



**CIRCULAR**

**SEBI/HO/IMD/DF2/CIR/P/2016/35**

**February 15, 2016**

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

Sir/ Madam,

**Sub: Circular on Mutual Funds**

**A. Amendments to SEBI (Mutual Funds) Regulations, 1996**

1. Please find enclosed a copy of the [gazette notification No. SEBI/LAD-NRO/GN/2015-16/034 dated February 12, 2016](#) pertaining to Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2016 for your information and implementation. These amendments relate to restrictions on investments in debt instruments issued by a single issuer wherein the limit is reduced to 10% of NAV which may be extended to 12% of NAV with the prior approval of the Board of Trustees and the Board of Asset Management Company.

**B. Prudential limits in sector exposure and group exposure in debt-oriented mutual fund schemes:**

1. In order to provide investors with enhanced diversification benefits and put mutual funds in a better position to handle adverse credit events, it has been decided to revise prudential limits for sectoral exposure and to introduce prudential limits for group level exposure.
2. Sector exposure -
  - a) Presently, the guidelines for sectoral exposure in debt oriented mutual fund schemes put a limit of 30% at the sector level and an additional exposure not exceeding 10% (over and above the limit of 30%) in financial services sector

only to Housing Finance Companies (HFCs). It has now been decided to reduce exposure limits to a single sector from the current 30% to 25% and reduce additional exposure limits provided for HFCs in finance sector from 10% to 5%.

- b) In partial modification to SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012, SEBI Circular No. CIR/IMD/DF/24/2012 dated November 19, 2012 and SEBI circular no. CIR/IMD/DF/05/2014 dated March 24, 2014, the para on sector exposure shall read as under:

*"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, TBills, short term deposits of scheduled commercial banks and AAA rated securities issued by Public Financial Institutions and Public Sector Banks) 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 5% 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.*

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

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.

**C. Half yearly report by Trustees**

1. Trustees 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.

**D. Applicability of the Circular**

1. 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.
2. 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. 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.

This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act 1992, read with the provision of Regulation



**भारतीय प्रतिभूति और विनिमय बोर्ड**  
**Securities and Exchange Board of India**

77 of SEBI (Mutual Funds) Regulation, 1996 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

**PARAG BASU**

**Chief General Manager**

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