

SECURITIES AND EXCHANGE BOARD OF INDIA

Mittal Court, B Wing, First Floor,
224, Nariman Point, Mumbai 400 021

MFD/CIR No.4/216/2001

May 08, 2001

**All Mutual Funds registered with SEBI /
Unit Trust of India / AMFI**

Dear Sirs,

**Re: Investment/Trading in Securities by Employees of Asset Management Companies and
Mutual Fund Trustee Companies.**

Sub-regulation (9) of Regulation 25 of the SEBI (Mutual Funds) Regulations, 1996 stipulates that the asset management company (AMC) shall file with the trustees the details of transactions in securities by the key personnel of the asset management company. Also, clause (b) of Regulation 23 requires the trustees to furnish to SEBI a certificate stating that they have satisfied themselves that there have been no instances of self dealing or front running by any of the trustees, directors and key personnel of the asset management company.

There is a need to lay down the procedures and code of conduct for such transactions so that there is no conflict of interest between the transactions of employees and the mutual fund and interests of unitholders are not affected adversely. Association of Mutual Funds in India (AMFI) and the SEBI Advisory Committee on Mutual Funds made certain recommendations on investment/trading in securities by employees of Asset Management Companies and Mutual Fund Trustee Companies. After examining these recommendations, it has been decided that all mutual funds should take steps to implement the guidelines as enclosed herewith. These guidelines specify the minimum requirements that have to be followed. The asset management companies and mutual fund trustee companies have the option to set more stringent norms for investment/trading in securities by their employees.

These guidelines are being issued in accordance with the provisions of Regulation 77 of the SEBI (Mutual Funds) Regulations, 1996. All mutual funds shall report Implementation of the guidelines to SEBI by May 22, 2001.

Further, the boards of AMCs and trustee companies shall ensure the compliance of the guidelines on a continuous basis and shall report any violations and remedial action taken by them in the periodical reports submitted to SEBI.

Yours faithfully,

**P.K. Nagpal
GENERAL MANAGER
MUTUAL FUNDS DEPARTMENT**

Encl.: As above.

**SECURITIES AND EXCHANGE BOARD OF INDIA
MUTUAL FUNDS DEPARTMENT**

Guidelines for Investment/Trading in Securities by Employees of Asset Management

Applicability

These guidelines shall be applicable to all employees of Asset Management Companies (AMCs) and Mutual Fund Trustee Companies (TCs) and should form a part of the code of conduct for employees adopted by each AMC/TC.

The objectives and principles of these Guidelines are:

- 1. To ensure that all personal securities transactions are conducted consistent 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.**
- 2. The employees of AMCs and TCs especially access persons should not take undue advantage of any price-sensitive information that they may have about any company. Access Person for the purpose of these guidelines would 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/departments or any other employee as decided by the AMC/TC.**
- 3. To guide employees of AMCs and TCs in maintaining a high standard of probity that one would expect from an employee in a position of responsibility.**

GENERAL

1.0. Employees Covered :

The Guidelines shall cover all employees of AMCs and TCs and shall be implemented with immediate effect. New employees shall be bound by these Guidelines from the date of joining the AMC/TC.

1.1. Investments Covered :

These Guidelines cover transactions for purchase or sale of any securities such as shares, debentures, bonds, warrants, derivatives and units of mutual fund schemes.

These Guidelines do not apply to the following investments by the employees:

- i. Investments in fixed deposits with banks/financial institutions/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.**
- ii. investments of a non-financial nature such as gold, real estate etc, where there is no likely conflict between the Mutual Fund's interest and the employees' interest.**
- iii. investments in government securities, money market instruments and money market mutual fund schemes.**

1.2. Type of Holdings :

These Guidelines 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.

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

Investments in securities shall broadly be classified into investments through (a)

primary markets and (b) secondary markets.

1.3. Prior approval of personal investment transactions:

All access persons except Compliance Officer must apply in the form prescribed by the AMC/TC to the Compliance Officer of the AMC 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 must apply to the Head of the AMC. The decision of the Compliance Officer shall be final and shall be binding on the employee.

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, should be read as "Head of the AMC."

The Compliance Officer may coordinate with the Fund Management Department of the Mutual Fund, wherever necessary, for the purpose of clearing requests of investment/trading in securities by the employees.

4. The approval of Compliance Officer for carrying out a transaction of sale or purchase of a security by the access person shall be valid for not more than 10 calendar days from the date of approval.

1.5. If a transaction approved by Compliance Officer has not been effected within the period not exceeding 10 calendar days from the date of its approval, the access person shall be required to obtain prior approval once again from Compliance Officer for effecting the transaction.

6. All employees should refrain from profiting from the purchase and sale or sale and purchase of any security within a period of 60 calendar days from the date of their personal transaction. 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 AMC/TC at the time of review.

INVESTMENTS IN SHARES / DEBENTURES / BONDS / WARRANTS/DERIVATIVES

2.1. Investments through the primary markets

2.1.1. An employee including access person is permitted to apply to a public issue of shares / debentures / bonds / warrants of any company, so 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 AMCs and TCs 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.

2.1.2. Notwithstanding what is stated in 2.1.1. above, an employee of an AMC/TC may apply for shares / debentures / bonds / 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 that of one in which the employee already has an investment, provided that such a preferential offer is made to all shareholders/debentureholders of such companies. Details of such applications made should be intimated to the Compliance Officer.

2.1.3. The employees of the AMCs/TCs 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/renounce his rights entitlement without getting the clearance from the Compliance Officer. However, if an access person wishes to purchase the "rights renunciations", he should get the clearance of the Compliance Officer for doing the same. Such purchases of rights renunciations should 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.

2.2. Investments through the secondary markets

2.2.1. 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/sell, type of security, and the number of shares/debentures/bonds/warrants/derivatives that the access person wishes to buy/sell.

2.2.2. The Compliance Officer shall clear these requests if the following conditions are met:

(i) if the shares/debentures/bonds/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;

(ii) if such shares/debentures/bonds/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.

The Compliance Officer will keep a track of the transactions of the employees and transactions of the Mutual Fund so as to ensure that there is no conflict of interest - whether the Mutual Fund has transacted the same securities either before or after the employee's transactions.

- 3. 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.**

2.2.4. No employee shall purchase any security (including derivatives) on a "carry forward" basis or indulge in "short sale" of any security (including derivatives).

- 5. Employees who effect any purchase transactions shall ensure that they take delivery of the securities purchased, before selling them.**
- 6. Any transaction of front running by any employee directly or indirectly is strictly prohibited. For this purpose, 'front running' means any transaction of purchase /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/sell the same security for its mutual fund operations. For the purpose of ascertaining 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.**
- 7. 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 information which is price sensitive in nature and to which he has access by virtue of his office. Declaration to this effect may be taken from the employee while clearing the proposals for investment.**

2.2.8. On no account shall the employees insist or even suggest to the brokers

concerned to charge reduced brokerage, or accept any contract with a reduced brokerage charge.

INVESTMENTS IN UNITS OF MUTUAL FUND SCHEMES

3. 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 shall be reported by them to the Compliance Officer within 7 calendar days from the date of transaction.

3.1. In case of investments in the Systematic Investment Plan (SIP) of any scheme of any mutual fund, the employees may report only at the time of first installment of the SIP.

3.2. Notwithstanding anything mentioned earlier, employees shall not purchase or sell/tender for repurchase/redemption units of any scheme, including money market mutual fund scheme of the Mutual Fund of which the AMC is the investment manager or of which TC is the Trustee in the following cases:

(a) there is a likelihood of a change in the investment objectives of the Fund concerned and this has not been communicated to the investors;

(b) there is a likelihood of a rights/bonus issue in the Fund concerned, and this has not been communicated to the investors;

(c) the Fund concerned is contemplating to issue dividend to the unitholders and this has not been communicated to Page 7 of 8the 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.

PERIODIC DISCLOSURES

4.0. 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. These details shall be submitted as follows:

- a. details of transactions effected for purchase/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.

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

- a. The details of each of their transactions for purchase or sale of securities including allotment in public and rights issues within 7 calendar days.
- b. a statement of holding in securities as on March 31 within 30 calendar days from the end of every financial year ending March 31.

A declaration may also be included in the reporting form on the lines of clause 2.2.6 and 2.2.7 above regarding front running and self-dealings.

5.0. The boards of AMCs and Trustee Companies shall review the compliance of the guidelines in their periodical meetings. They may review the existing procedures and recommend for changes in procedures based on the AMC's experience, industry practices or developments in applicable laws and regulations. They shall report its compliance and any violations and remedial action taken by them in the reports submitted to SEBI.
