circular No. SEBI/MFD/CIR/2/266/2000 dated May 19, 2000.

³⁴⁵ SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

³⁴⁶Regulation 53(c) of the SEBI (Mutual Fund) Regulations, 1996.

³⁴⁷ For CTR format please refer to section on Formats

14.2 Unclaimed Redemption and Dividend Amount³⁴⁸

- 14.2.1 The unclaimed redemption and dividend amounts, that were earlier allowed to be deployed only in call money market or money market instruments, shall also be allowed to be invested in a separate plan of Liquid scheme / Money Market Mutual Fund scheme floated by Mutual Funds specifically for deployment of the unclaimed amounts.
- 14.2.2 AMC's shall not be permitted to charge any exit load in this plan and TER (Total Expense Ratio) of such plan shall be capped at 50 bps.
- 14.2.3 Further, for the Unclaimed redemption and dividend amounts deployed by Mutual Funds in Call Money Market or Money Market instruments, the investment management and advisory fee charged by the AMC for managing unclaimed amounts shall not exceed 50 basis points.
- 14.2.4 Investors who claim the unclaimed amounts during a period of three years from the due date shall be paid initial unclaimed amount along-with the income earned on its deployment. Investors, who claim these amounts after 3 years, shall be paid initial unclaimed amount along-with the income earned on its deployment till the end of the third year. After the third year, the income earned on such unclaimed amounts shall be used for the purpose of investor education.
- 14.2.5 The AMC shall make a continuous effort to remind the investors through letters to take their unclaimed amounts.

³⁴⁸SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000 & SEBI/HO/IMD/DF2/CIR/P/2016/37 dated February 25, 2016

14.2.6 Further, to ensure Mutual Funds play a pro-active role in tracing the rightful owner of the unclaimed amounts:

- a. Mutual Funds shall be required to provide on their website, the list of names and addresses of investors in whose folios there are unclaimed amounts.
- b. AMFI shall also provide on its website, the consolidated list of investors across Mutual Fund industry, in whose folios there are unclaimed amounts. The information provided herein shall contain name of investor, address of investor and name of Mutual Fund/s with whom unclaimed amount lies.
- c. Information at point (a) & (b) above may be obtained by investor only upon providing his proper credentials (like PAN, date of birth, etc.) along-with adequate security control measures being put in place by Mutual Fund / AMFI.
- d. The website of Mutual Funds and AMFI shall also provide information on the process of claiming the unclaimed amount and the necessary forms / documents required for the same.
- e. Further, the information on unclaimed amount along-with its prevailing value (based on income earned on deployment of such unclaimed amount), shall be separately disclosed to investors through the periodic

statement of accounts / Consolidated Account Statement sent to the investors.

- 14.2.7 Disclosures on above provisions shall be made in the SAI /SID. Disclosure on the unclaimed amounts and the number of such investors for each scheme shall be made in the Annual Report also.³⁴⁹

14.3 Dispatch of Statement of Accounts³⁵⁰

- 14.3.1 AMCs shall allot the units to the applicant whose application has been accepted and also send confirmation specifying the number of units allotted to the applicant by way of email and/or SMS's to the applicant's registered email address and/or mobile number as soon as possible but not later than five working days from the date of closure of the initial subscription list and/or from the date of receipt of the request from the unitholders.

14.3.2 Consolidated Account Statement³⁵¹

- 14.3.2.1 As per regulation³⁵², AMCs shall issue consolidated account statement for each calendar month to the investors in whose folios transaction(s) has/have taken place during that month.

- 14.3.2.2 Pursuant to the Interim Budget announcement in 2014 to create one record for all financial assets of every individual, it has been further decided that AMCs/ RTAs shall share the requisite

³⁴⁹ Please refer to Schedule XI of SEBI (Mutual Funds) Regulations, 1996

³⁵⁰SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000, SEBI Circular No. IMD/CIR/12/80083/2006 dated November 20, 2006 and SEBI Circular No.Cir/IMD/DF/16/2011 dated September 08, 2011

³⁵¹ SEBI Circular No.Cir/IMD/DF/16/2011 dated September 08, 2011

³⁵² Regulation 36(4) of SEBI (Mutual Funds) Regulations, 1996

information with the Depositories on monthly basis to enable generation of CAS³⁵³.

- 14.3.2.3 The depositories and the Asset Management Companies (AMCs)/ MF-RTAs shall put in place systems to facilitate generation and dispatch of single Consolidated Account Statements (CAS) for investors having MF investments and holding demat accounts. AMCs/ RTAs shall share the requisite information with the Depositories on monthly basis to enable generation of CAS.
- 14.3.2.4 Consolidation of account statement shall be done on the basis of PAN. In case of multiple holding, it shall be PAN of the first holder and pattern of holding. Based on the PANs provided by the AMCs/MF-RTAs, the Depositories shall match their PAN database to determine the common PANs and allocate the PANs among themselves for the purpose of sending CAS. For PANs which are common between depositories and AMCs, the Depositories shall send the CAS. In other cases (i.e. PANs with no demat account and only MF units holding), the AMCs/ MF-RTAs shall continue to send the CAS to their unit holders as is being done presently in compliance with the Regulation 36(4) of the SEBI (Mutual Funds) Regulations.
- 14.3.2.5 In case investors have multiple accounts across the two depositories, the depository having the demat account which has been opened earlier shall be the default depository which will consolidate details across depositories and MF investments and dispatch the CAS to the investor. However, option shall be given to the demat account holder by the default depository to choose

³⁵³ SEBI Circular No CIR/MRD/ DP/ 31/2014 dated November 12, 2014

the depository through which the investor wishes to receive the CAS.

- 14.3.2.6 The CAS shall be generated on a monthly basis. The AMCs /MF-RTAs shall provide the data with respect to the common PANs to the depositories within three days from the month end. The depositories shall then consolidate and dispatch the CAS within ten days from the month end.
- 14.3.2.7 Where statements are presently being dispatched by email either by the Mutual Funds or by the Depositories, CAS shall be sent through email. However, where an investor does not wish to receive CAS through email, option shall be given to the investor to receive the CAS in physical form at the address registered in the Depository system.
- 14.3.2.8 A proper grievance redressal mechanism shall be put in place by the depositories and the AMCs/MF-RTAs which shall also be communicated to the investors through CAS. AMCs/MF-RTAs would be accountable for the authenticity of the information provided through CAS in respect of MF investments and timely sharing of such information with Depositories. The Depositories would be responsible for the timely dispatch of CAS to the investors serviced by them and the demat account information.
- 14.3.2.9 The depositories and the AMCs/ MF-RTAs shall ensure data integrity and confidentiality in respect of the shared information. The depositories shall utilize the shared data only for the purpose of providing CAS and shall not share the same with their Depository participants. Where Depositories are required to share such information with unregulated entities like third party

printers, the depositories shall enter into necessary data confidentiality agreements with them.

14.3.2.10 The CAS shall be implemented from the month of March 2015 with respect to the transactions carried out during the month of February 2015.

14.3.2.11 If an investor does not wish to receive CAS, an option shall be given to the investor to indicate negative consent. Depositories shall accordingly inform investors in their statements from the month of January 2015 about the facility of CAS and give them information on how to opt out of the facility if they do not wish to avail it.

14.3.2.12 Where such an option is exercised, the concerned depository shall inform the AMC/MF-RTA accordingly and the data with respect to the said investor shall not be shared by the AMC/MF-RTA with the depository.

14.3.2.13 If there is any transaction in any of the demat accounts of the investor or in any of his mutual fund folios, then CAS shall be sent to that investor on monthly basis. In case there is no transaction in any of the mutual fund folios and demat accounts then CAS with holding details shall be sent to the investor on half yearly basis. However, in case of demat accounts with nil balance and no transactions in securities and in mutual fund folios, the requirement to send physical statement shall be applicable as specified in SEBI circular no. CIR/MRD/DP/21/2014 issued on July 01, 2014.

14.3.2.14 Further, the holding statement dispatched by the DPs to their BOs with respect to the dormant demat accounts with balances shall also be dispatched half-yearly in partial modification of

clauses 5(b) and 6(c) of the circular no. CIR/MRD/DP/22/2012 dated August 27, 2012.

14.3.2.15 The dispatch of CAS by the depositories to BOs would constitute compliance by the Depository Participants with requirement under Regulation 43 of SEBI (Depositories and Participants) Regulations, to provide statements of account to the BOs as also compliance by the MFs with the requirement under Regulation 36(4) of SEBI (Mutual Funds) Regulations.

14.3.2.16 Further, in order to increase transparency of information to investors, it has been decided that ³⁵⁴:

- a) Each CAS issued to the investors shall also provide the total purchase value / cost of investment in each scheme.
- b) Further, CAS issued for the half-year (September/ March) shall also provide.
 - i. The amount of actual commission paid by AMCs/Mutual Funds (MFs) to distributors (in absolute terms) during the half-year period against the concerned investor's total investments in each MF scheme. The term 'commission' here refers to all direct monetary payments and other payments made in the form of gifts / rewards, trips, event sponsorships etc. by AMCs/MFs to distributors.
 - ii. The scheme's average Total Expense Ratio (in percentage terms) for the half-year period, of both direct plan and regular plan, for each scheme where the concerned investor has invested in.

³⁵⁴ SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016
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Such half-yearly CAS shall be issued to all MF investors, excluding those investors who do not have any holdings in MF schemes and where no commission against their investment has been paid to distributors, during the concerned half-year period³⁵⁵.

14.3.3 Systematic Investment Plan (SIP) or Systematic Transfer Plan (STP) or Systematic Withdrawal Plan (SWP) ³⁵⁶

- a. Mutual Funds may dispatch the Statement of Accounts to the unit holders under SIP or STP or SWP, once every quarter ending March, June, September and December within 10 working days of the end of the respective quarter. The first Statement of Accounts shall however be issued within 10 working days of the initial transaction.
- b. Mutual funds shall also provide Statement of Accounts to unit holders within 5 working days, without any charges, if specific requests are received from the investors. Further, if so mandated, a soft copy of the Statement of Accounts shall be e-mailed to the unit holders on a monthly basis.

14.3.4 Dormant Accountholders

- a. Mutual Funds shall also provide Statement of Accounts to those unit holders who have not transacted during the last six months prior to the date of generation of the Statement of Accounts. In such cases, the Statement of Accounts may be issued along with the scheme's Portfolio Statement or Annual Report and should reflect the last closing balance and value of the units prior to the

³⁵⁵ This will effective for CAS issued from October 01, 2016

³⁵⁶ SEBI Circular No. IMD/CIR/12/80083/2006 dated November 20, 2006

date of generation of the Statement of Accounts. Further, if so mandated, a soft copy of the Statement of Accounts shall be e-mailed to the unit holders instead of a physical statement.

14.4 AMC's Annual Reports for unitholders³⁵⁷

14.4.1 The annual report containing accounts of the AMCs should be displayed on the website of Mutual Fund. It should also be mentioned in the Annual Report of Mutual Funds schemes that the unitholders, if they so desire may request for the Annual Report of the AMC.

14.5 Distribution of Proceeds realized from illiquid securities/ NPAs³⁵⁸

Some of the investments made by Mutual Funds may become non-performing assets (NPAs) or illiquid at the time of maturity/winding up of the scheme(s). In due course of time i.e. after the maturity/ winding up of the scheme(s), these NPAs and illiquid securities may be realized by the Mutual Funds. Mutual Funds shall distribute such amounts to the old investors if such amounts are substantial and realized within two years. If the amounts realized are not substantial or are realized after two years, the same may be transferred to the Investor Education Fund maintained by each Mutual Fund. The decision as to the

³⁵⁷ SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000

³⁵⁸ SEBI Circular No. MFD/CIR/05/432/2002 dated June 20, 2002.

determination of substantial amount shall be taken by the trustees of mutual funds after considering the relevant factors.

14.6 Change of Mutual Fund Distributor

14.6.1 In case an investor wishes to change his distributor or wishes to go direct, Mutual Funds/AMC's shall ensure compliance with the instruction of the investor informing his desire to change his distributor and / or go direct, without compelling that investor to obtain a 'No Objection Certificate' from the existing distributor.³⁵⁹

14.7 Additional mode of payment through Applications Supported by Blocked Amount (hereinafter referred to as "ASBA") in Mutual Funds³⁶⁰

14.7.1 ASBA facility which investors have been enjoying for subscription to public issue of equity capital of companies has been extended to the investors subscribing to New Fund Offers (NFOs) of mutual fund schemes. It shall co-exist with the current process, wherein cheques/ demand drafts are used as a mode of payment.

14.7.2 The banks which are in SEBI's list shall extend the same facility in case of NFOs of mutual fund schemes to all eligible investors in Mutual Fund units.

14.7.3 Mutual Funds shall ensure that adequate arrangements are made by Registrar and Transfer Agents for the implementation of ASBA. Mutual Funds/AMCs shall make all relevant disclosures in this regard in the SAI.

³⁵⁹ SEBI Circular No -SEBI/IMD/CIR No./ 13/187052 /2009 December 11, 2009

³⁶⁰ SEBI Circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010

14.7.4 SEBI circulars³⁶¹ related to ASBA shall be followed to the extent applicable.

14.7.5 The Mutual Funds/AMCs have to compulsorily provide ASBA facility to the investors for all NFOs launched on or after October 1, 2010.

³⁶¹ SEBI Circular No. SEBI/CFD/DIL/DIP/31/2008/30/7 dated July 30, 2008, SEBI/CFD/DIL/2008/25/09 dated September 25, 2008, SEBI/CFD/DIL/MB/IS/5/2009/05/08 dated August 5, 2009 and SEBI/CFD/DIL/ASBA/1/2009/30/12 dated December 30, 2009 and CIR/CFD/DIL/7/2010 dated July 13, 2010

PART II – INVESTOR’S OBLIGATIONS

14.8 Mandatory mentioning of PAN Number³⁶²

14.8.1 For, the requirement of mentioning PAN Number by investors of mutual fund schemes, the applicable SEBI guidelines may be referred³⁶³

14.9 Mandatory mentioning of Bank Account by Investors³⁶⁴

14.9.1 It shall be mandatory for the investors of the Mutual Funds schemes to mention their bank account numbers in their applications/request for redemption. For this purposes Mutual Funds shall provide space in applications and redemption request forms.

³⁶² SEBI Circular No. MRD/DoP/Cir-05/2007 dated April 27, 2007, SEBI Circular No. MRD/DoP/Cir-08/2007 dated June 25, 2007, SEBI Circular No. MRD/DoP/MF/Cir-08/2008 dated April 3, 2008

³⁶³ SEBI Circular No. MRD/DoP/MF/Cir-08/2008 dated April 3, 2008

³⁶⁴ SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998

PART III- INVESTOR EDUCATION

14.10 SEBI Investors Education Programme – Investments in Mutual Funds³⁶⁵

- 14.10.1 Board has prepared a brochure in question-answer format explaining the fundamental issues pertaining to mutual funds. The same is enclosed at Annexure 5. The same is also available at our website www.sebi.gov.in under the "Mutual Funds" section.
- 14.10.2 AMCs are advised to circulate copies of the brochure among their distributors and agents (including brokers, banks, post offices) and the investors.
- 14.10.3 AMCs may publish the same as small booklets. In such a case, while the booklets must bear SEBI name and logo, AMC may give their name as publisher. This may also be displayed prominently on their web sites
- 14.10.4 AMFI may consider including the brochure as a part of study material for their training programmes for investors and for their certification programme conducted for agents and distributors.
- 14.10.5 Board may be kept informed about the steps taken by the AMCs in this regard from time to time.

³⁶⁵ SEBI Cir No. MFD/CIR NO -13/370/02 dated January 16,2002

14.11 Financial Inclusion:

14.11.1 In context of Mutual Funds, financial inclusion implies that the concept of Mutual Fund products is understood by all and are accessible to anyone who wishes to make an investment in them. Also, investors should be capable of figuring out which Mutual Fund scheme is appropriate for their financial objectives. Towards this, it has been decided that:

- a. Mutual Funds shall mandatorily also make available printed literature on mutual funds in regional languages for investor awareness and education.
- b. Mutual Funds to introduce Investor awareness campaign in regional languages both in print and electronic media

CHAPTER 15

CERTIFICATION AND REGISTRATION OF INTERMEDIARIES^{366, 367}

15.1 No Mutual Fund shall deal with any intermediary (i.e. distributors, agents, brokers, sub brokers or called by any other name, whether individuals or belonging to any other organization structure) in relation to selling and marketing of Mutual Fund units unless they have cleared the certification examination.

15.2 No Mutual Fund shall engage/employ employee(s) interacting with investors (i.e. those working in investors relations, call centers, employees engaged in sales and marketing etc) unless they have cleared the certification examination.

15.3 Further, such intermediaries and employees shall also adhere to the Guidelines specified by the Board and AMFI.³⁶⁸

15.4 Distributors of Mutual Fund products³⁶⁹

15.4.1 The AMCs shall regulate the distributors by putting in place a due diligence process as follows:

15.4.1.1 The due diligence of distributors is solely the responsibility of mutual funds/AMCs. This responsibility shall not be delegated to any agency. However, mutual funds/AMCs may take assistance of an

³⁶⁶ SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001, SEBI Circular No. MFD/CIR/20/23230/2002 dated November 28, 2002, SEBI Circular No. SEBI/MFD/CIR No.01/6693/03 dated April 3, 2003, SEBI Circular No. SEBI/IMD/CIR No.2/254/04 dated February 4, 2004, SEBI Circular No. MFD/CIR/06/210/2002 dated June 26, 2002.

³⁶⁷ Exemption for Senior Citizens: Senior citizens with experience in distributing Mutual Funds units are exempt from the mandatory certification examination if they have completed 50 years of age and have experience of at least 5 years as on September 30, 2003.³⁶⁷ They are also required to follow the guidelines prescribed by the Board and AMFI. They had to attend a mutual fund training programme and a certificate to that effect endorsed by a mutual fund should be submitted to AMFI.

³⁶⁸ SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001, SEBI Circular No. MFD/CIR/20/23230/2002 dated November 28, 2002.

³⁶⁹ SEBI Circular No. CIR/IMD/DF/13/2011 dated August 22, 2011.

agency of repute while carrying out due diligence process of distributors.³⁷⁰

15.4.1.2 The due diligence process shall be initially applicable for distributors satisfying one or more of the following criteria:

- a. Multiple point presence (More than 20 locations)
- b. AUM raised over Rs.100 Crore across industry in the non-institutional category but including high networth individuals (HNIs)
- c. Commission received of over Rs.1 Crore p.a. across industry
- d. Commission received of over Rs.50 Lakh from a single Mutual Fund

15.4.1.3 At the time of empanelling distributors and during the period i.e. review process, Mutual Funds/AMCs shall undertake a due diligence process to satisfy 'fit and proper' criteria that incorporate, amongst others, the following factors:

- a. Business model, experience and proficiency in the business.
- b. Record of regulatory / statutory levies, fines and penalties, legal suits, customer compensations made; causes for these and resultant corrective actions taken.
- c. Review of associates and subsidiaries on above factors.
- d. Organizational controls to ensure that the following processes are delinked from sales and relationship management processes and personnel:

³⁷⁰ SEBI Circular No. Cir/IMD/DF/7/2012 dated February 28, 2012

1. Customer risk / investment objective evaluation.
2. MF scheme evaluation and defining its appropriateness to various customer risk categories.

15.4.1.4 In this respect, customer relationship and transactions shall be categorized as:

- a. Advisory - where a distributor represents to offer advice while distributing the product, it will be subject to the principle of 'appropriateness' of products to that customer category. Appropriateness is defined as selling only that product categorization that is identified as best suited for investors within a defined upper ceiling of risk appetite. No exception shall be made.
- b. Execution Only - in case of transactions that are not booked as 'advisory', it shall still require:
 - i. The distributor has information to believe that the transaction is not appropriate for the customer, a written communication be made to the investor regarding the unsuitability of the product. The communication shall have to be duly acknowledged and accepted by investor.
 - ii. A customer confirmation to the effect that the transaction is 'execution only notwithstanding the advice of inappropriateness from that distributor be obtained prior to the execution of the transaction.
 - iii. That on all such 'execution only' transactions, the customer is not required to pay the distributor anything other than the standard flat transaction charge.

- c. There shall be no third categorization of customer relationship / transaction.
- d. While selling Mutual Fund products of the distributors' group/affiliate/associates, the distributor shall make disclosure to the customer regarding the conflict of interest arising from the distributor selling of such products.

15.4.1.5 Compliance and risk management functions of the distributor shall include review of defined management processes for:

- a. The criteria to be used in review of products and the periodicity of such review.
- b. The factors to be included in determining the risk appetite of the customer and the investment categorization and periodicity of such review.
- c. Review of transactions, exceptions identification, escalation and resolution process by internal audit.
- d. Recruitment, training, certification and performance review of all personnel engaged in this business.
- e. Customer on boarding and relationship management process, servicing standards, enquiry / grievance handling mechanism.
- f. Internal/ external audit processes, their comments / observations as it relates to MF distribution business.
- g. Findings of ongoing review from sample survey of investors.

15.4.1.6 Mutual Funds/AMCs may implement additional measures as deemed appropriate to help achieve greater investor protection.

15.5 Code of Conduct:

15.5.1 Mutual Funds are required to monitor the activities of their distributors, agents, brokers to ensure that they do not indulge in any malpractice or unethical practice while selling or marketing Mutual Funds units. Any non compliance with the Mutual Funds Regulations and Guidelines pertaining to Mutual Funds especially guidelines on advertisements and/ or sales literature and/or Code of Conduct shall be reported in the periodic meetings of the Board of the AMC and the Trustee(s) and shall also be reported to the Board by the AMC(s) in their CTR(s) and by the Trustees in their Half Yearly Reports.

15.5.2 AMFI has prescribed a Code of Conduct for Mutual Fund intermediaries enclosed herewith as Annexure 1³⁷¹. All intermediaries shall follow the Code of Conduct strictly and not indulge in any practice contravening it directly or indirectly.

15.5.3 Non compliance with the Code of Conduct shall be reported by the Mutual Funds to the Board and AMFI. Further, no Mutual Fund shall deal with intermediaries contravening the prescribed Code of Conduct.

15.6 Empanelment of Intermediaries by Mutual Funds

15.6.1 Empanelment of intermediaries by Mutual Funds, payment of commissions, brokerage and/or sub-brokerage etc. shall be in accordance with parameters and guidelines specified by the Board and AMFI from time to time. Mutual Funds shall monitor the compliance of these guidelines and Code of Conduct by their intermediaries in terms of business done across all Mutual Funds. In case of non-compliance, Mutual Funds shall suspend

³⁷¹ Refer Annexure and Reports for details on Code of Conduct

further business and payment of commissions, etc. until full compliance by the empanelled intermediary.

15.7 Certification Programme for sale and/ or distribution of mutual fund products³⁷²

15.7.1 With effect from June 01, 2010, the certification examination for distributors, agents or any other persons employed or engaged or to be employed or engaged in the sale and/or distribution of mutual fund products, would be conducted by the National Institute of Securities Markets (NISM)³⁷³.

15.7.2 Under the existing instructions, the agent/ distributor was exempted from the AMFI certification examination if he had completed fifty years of age and had at least five years of experience in distribution of mutual fund units. As per regulation 4(3) of the Certification Regulations, persons who have attained the age of fifty years or who have at least ten years experience in the securities markets in the sale and/ or distribution of mutual fund products as on May 31, 2010, will be given the option of obtaining the certification either by passing the NISM certification examination or qualifying for Continuing Professional Education (CPE) by obtaining such classroom credits as may be specified by NISM from time to time.

15.7.3 The Certification Regulations require the persons referred to in paragraph 15.7.1 above to comply with the requirements for CPE as specified by NISM within the validity period of the certificate obtained by passing the certification examination. However, to facilitate the transition process from AMFI to NISM, it has been decided that a person holding a valid AMFI certification whose validity expires between June 01, 2010 and

³⁷² SEBI Circular No. Cir/IMD/DF/5/2010 dated June 24, 2010

³⁷³ For Notification under regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 please refer to section on Annexures

December 31, 2010, would be required to comply with the CPE requirements as laid down by NISM under the relevant clauses of the Certification Regulations, by December 31, 2010.

15.7.3 An associated person holding a valid AMFI/NISM certification whose validity expires anytime after December 31, 2010, would be required to comply with the CPE requirements as laid down by NISM under the relevant clauses of the Certification Regulations, prior to the expiry of the validity of the certification.

15.7.4 The requirement of obtaining registration from AMFI after obtaining certification, as per the Circular dated November 28, 2002, would continue.

15.8 New cadre of distributors³⁷⁴

15.8.1 A new cadre of distributors, such as postal agents, retired government and semi-government officials (class III and above or equivalent) with a service of at least 10 years, retired teachers with a service of at least 10 years, retired bank officers with a service of at least 10 years, and other similar persons (such as Bank correspondents) as may be notified by AMFI/AMC from time to time, shall be allowed to sell units of simple and performing mutual fund schemes.

15.8.2 Simple and performing mutual fund schemes shall comprise of diversified equity schemes, fixed maturity plans (FMPs), index schemes, Retirement benefit schemes having tax benefits and Liquid schemes/ Money Market Mutual Fund schemes³⁷⁵ and should have returns equal to or

³⁷⁴ SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

³⁷⁵ SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/37 February 25, 2016.

better than their scheme benchmark returns during each of the last three years.

15.8.3 These new cadre of distributors would require a simplified form of NISM certification and AMFI Registration.

15.9 Developing alternative distribution channels³⁷⁶

15.9.1 In order to increase penetration of Mutual Fund products and to energise the distribution network while protecting the interest of investors, SEBI had permitted additional expense ratio of 30 bps for garnering funds from B-15 cities. This development would lead to setting up of distribution infrastructure by AMCs. However, in order to achieve participation from all parts of the country in Mutual Funds there is greater need for developing additional distribution channels. Therefore, it has been decided that:

- a. Distribution through PSU banks: PSU banks which have wide bank branches network and have distribution reach in the nook and corner of the country, could play a key role in Mutual Funds distribution. In order to leverage the PSU banks infrastructure, Mutual Funds/ AMCs need to develop a system for active support to PSU banks to distribute Mutual Fund products through them. Such active support would also encourage PSU banks to distribute products of all Mutual Funds.
- b. Online distribution: Online distribution not only increases customer convenience, but also significantly improves distributor economics. The online phenomenon is increasing rapidly and it is

³⁷⁶ SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014

observed that more and more people especially younger generation prefers online transactions. Therefore, it has been decided that all Mutual Funds should enhance the online investment facility and tap the internet savvy users to invest in Mutual Funds by providing an online investment facility on their websites. Mutual Funds also need to tap the burgeoning mobile-only internet users for direct distribution of Mutual Fund products.

15.10 Unique Identity Number

15.10.1 AMFI shall create a unique identity number of the employee/ relationship manager/ sales person of the distributor interacting with the investor for the sale of mutual fund products, in addition to the AMFI Registration Number (ARN) of the distributor. 15.10.2 The application form for mutual fund schemes shall have provision for disclosing the unique identity number of such sales personnel along with the ARN of distributor.

CHAPTER 16

TRANSACTION IN MUTUAL FUNDS UNITS

16.1 Maintenance of documents³⁷⁷

16.1.1 As per the requirements specified by Board in respect of “Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT) / Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed there-under”³⁷⁸, maintenance of all documentation pertaining to the unitholders/ investors is the responsibility of the AMC.

16.1.2. Accordingly, vide SEBI Circular No - SEBI/IMD/CIR No.12 /186868 /2009 dated December 11, 2009, AMCs were advised to confirm whether all the investor related documents were maintained/ available with the AMC. If not, and to the extent of and relating to such investor accounts/folios where investor related documentation was incomplete/inadequate/not available or was stated to be maintained by the distributors, then the Trustees were advised to ensure the following:

16.1.2.1 No further payment of any commissions, fees and / or payments in any other mode should be made to such distributors till full compliance/ completion of the steps enumerated herein.

16.1.2.2 Take immediate steps to obtain all investor/ unit holders documents in terms of the AML/ CFT, including KYC documents/ PoA as applicable.

³⁷⁷ SEBI Circular No - SEBI/IMD/CIR No.12 /186868 /2009 dated December 11,2009

³⁷⁸ SEBI Circular No ISD/AML/CIR-1/2008 dated December 19, 2008

16.1.2.3 Take immediate steps to obtain all supporting documents in respect of the past transactions.

16.1.2.4 On a one time basis, send statement of holdings and all transactions since inception of that folio in duplicate to the investor and seek confirmation from the unit holders on the duplicate copy.

16.1.2.5 Set up a separate customer services mechanism to handle/ address queries and grievance of the above mentioned unitholders.

16.1.3 Pending completion of documentation, exercise great care and be satisfied of investor bonafides before authorizing any transaction, including redemption, on such accounts/ folios.

16.1.4 The Trustees were required forthwith to confirm to Board that the steps had been taken to address the above and also send a status to the Board as and when process was completed to their satisfaction.

16.1.5 All mutual funds/ AMCs are directed that³⁷⁹:

16.1.5.1 All new folios/ accounts shall be opened only after ensuring that all investor related documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signature are available with AMCs/RTAs and not just with the distributor.

16.1.5.2 For existing folios, AMCs shall be responsible for updation of the investor related documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signature by November 15, 2010.

16.1.5.3 The trustees shall submit a confirmation after they receive certification from an Independent auditor on completion of the said process latest by November 22, 2010.

³⁷⁹ SEBI Circular No Cir /IMD/DF/9 / 2010 dated August 12, 2010

16.2 Facilitating transactions in Mutual Fund schemes through the Stock Exchange infrastructure³⁸⁰

16.2.1 Stock Exchange terminals can be used for facilitating transactions in mutual fund schemes. The Stock Exchange mechanism would also extend the present convenience available to secondary market investors to mutual fund investors.

16.2.2 Units of mutual fund schemes may be permitted to be transacted through registered stock brokers of recognized stock exchanges and such stock brokers will be eligible to be considered as official points of acceptance³⁸¹.

16.2.3 The respective stock exchange would provide detailed operating guidelines to facilitate the same.

16.2.4 In this regard, Mutual Funds/AMC are advised that:

16.2.4.1 Empanelment and monitoring of Code of Conduct for brokers acting as mutual fund intermediaries-

- a. The stock brokers intending to extend the transaction in Mutual Funds through stock exchange mechanism shall be required to comply with the requirements of passing the AMFI certification examination³⁸². All such stock brokers would then be considered as empanelled distributors with mutual fund/AMC.
- b. These stock brokers shall also comply with Code of Conduct³⁸³ for intermediaries of Mutual Funds, and applicable SEBI

³⁸⁰ SEBI Circular No - SEBI /IMD / CIR No.11/183204/ 2009 dated November 13,2009

³⁸¹ SEBI Circular No. SEBI/IMD/CIR No.11/78450/06 dated October 11, 2006

³⁸² Please refer Chapter 15 on Certification and Registration of Mutual Funds intermediaries

³⁸³ For Code of Conduct, please refer to Annexure I

guidelines³⁸⁴, applicable to intermediaries engaged in selling and marketing of mutual fund units.

- c. It is clarified that, stock exchanges shall monitor the compliance of the code of conduct specified regarding empanelment of intermediaries by mutual funds³⁸⁵.

16.2.4.2 Time stamping

- a. Time stamping as evidenced by confirmation slip given by stock exchange mechanism to be considered sufficient compliance with clause for cut-off timing for liquid scheme and plans, cut-off timing for other schemes and plans and time stamping provisions mandated by Board³⁸⁶.

16.2.4.3 Statement of Account

- 16.2.4.4 a. Where investor desires to hold units in dematerialised form, demat statement given by depository participant would be deemed to be adequate compliance with requirements for account statement prescribed by SEBI ³⁸⁷.

16.2.4.5 Investor grievance mechanism

- a. Stock exchanges shall provide for investor grievance handling mechanism to the extent they relate to disputes between brokers and their client.

³⁸⁴ Please refer Chapter 15 on Certification and Registration of Mutual Funds intermediaries

³⁸⁵ Please refer Chapter 15 on Certification and Registration of Mutual Funds intermediaries

³⁸⁶ Please refer to Chapter 8 – Net Asset Value for details on cut off timing provisions

³⁸⁷ For details on dispatch of statement of accounts, refer to Chapter 14- Investor Rights and services

16.2.4.6 Dematerialization of existing units held by investors

- a. In case investors desire to convert their existing physical units (represented by statement of account) into dematerialized form, mutual funds / AMCs shall take such steps in coordination with Registrar and Transfer Agents, Depositories and Depository participants (DPs) to facilitate the same.

16.2.4.7 Option to hold units in demat form³⁸⁸

- a. Mutual Funds/AMCs are advised to invariably provide an option to the investors to mention demat account details in the subscription form, in case they desire to hold units in demat form while subscribing to any scheme (open ended/close ended/Interval).
- b. Mutual Funds/AMCs shall ensure that above mentioned option is provided to the investors in all their schemes (existing and new).
- c. Mutual Funds/AMCs are advised to obtain ISIN for each option of the scheme and quote the respective ISIN along with the name of the scheme, in all Statement of Account/Common Account Statement (CAS) issued to the investors.

16.2.4.8 Know your client (KYC)

- a. Where investor desires to hold units in dematerialised form, the KYC performed by DP in terms of SEBI requirements³⁸⁹ would be considered compliance with applicable requirements specified in this regard³⁹⁰ by Mutual Funds/AMCs.

³⁸⁸ SEBI circular no.CIR/IMD/DF/9/2011, dated May 19, 2011

³⁸⁹ SEBI Circular No - MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004

³⁹⁰ SEBI Circular No - ISD/AML/CIR-1/2008 dated December 19, 2008

- b. The Mutual Funds/AMC shall take necessary steps to do KYC requirements of all investors as per the prescribed guidelines³⁹¹.

16.2.4.9 Stock exchanges and mutual funds/AMCs, based on the experience gained may improve the mechanism in the interest of investors.

16.2.4.10 In addition to the existing facilities of purchasing and redeeming directly with the Mutual Funds and Stock Brokers, the following be noted³⁹²:

- a. Units of mutual funds schemes may be permitted to be transacted through clearing members of the registered Stock Exchanges.
- b. Permit Depository participants of registered Depositories to process only redemption request of units held in demat form.

16.2.4.11 The following be noted with respect to investors having demat account and purchasing and redeeming mutual funds units through stock brokers and clearing members:

- a. Investors shall receive redemption amount (if units are redeemed) and units (if units are purchased) through broker/clearing member's pool account. Mutual Funds(MF)/ Asset management Companies(AMC) would pay proceeds to the broker/clearing member (in case of redemption) and broker/clearing member in turn to the respective investor and similarly units shall be credited by MF/AMC into

³⁹¹ SEBI Circular No. MIRSD/SE/Cir-21/2011, dated October 5, 2011, SEBI Circular No.MIRSD/Cir-23/2011 dated December 2, 2011 and SEBI Circular No.MIRSD/Cir- 26 /2011 dated December 23, 2011

³⁹² SEBI Circular No CIR/IMD/DF/17/2010 dated November 9, 2010

broker/clearing member's pool account (in case of purchase) and broker/clearing member in turn to the respective investor.

- b. Payment of redemption proceeds to the broker/clearing members by MF/AMC shall discharge MF/AMC of its obligation of payment to individual investor. Similarly, in case of purchase of units, crediting units into broker/clearing member pool account shall discharge MF/AMC of its obligation to allot units to individual investor.

16.2.4.12 The following may be noted in this regard:

- a. Clearing members and Depository participants will be eligible to be considered as official points of acceptance³⁹³ and conditions stipulated³⁹⁴ Viz. AMFI /NISM certification, code of conduct prescribed by SEBI for Intermediaries of Mutual Fund, shall be applicable for such Clearing members and Depository participants as well.
- b. Stock exchanges and Depositories shall provide investor grievance handling mechanism to the extent they relate to disputes between their respective regulated entity and their client and shall also monitor the compliance of code of conduct specified³⁹⁵ regarding empanelment and code of conduct for intermediaries of Mutual Funds.

16.2.4.13 The respective stock exchanges and Depositories would provide detailed operating guidelines to facilitate the above and ensure

³⁹³ SEBI Circular No. SEBI/IMD/CIR No.11/78450/06 dated October 11, 2006

³⁹⁴ SEBI Circular dated November 13, 2009 for stock brokers

³⁹⁵SEBI Circulars MFD/CIR/20/23230/02 dated November 28, 2002 and SEBI/IMD/08/174648/2009 dated August 27, 2009

that timelines prescribed³⁹⁶ shall be adhered to with regard to allotment of units and receipt of redemption proceeds at the investor's level.

16.2.4.14 Transferability of Mutual Fund units³⁹⁷

- a. Regulations³⁹⁸ states that “a unit unless otherwise restricted or prohibited under the scheme, shall be freely transferable by act of parties or by operation of law.” The spirit and intention of this regulation is not to prohibit transferability of units as a general rule or practice.
- b. All AMCs shall clarify by way of an addendum that units of all mutual fund schemes held in demat form shall be freely transferable from the date of the issue of said addendum which shall be not later than October 1, 2010. However, restrictions on transfer of units of ELSS schemes during the lock-in period shall continue to be applicable as per the ELSS Guidelines.

16.2.5 Stock exchanges and mutual funds/AMCs, based on the experience gained may further improve the mechanism in the interest of investors. Necessary clarifications, if any, would be issued at appropriate time by SEBI in this regard.

16.3 Cash Investments in mutual funds³⁹⁹

16.3.1 In order to help enhance the reach of mutual fund products amongst small investors, who may not be tax payers and may not have PAN/bank accounts, such as farmers, small

³⁹⁶ SEBI (Mutual Funds) Regulations, 1996

³⁹⁷ SEBI Circular No - CIR/IMD/DF/10/2010 dated August 18, 2010

³⁹⁸ Regulation 37(1) of SEBI (Mutual Fund) Regulations, 1996

³⁹⁹ SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012.

traders/businessmen/workers, cash transactions in mutual funds to the extent of 50,000/-⁴⁰⁰ per investor, per mutual fund, per financial year shall be allowed subject to (i) compliance with Prevention of Money Laundering Act, 2002 and Rules framed there under; the SEBI Circular(s) on Anti Money Laundering (AML) and other applicable AML rules, regulations and guidelines and (ii) sufficient systems and procedures in place.

16.3.2 Repayment in the form of redemptions, dividend, etc. with respect to aforementioned investments shall be paid only through banking channel.

⁴⁰⁰ SEBI Circular No. CIR/IMD/DF/10/2014 dated May 22, 2014

CHAPTER 17

MISCELLANEOUS

17.1 Investment by Foreign Investors in Mutual Fund Schemes⁴⁰¹.

17.1.1 Foreign investors (termed as Qualified Foreign Investors/ QFIs) who meet KYC requirement may invest in equity and debt schemes of Mutual Funds (MF) through the following two routes:

17.1.1.1 Direct route - Holding MF units in demat account through a SEBI registered depository participant (DP).

17.1.1.2 Indirect route- Holding MF units via Unit Confirmation Receipt (UCR).

17.1.2 The investment through the above mentioned routes shall be subject to the following conditions:

17.1.2.1 Qualified Foreign Investor (QFI) shall mean a person resident in a country that is compliant with Financial Action Task Force (FATF) standards and that is a signatory to International Organization of Securities Commission's (IOSCO's) Multilateral Memorandum of Understanding,

Provided that such person is not resident in India,

Provided further that such person is not registered with SEBI as Foreign Institutional Investor or Sub-account.

⁴⁰¹ SEBI Circular No.CIR/IMD/DF/14/2011 dated August 9, 2011

Explanation- For the purposes of this clause:

(1) the term "Person" shall carry the same meaning under Section 2(31) of the Income Tax Act, 1961

(2) the phrase “resident in India” shall carry the same meaning as in the Income Tax Act, 1961

(3) “resident” in a country, other than India, shall mean resident as per the direct tax laws of that country.

17.1.2.2 MF shall ensure that only QFIs who comply with para 17.1.2.1 are allowed to invest under these routes.

17.1.2.3 MF shall ensure that QFIs meet the KYC requirements as per the FATF standards, Prevention of Money Laundering Act, 2002 (PMLA) rules and regulations made thereunder, and SEBI circulars issued in this regard before accepting subscriptions from QFIs.

17.1.2.4 The aggregate investments by QFIs under both the routes shall be subject to a total overall ceiling of US \$10 billion for equity schemes.

17.1.2.5 In addition to the above, the aggregate investments by QFIs under both the routes for debt schemes which invest in infrastructure (“Infrastructure” as defined under the extant ECB guidelines issued by RBI) debt of minimum residual maturity of 5 years, shall be subject to a total overall ceiling of US \$3 billion within the existing ceiling of US \$25 billion for FII investment in corporate bonds issued by infrastructure companies.

17.1.2.6 MF can accept subscriptions from QFIs till such time the investments by QFIs under both the routes reaches US \$8 billion in equity schemes and US \$2.5 billion in debt schemes and the remaining limit of US \$2 billion in equity schemes and US \$0.5 billion in debt schemes shall be auctioned by SEBI through bidding process.

17.1.2.7 MF shall file with SEBI a report about the total subscription and redemption by QFIs on a daily basis as per the format. MF shall prepare such report on actual receipt and payment basis. SEBI will disseminate on an aggregate basis the total amount of investments by QFIs in equity and debt schemes of the MF on SEBI's website. When the total investment reaches US \$8 billion in equity schemes or US \$2.5 billion in debt schemes, MF shall stop accepting fresh investment from QFIs unless they get allotment of limits out of the remaining limit of US \$2 billion in equity schemes or US \$0.5 billion in debt schemes respectively in the auction process referred in para 17.1.2.6.

17.1.2.8 MF/ DP shall ensure that the units held by QFIs by way of UCR/demat holding are non transferable and non tradable.

17.1.2.9 MF/ DP shall capture the bank account details of the QFIs designated overseas bank account and shall ensure that all subscriptions are received from that overseas account and redemption proceeds are also transferred into the same overseas account. MF/ DP shall also ensure that the overseas bank account which QFIs has designated for the purpose is based in countries which are compliant with FATF standards and are signatory to MMOU of IOSCO.

- 17.1.2.10 In case of subscription, MF shall allot units based on the NAV of the day on which funds are realized in the MF's scheme bank account in India and in case of redemption, units shall be redeemed on the day on which transaction slip/instruction is received and time stamped by MF, as per the applicable cut off time. The Scheme information documents of the MF shall clearly mention the applicable cut off time for QFIs and the other requirements / applicable guidelines for QFIs.
- 17.1.2.11 MF shall ensure that Systematic Investments/ transfer/ withdrawals and switches are not available to the QFIs. QFIs can only subscribe or redeem.
- 17.1.2.12 MF/ DP shall ensure that units/ UCRs held by QFIs are free from all encumbrances i.e. pledge or lien cannot be created for such units.
- 17.1.2.13 MF shall comply with all the requirements as per the PMLA, FATF standards and SEBI circulars issued in this regard on an ongoing basis.
- 17.1.2.14 MF shall ensure that all the investor related documents/ records of the QFIs are available with them.
- 17.1.2.15 MF shall ensure compliance with laws (rules and regulations) of the jurisdictions where the QFIs are based and also ensure that the interest of existing unit holders of the MF schemes are not adversely affected due to the issuance of UCRs/ demat units to the QFIs.
- 17.1.2.16 In case of any penalty, pending litigations or proceedings, findings of Inspections or investigations for which action may have been taken or is in the process of being taken by an overseas

regulator against MF/ AMC, it shall bring such information to the attention of SEBI and unitholders of the concerned scheme.

17.1.2.17 MF shall be responsible for the deduction of applicable tax at source out of the redemption proceeds before making redemption payments to QFIs.

17.1.2.18 MF/DP shall require QFIs to submit necessary information for the purpose of obtaining PAN. MF/DP may use the combined PAN cum KYC form to be notified by CBDT for QFIs. MF/ DP may take any additional information/ documents from the QFIs other than those mentioned in the common PAN cum KYC form to ensure compliance with Para 17.1.2.3 above.

17.1.3 Other conditions for direct route (demat account).

17.1.3.1 There shall be 3 parties under this route - QFIs, qualified DP and MF.

17.1.3.2 A QFIs can open only one demat account with any one of the qualified DPs and shall subscribe and redeem through that DP only. MF alongwith the DP shall have adequate systems to ensure the compliance of the same.

17.1.3.3 To become a qualified DP, a SEBI registered DP shall fulfill the following:

- a. DP shall have paid up capital of Rs.50 Crore or more,
- b. DP shall be either a clearing bank or clearing member of any of the clearing corporations.
- c. DP shall have appropriate arrangements for receipt and remittance of money with a designated Authorised Dealer (AD) Category - I bank

- d. DP shall demonstrate that it has systems and procedures to comply with the FATF Standards, PMLA and SEBI circulars issued from time to time.
- e. DP shall obtain prior approval of SEBI before commencing the activities relating to accepting MF subscription from QFIs.

17.1.3.4 The qualified DP shall open a demat account for the QFIs after ensuring all the requirements as per the PMLA, FATF standards and SEBI circulars issued in this regard.

17.1.3.5 For the purpose of account opening, MF can rely on the KYC done by DPs. Further, MF shall obtain the relevant records of KYC/ other documents from the DP and ensure compliance with para 1.11.3.14. However, MF shall comply with PMLA, FATF standards and SEBI circulars issued in this regard from time to time on an ongoing basis.

17.1.3.6 The qualified DP shall open a separate single rupee pool bank account with a designated AD Category -I bank, exclusively for the purpose of investments by QFIs in India.

17.1.3.7 Process Flow

Subscription

- a. The QFIs shall place a purchase/ subscription order mentioning the name of the scheme/MF with its DP and remit foreign inward remittances through normal banking channel in any permitted currency (freely convertible) directly to the single rupee pool bank account of the DP maintained with a designated AD category - I bank.

- b. DP in turn shall forward the purchase order to the concerned MF and remits the money to the MF's scheme account on the same day as the receipt of funds from QFIs. In case of receipt of money after business hours, DP shall remit the funds to MF scheme account by next business day.
- c. If for any reasons, the DP is not able to remit the money to the MF scheme account within the stipulated timeframe as mentioned in para-b, the DP shall immediately return the money to the designated overseas bank account of the QFIs.
- d. MF shall process the order and credit units into the demat account of the QFIs.
- e. If for any reasons the units are not allotted, MF / DP shall ensure that the money is remitted back to the QFI's designated overseas bank account within 3 working days from the date of receipt of subscription of money in the single rupee pool bank account of the DP maintained with a designated AD category I bank.

Redemption

- f. QFIs can redeem, either through Delivery Instruction (physical/ electronic) or any another mode prescribed by the Depositories. On receipt of instruction from QFIs, DP shall process the same and forward the redemption instructions to the MF. Upon receipt of instruction from DP, MF shall process the same and shall credit the single rupee pool bank account of the DP with the redemption proceeds.
- g. The DP can make fresh purchase of units of equity and debt schemes of MF (if so instructed by the QFIs) out of the

redemption proceeds received provided that payment is made towards such purchase is made within two working days of receipt of money from MF in the pooled bank account. In case no purchase is made within said period, the money shall be remitted by the DPs to the designated bank overseas account of the QFIs within two working days from the date of receipt of money from the MF in the pooled bank account.

Dividend

- h. In case of dividend payout, the MF shall credit the single rupee pool bank account of the DP with the dividend amount. The DP in turn shall remit the same to the designated bank overseas account of the QFIs within two working days from the date of receipt of money from the MF in the DP's rupee pooled bank account.

17.1.4 Other conditions for Indirect route (Unit Confirmation Receipts)

17.1.4.1 There shall be four parties involved - QFIs, UCR issuer (based overseas), SEBI registered Custodian (based in India) and MF.

17.1.4.2 QFIs can subscribe / redeem only through the UCR Issuer.

17.1.4.3 MF shall appoint one or more UCR issuing agent overseas and one SEBI registered custodian in India.

17.1.4.4 UCR issuer appointed by MF shall act as agent of the MF.

17.1.4.5 MF can appoint entities fulfilling the following conditions as UCR issuer:

- a. The entity is able to demonstrate that it has proven track record, expertise and technology in the business of issuance of global depository receipts/global custody agency
- b. The entity is registered with an overseas securities market/ banking regulator.

17.1.4.6 MF shall seek no objection from SEBI before appointing any UCR issuer and furnish the details and information sought by SEBI about the UCR issuer. SEBI reserves the right to seek additional information / clarification and direct action, including non appointment/ revocation of appointment of that UCR Issuing Agent.

17.1.4.7 MF shall comply with all the requirements as per the PMLA, FATF standards and SEBI circulars issued in this regard on an ongoing basis.

17.1.4.8 Custodians appointed by the MF shall comply with the SEBI (Custodian of Securities) Regulations, 1996, circulars and guidelines issued by SEBI.

17.1.4.9 The rupee denominated units of the MF would be held as underlying by the custodian in India in demat mode against which the UCR issuer would issue UCR to be held by QFIs.

17.1.4.10 MF shall ensure that for every UCR issued by UCR issuer, Custodian in India shall hold corresponding number of units against it i.e., there shall be one unit of MF scheme for every unit of UCR.

17.1.4.11 MF shall receive money from UCR issuer either in foreign country by opening bank account overseas (in accordance with the

relevant extant FEMA regulations) or in Indian rupees in the respective MF scheme account held in India.

17.1.4.12 MF shall mandate the UCR issuer regarding the requirements for KYC, Customer due diligence process and documents and information to be collected from the QFIs in terms of the requirements mentioned in para 17.1.2.13 above.

17.1.4.13 MF shall obtain the relevant records of KYC/ other documents from the UCR issuer in order to comply with FATF standards, PMLA and SEBI circulars issued in this regard and ensure compliance with para 17.1.2.14.

17.1.4.14 Units purchased and redeemed through UCR issuer shall be settled on gross basis and under no circumstances shall be netted against other investors of UCR issuer

17.1.4.15 Process flow:

a. The QFIs places a purchase/ subscription order through the UCR issuer.

In case of MF opening bank account overseas (in accordance with the relevant extant FEMA regulations)

b. UCR issuer shall forward the order of QFIs to the MF/Custodian. Upon receipt and transfer of funds to India; the MF shall issue units to the custodian and custodian in turn confirm to the UCR Issuer to issue UCR to the QFIs.

c. In case of redemption, UCR issuer shall confirm receipt of redemption request to the MF and Custodian. Upon receipt of instruction, MF shall process the same and shall transfer the redemption proceeds to the

MF overseas bank account for making payment to the designated overseas bank account of the QFIs.

- d. In case of dividend payout, the MF shall transfer the dividend amounts to the MF overseas bank account for making payment to the designated overseas bank account of the QFIs.

In case MF receives money in India from UCR issuer.

- e. UCR issuer shall forward the purchase order to MF and Custodian, and remit the funds into MF scheme account (in rupee terms). Upon receipt of funds; the MF shall issue units to the custodian and custodian shall in turn confirm to the UCR Issuer to issue UCR to the QFIs.
- f. In case of redemption, UCR issuer shall confirm receipt of redemption request to the MF & Custodian. Upon receipt of instruction, MF shall process and remit redemption proceeds to the UCR issuer which in turn shall remit redemption proceeds to the designated bank account of the QFIs.
- g. In case of dividend payout, the MF shall remit the dividend amount proceeds to the UCR issuer which in turn shall remit the dividend amount to the designated bank account of the QFIs.

17.1.5 The investment by the QFIs in MF equity and debt schemes under this scheme shall also be subject to the relevant and extant FEMA regulations and guidelines issued by the Reserve Bank of India under FEMA, 1999 from time to time.

17.2 Clarification⁴⁰² to Regulation 24⁴⁰³

- 17.2.1 The amended Regulation mandates that AMC's shall appoint separate fund manager for each separate fund managed by it unless the investment objectives and assets allocations are the same and the portfolio is replicated across all the funds managed by the fund manager.
- 17.2.2 The replication of minimum 70% of portfolio value shall be considered as adequate for the purpose of said compliance, provided that AMC has in place a written policy for trade allocation and it ensures at all points of time that the fund manager shall not take directionally opposite positions in the schemes managed by him.
- 17.2.3 Wherein a fund manager is common across mutual fund schemes and schemes/products under other permissible activities of AMC, then the AMC shall:
- 17.2.3.1 disclose on their websites, the returns provided by the said manager for all the schemes (mutual fund, pension funds, offshore funds etc) on a monthly basis.
- 17.2.3.2 in case of any performance advertisement is issued by the AMC for any scheme, then the details of returns of all the schemes (mutual fund, pension funds, offshore funds etc) managed by that fund manager shall be provided.
- 17.2.3.3 in case the difference between the annual returns provided by the schemes managed by the same fund manager is more than 10%

⁴⁰² SEBI Circular No.Cir/IMD/DF/7/2012 dated February 28, 2012

⁴⁰³ Of SEBI (Mutual Funds) Regulations, 1996

then the same shall be reported to the trustee and explanation for the same shall be disclosed on the website of the AMC.

17.3 Product Labeling in Mutual Funds⁴⁰⁴

17.3.1 All the mutual funds shall 'Label' their schemes on the parameters as mentioned under:

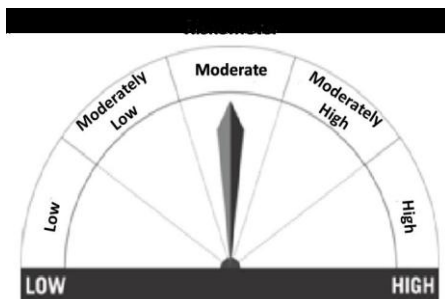
- a. Nature of scheme such as to create wealth or provide regular income in an indicative time horizon (short/ medium/ long term).
- b. A brief about the investment objective (in a single line sentence) followed by kind of product in which investor is investing (Equity/Debt).
- c. Level of risk in mutual fund schemes shall be increased to five as under⁴⁰⁵
 - - i. Low - principal at low risk
 - ii. Moderately Low - principal at moderately low risk
 - iii. Moderate - principal at moderate risk
 - iv. Moderately High -- principal at moderately high risk
 - v. High - principal at high risk.

The depiction of risk using colour codes would be replaced by pictorial meter named "Riskometer" and this meter would appropriately depict

⁴⁰⁴ SEBI Circular No. CIR/IMD/DF/5/2013 dated March 18, 2013

⁴⁰⁵ SEBI Circular No. CIR/IMD/DF/4/2013 dated April 30, 2015

the level of risk in any specific scheme. For enumeration, a scheme having moderate risk would be depicted as under:



“Investors understand that their principal will be at moderate risk”

Mutual Funds may 'product label' their schemes on the basis of the best practice guidelines issued by Association of Mutual Funds in India (AMFI) in this regard.

- d. A disclaimer that investors should consult their financial advisers if they are not clear about the suitability of the product.

17.3.2 Product label shall be disclosed in:

- a. Front page of initial offering application forms, Key Information Memorandum (KIM) and Scheme Information Documents (SIDs).
- b. Common application form – along with the information about the scheme.

The product label with respect to (a) & (b) shall be placed in proximity to the caption of the scheme and shall be prominently visible.

- c. Scheme advertisements-placed in manner so as to be prominently visible to investors.