

**EXECUTIVE DIRECTOR  
INVESTMENT MANAGEMENT DEPARTMENT**

SEBI/IMD/CIR No.7/104753/07  
September 26, 2007

**All Mutual Funds Registered with SEBI  
Association of Mutual Funds in India (AMFI)**

Dear Sirs,

**Re: Overseas Investments by Mutual Funds**

Attention is drawn to the budget speech by the Finance Minister for the Financial Year 2007-08 regarding overseas investments by mutual funds. In order to facilitate overseas investments by mutual funds and with reference to SEBI Circulars SEBI/IMD/CIR No.7/73202/06 dated August 2, 2006, SEBI/IMD/CIR No.13/83589/07 dated January 4, 2007 and SEBI/IMD/ CIR No.3/93334/07 dated May 14, 2007 pertaining to investment in ADRs/ GDRs/ foreign securities and overseas ETFs by mutual funds, it has now been decided as under:

**1. Applicable Limits**

- a) The aggregate ceiling for overseas investments as per para 2 below is US \$ 5 billion.
- b) Within the overall limit of US \$ 5 billion, mutual funds can make overseas investments subject to a maximum of US \$300 million per mutual fund.

**2. Permissible investments**

Mutual Funds can invest in

- i. ADRs/ GDRs issued by Indian or foreign companies
- ii. Equity of overseas companies listed on recognized stock exchanges overseas
- iii. Initial and follow on public offerings for listing at recognized stock exchanges overseas
- iv. 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
- v. Money market instruments rated not below investment grade
- vi. Repos in the form of investment, where the counterparty is rated not below investment grade; repos should not however, involve any borrowing of funds by mutual funds

- vii. Government securities where the countries are rated not below investment grade
- viii. Derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities
- ix. Short term deposits with banks overseas where the issuer is rated not below investment grade
- x. 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 (REITs) listed in recognized stock exchanges overseas or (c) unlisted overseas securities (not exceeding 10% of their net assets).

### **3. Limits for Investment in Overseas Exchange Traded Funds (ETFs):**

The overall ceiling for investment in overseas ETFs that invest in securities is US \$ 1 billion subject to a maximum of US \$ 50 million per mutual fund.

### **4. Other Conditions:**

Apart from applicability of SEBI (Mutual Funds) Regulations, 1996 and guidelines issued from time to time, the mutual funds shall adhere to the following specific guidelines for making overseas investments by the mutual fund schemes:

#### **a. Appointment of a Dedicated Fund Manager**

The Mutual Fund shall appoint a Dedicated Fund Manager for making overseas investments stipulated under para 2 (i)–(ix) above.

#### **b. Due Diligence**

Boards of Asset Management Companies (AMCs) and Trustees shall exercise due diligence in making investment decisions. 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 must be made in liquid actively traded securities/instruments.

Boards of AMCs 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 specialised agencies and service providers associated with such investments e.g. custodian, bank, advisors, etc should also have adequate expertise and

infrastructure facilities. Their past track record of performance and regulatory compliance record, if they are registered with foreign regulators, may also be considered. Necessary agreements may be entered into with them as considered necessary.

All investment decisions shall be recorded in accordance with SEBI circular dated July 27, 2000.

### **c. Disclosure Requirements**

The following disclosure requirements shall be mandatory for mutual fund schemes proposing overseas investments.

- i. Intention to invest in foreign securities/ ETFs shall be disclosed in the offer documents of the schemes. The attendant risk factors and returns ensuing from such investments shall be explained clearly in offer documents. The mutual funds shall also disclose as to how such investments will help in the furtherance of the investment objectives of the schemes. Such disclosures shall be in a language comprehensible to an average investor in mutual funds.
- ii. The mutual funds shall disclose the name of the Dedicated Fund Manager for making overseas investments stipulated under para 2 (i)–(ix) above.
- iii. The mutual funds shall disclose exposure limits i.e. the percentage of assets of the scheme they would invest in foreign securities/ ETFs.
- iv. Such investments shall be disclosed while disclosing half-yearly portfolios in the prescribed format by making a separate heading "Foreign Securities/overseas ETFs." Scheme-wise percentage of investments made in such securities shall be disclosed while publishing half-yearly results in the prescribed format, as a footnote.

### **d. Investment by Existing Schemes:**

Existing schemes of mutual funds where the offer document 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 that for making overseas investments stipulated under para 2 (i)–(ix) above a Dedicated Fund Manager has been appointed. Additional disclosure as specified above shall be included by way of addendum and unit holders will be informed accordingly.

In case the offer document of an existing scheme does not provide for overseas investment, the scheme, if it so desires, may make such investments in accordance with these guidelines, provided that: prior to overseas investments for the first time, the AMC shall ensure that a

written communication about the proposed investment is sent to each unitholder 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 unitholders shall also disclose the risk factors associated with such investments.

**e. Reporting to Trustees :**

The AMCs shall send detailed periodical reports to the Trustees which shall include the following aspects:

- i. Performance of overseas investments.
- ii. Amount invested in various schemes and any breach of the exposure limit laid down in the scheme offer documents.

**f. Review of Performance**

Boards of AMCs and Trustees shall review the performance of schemes making overseas investments with appropriate benchmark(s) as disclosed in the offer documents.

**g. Reporting to SEBI**

The Trustees shall offer their comments on the compliance of these guidelines in the half-yearly reports filed with SEBI.

**h. Prudential Investment Norms**

Unless otherwise stated in the instant circular, the investment restrictions specified in the Seventh Schedule to SEBI (Mutual Funds) Regulations, 1996 shall be applicable regarding overseas investments stipulated under para 2(i)-(ix) above.

It is clarified that Clause 4 of Seventh Schedule to SEBI (Mutual Funds) Regulations, 1996 which restricts investments in mutual fund units upto 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 guidelines as per aforesaid circular. However, please note that the management fees and other expenses charged by the mutual fund(s) 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). Where the scheme is investing only a part of the net assets in the overseas mutual fund(s), the same principle shall be applicable for that part of investment. The details of calculation for charging such expenses shall be reported to the

Boards of AMC and Trustees and shall also be disclosed in the Annual Report of the scheme.

5. SEBI Circulars SEBI/IMD/CIR No.7/73202/06 dated August 2, 2006, SEBI/IMD/CIR No.13/83589/07 dated January 4, 2007 and SEBI/IMD/ CIR No.3/93334/07 dated May 14, 2007 pertaining to investment by mutual funds in ADRs/ GDRs/ foreign securities stand withdrawn.
6. The procedure for applying to SEBI for making investments in ADRs/ GDRs/ foreign securities and overseas ETFs is given in the Annexure. The application shall be made in advance of making investments in foreign securities. On receipt of approval, intimation may be sent by the AMC to Overseas Investment Division, Foreign Exchange Department, RBI.
7. These guidelines are issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

**R. K. Nair**

**Encl: a/a**

**PROPOSAL FOR INVESTMENTS IN ADRs/GDRs/ FOREIGN SECURITIES / OVERSEAS ETFs**

|   |                            |
|---|----------------------------|
| Name of the Mutual Fund:  |                            |
| SEBI Registration No.:  |                            |
| Amount Proposed to be Invested in ADRs /GDRs /Foreign Securities / Overseas ETFs (in US \$)   |                            |
| Schemes of the Mutual Fund through which investment is proposed:  | Name and Type of scheme(s) |
| Whether the investment is consistent with the Investment Objectives of the Scheme (s);  |                            |
| Whether the offer document(s) provides for Overseas Investments and discloses the attendant risks   |                            |
| Name and Address of the branch of the bank through which Foreign Currency Transactions are to be routed:  |                            |
| Details of all overseas service providers proposed to be engaged including custodians, specialised agencies etc. (Details must include name & address, services to be rendered, details of fee arrangement proposed, whether their track record of performance and regulatory compliance considered, their valid registration with overseas regulators, details of experience/expertise, assets under management/custody, etc.) |                            |

**Declaration**

1. Boards of AMC and Trustees have exercised due diligence as required under Regulation 25(2) and Guidelines issued in this regard.
2. Board of AMC and Trustees are satisfied that
  - i. The proposed investments in ADRs/GDRs issued by Indian or foreign companies or foreign securities or overseas ETFs are consistent with the investment objectives of the above mentioned scheme(s) and are in the interest of investors.
  - ii. The systems and procedures adopted by the AMC including the arrangements made with the overseas service providers are adequate to support such investments and to safeguard the interest of investors.
  - iii. The overseas service providers have sufficient experience, competence and a satisfactory track record of performance and regulatory compliance.

A resolution to the above effect has been passed by the Boards of AMC and Trustees on.....

(dates)

Place:

Signatures

Name:

Date:

Designation:

(Authorised by Trustees)

