



CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2016/68

August 10, 2016

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

Sir/ Madam,

Subject: Circular on Mutual Funds

A. Prudential limits in sector exposure for Housing Finance Companies (HFCs)

1. Presently, the guidelines for sectoral exposure in debt oriented mutual fund schemes put a limit of 25% at the sector level and an additional exposure not exceeding 5% (over and above the limit of 25%) in financial services sector only to HFCs. In light of the role of HFCs especially in affordable housing space, it has now been decided to increase additional exposure limits provided for HFCs in financial services sector from 5% to 10%.
2. Therefore, in partial modification to SEBI circular SEBI/HO/IMD/DF2/CIR/P/2016/35 dated February 15, 2016, 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 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.

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

B. Disclosure of Votes cast by Mutual Funds

3. Presently, an AMC is required to obtain Auditor's certification on the voting reports being disclosed by them on a quarterly basis in line with SEBI Circular No CR/IMD/DF/05/2014 dated March 24, 2014. It has now been decided that such certification shall be obtained from "scrutinizer" in terms of Rule 20 (3) (ix) of Companies (Management and Administration) Rules, 2014.
4. Therefore, in partial modification of clause I (B) (1) of the aforesaid circular, sub-clauses (d) and (e) thereof shall read as under:
 - (a) *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.*
 - (b) *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 same, along with any*

adverse comments made by the scrutinizer, shall have to be reported to SEBI in the half yearly trustee reports.

C. Submitting of final copy of SID prior to launch of the scheme

5. Presently, an AMC is required to submit soft copy of SIDs alongwith printed/ final copy, two working days prior to the launch of the scheme in line with SEBI Circular No SEBI/IMD/CIR No. 10/178129/09 dated September 29, 2009. It has now been decided that such submission is required to be made seven working days prior to the launch of the scheme.
6. Therefore, in partial modification of clause 1 of the aforesaid circular, sub-clauses (ii) shall read as under:
- (a) soft copy of SIDs alongwith printed/ final copy seven working days prior to the launch of the scheme.*

D. Applicability of the circular

7. All other conditions specified in the above mentioned circulars remain unchanged.
8. This circular shall be applicable with immediate effect.

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 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,

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