DEPUTY GENERAL MANAGER
INVESTMENT MANAGEMENT DEPARTMENT

SEBI/IMD/CIR No. 9/108562/07
November 16, 2007

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

Dear Sirs,

We are enclosing a copy of the following gazette notification for your information and implementation:

1. **No.11/LC/GN/2007/4646.** dated October 31, 2007 pertaining to SEBI (Mutual Funds) (Second Amendment) Regulations 2007 on “Reduction in expenses charged by Index Fund Scheme” and “ Short selling and Securities lending and borrowing”.

2. The reduced expenses and investment and advisory fees shall apply to exchange traded index funds also.

3. Enabling provisions have been made for a mutual fund to engage in short selling of securities as well as lending and borrowing of securities. However, these amendments shall take effect on a later date to be notified by SEBI, which will be after the new framework for short selling of securities and securities lending and borrowing is put into place.

4. This circular, is available on SEBI website at www.sebi.gov.in under the category "Mutual Funds - Circulars".

5. This circular is 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.

Yours faithfully,

Ruchi Chojer

Encl : a/a

THE GAZETTE OF INDIA
EXTRAORDINARY
PART –III – SECTION 4
PUBLISHED BY AUTHORITY
NEW DELHI, WEDNESDAY, OCTOBER 31, 2007

SECURITIES AND EXCHANGE BOARD OF INDIA

NOTIFICATION

Mumbai, the 31st October, 2007

SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) (SECOND AMENDMENT) REGULATIONS, 2007

No. 11/LC/GN/2007/4646 – In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board hereby makes the following Regulations to further amend the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, namely :-

1. These regulations may be called the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2007.

2. (1) The provisions of clauses (ii), (iii) and (v) of regulation 3 shall come into force on such date as may be specified by the Board by notification in the Official Gazette.
   (2) All other provisions of these regulations shall come into force on the date of their publication in the Official Gazette.

3. In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, -

   (i) in regulation 2, after clause (mm), the following clause shall be inserted, namely:-

“(mn) ‘index fund scheme’ means a mutual fund scheme that invests in securities in the same proportion as an index of securities;”

(ii) in regulation 44, for sub-regulation (4), the following sub-regulation shall be substituted, namely:-

“(4) A mutual fund may lend and borrow securities in accordance with the framework relating to short selling and securities lending and borrowing specified by the Board.”

(iii) for regulation 45, the following regulation shall be substituted, namely:-

“**Carry forward transactions, derivatives transactions and short selling transactions.**

45. (1) The funds of a scheme shall not in any manner be used in carry forward transactions:

Provided that a mutual fund may enter into derivatives transactions on a recognized stock exchange, subject to the framework specified by the Board.

(2) A mutual fund may enter into short selling transactions on a recognized stock exchange, subject to the framework relating to short selling and securities lending and borrowing specified by the Board.”

(iv) in regulation 52, -

a. after sub regulation (2), the following proviso shall be inserted, namely:-

“Provided that in case of an index fund scheme, the investment and advisory fees shall not exceed three fourths of one percent (0.75%) of the weekly average net assets.“

b. in sub regulation (6), after the second proviso, the following new proviso shall be inserted, namely:-

"Provided further that in case of an index fund scheme, the total expenses of the scheme including the investment and advisory fees shall not exceed one and one half percent (1.5%) of the weekly average net assets."

(v) in the Seventh Schedule, for clause 6 and the proviso thereto, the following clause and provisos shall be substituted, namely:-

"6. Every mutual fund shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relevant securities and in all cases of sale, deliver the securities:

Provided that a mutual fund may engage in short selling of securities in accordance with the framework relating to short selling and securities lending and borrowing specified by the Board:

Provided further that a mutual fund may enter into derivatives transactions in a recognized stock exchange, subject to the framework specified by the Board."

M. DAMODARAN

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADVT III/IV/69-ZB/2007/Exty.]

Footnotes:

(1) The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, the Principal Regulations were published in the Gazette of India on December 9, 1996 vide S.O. No. 856(E).

(2) The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 were subsequently amended –

(a) on April 15, 1997 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1997 vide S.O. No.327(E).

(b) on January 12, 1998 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1998 vide S.O. No.32(E).

(c) on December 08, 1999 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999 vide S.O. No.1223(E).

(d) on March 14, 2000 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2000 vide S.O. No.235 (E).

(e) on March 28, 2000 by the Securities and Exchange Board of India (Appeal to the Securities Appellate Tribunal) (Amendment) Regulations, 2000 vide S.O. No.278(E).

(f) on May 22, 2000 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2000 vide S.O. No.484 (E).

(g) on January 23, 2001 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2001 vide S.O. No.69 (E).

(h) on May 29, 2001 by the Securities and Exchange Board of India (Investment Advice by Intermediaries) (Amendment) Regulations, 2001 vide S.O. No.476(E).

(i) on July 23, 2001 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2001 vide S.O. No.698(E).

(j) on February 20, 2002 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2002 vide S.O. No.219 (E).

(k) on June 11, 2002 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2002 vide S.O. No.625 (E).

(l) on July 30, 2002 by the Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2002 vide S.O. No.809(E).

(m) on September 9, 2002 by the Securities and Exchange Board of India (Mutual Funds) (Fourth Amendment) Regulations, 2002 vide S.O. No.956(E).

(n) on September 27, 2002 by the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 vide S.O. No.1045(E).

(o) on May 29, 2003 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2003 vide S.O.No. 632(E).

(p) on January 12, 2004 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2004 vide F.No SEBI\LAD\DOP\4\2004.

(q) on March 10, 2004 by the Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004 vide S.O. No. 398(E).

(r) on January 12, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2006 vide S.O.No. 38(E).

(s) on May 22, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2006 vide S.O.No. 783(E).

(t) on August 3, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2006 vide S.O.No. 1254(E).

(u) on December 27, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Fourth Amendment) Regulations, 2006 vide F. No. SEBI/LAD/DOP/82534/2006.

(v) on December 27, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Fifth Amendment) Regulations, 2006 vide F. No. SEBI/LAD/DOP/83065/2006.

(w) On May 28, 2007 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2007 vide F.No. 11/LC/GN/2007/2518.

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