भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2017/13 **February 20, 2017**

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

Sir/ Madam,

Subject: Participation in derivatives market by Mutual Funds

1. In terms of SEBI circular no. DNPD/Cir-29/2005 dated September 14, 2005, existing schemes of the Mutual Funds, whose Scheme Information Documents (SIDs) do not envisage investments in derivatives, are required to obtain positive consent from majority of the unit holders before commencing investment in derivatives. An exit option has to be provided to the dissenting unit holders and such option is to be kept open for a period of one month prior to the scheme commencing trading in derivatives.

2. SEBI has received representations that for existing schemes' whose SIDs do not currently envisage investments in derivatives, obtaining positive consent from majority of unit holders as mandated above is challenging on account of vast geographical spread of unit holders and hence the request for doing away with such requirements. This matter was discussed in Mutual Fund Advisory Committee, wherein it was recommended that for participation in derivatives market by such schemes, the requirement of obtaining positive consent should be dispensed with and all investors of the scheme should be given exit option with no exit load, in line with the guidelines for changes in any other fundamental attribute of the scheme.

3. Based on the above considerations and in view of prudent investment norms that are in place for investment in derivatives by Mutual Funds, it has been decided that for introduction of derivative investments in an existing scheme, whose SIDs do not

currently envisage such investments, the requirement of obtaining positive consent from majority of unit holders shall no longer be applicable. However, prior to the scheme commencing participation in derivatives, all investors of such schemes shall be given exit option with no exit load for 30 days, as against exit option to only dissenting unit holders mandated earlier.

4. In view of the above, in point 2 of SEBI circular no. DNPD/Cir-29/2005 dated September 14, 2005, clause I) b shall be read as follows:

   "Existing schemes of Mutual Funds, whose SIDs do not envisage investments in derivatives, may participate in derivatives market subject to the following conditions:

   i. The extent and the manner of the proposed participation in derivatives shall be disclosed to the unit holders.

   ii. The risks associated with such participation shall be disclosed and explained by suitable numerical examples.

   iii. Prior to commencing participation in derivatives, the scheme shall comply with the provisions of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996 and all unit holders shall be given at least 30 days to exercise option to exit at prevailing NAV without charging of exit load."

5. All other provisions of the the above mentioned circular remains unchanged.

6. This circular is 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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