



CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2019/42

March 25, 2019

All Mutual Funds (MFs)/
Asset Management Companies (AMCs)/
Trustee Companies/ Boards of Trustees of Mutual Funds/
Registrar and Transfer Agents (RTAs) /
Association of Mutual Funds in India (AMFI)

Sir / Madam,

Subject: Review of Commission, Expenses, Disclosure norms etc. – Mutual Fund.

A. Limitation on Fees and Expenses – Regulation 52 of SEBI (Mutual Fund) Regulations 1996.

A copy of the Gazette Notification [No.SEBI/LAD-NRO/GN/2018/51](https://www.sebi.gov.in/sebi_data/attachdocs/No.SEBI/LAD-NRO/GN/2018/51.pdf) dated December 13, 2018 on Amendments to SEBI (Mutual Funds) Regulations, 1996 is enclosed for reference.

B. Distributor Commission

1. In continuation to Paragraph A of SEBI circular No.SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018, a carve out for upfronting of trail commission has been made for inflows through SIPs from new investors to the Mutual Fund Industry (to be identified based on PAN). The upfronting of trail commission shall be up to 1% payable yearly in advance, for a maximum period of three years. The paragraph A(4) of the above mentioned circular has been modified as under:



'A (4) The payment of upfront trail commission would be subject to the following:

- a. The upfronting of trail commission may be for SIP of upto Rs. 3000 per month, per scheme, for an investor who is investing for the first time in Mutual Fund schemes.*
- b. For a new investor, as identified above, only the first SIP(s) purchased by the investor shall be eligible for up-fronting. In this regard, if multiple SIP(s) are purchased on different dates, the SIP(s) in respect of which the installment starts on the earliest date shall be considered for upfronting.*
- c. The upfront trail commission shall be paid from AMC's books.*
- d. The said commission shall be amortized on daily basis to the scheme over the period for which the payment has been made. A complete audit trail of upfronting of trail commissions from the AMC's books and amortization of the same to scheme(s) thereafter shall be made available for inspection.*
- e. The said commission should be charged to the scheme as 'commissions' and should also account for computing the TER differential between regular and direct plans in each scheme.*
- f. The commission paid shall be recovered on pro-rata basis from the distributors, if the SIP is not continued for the period for which the commission is paid.'*

C. Additional TER of 30 bps for penetration in B-30 cities

1. In continuation to Paragraph B of SEBI circular SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018 that *inter-alia* mandated that additional TER in terms of regulation 52(6A)(b) of SEBI (Mutual Funds) Regulations, 1996



shall be charged based on inflows from retail investors from beyond top 30 cities (B-30 cities), the term 'retail investor' has been defined. Accordingly, it has been decided that inflows of amount upto Rs 2,00,000/- per transaction, by individual investors shall be considered as inflows from "retail investor".

D. Total Expense Ratio (TER) – Change and Disclosure

SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/91 dated June 05, 2018 on 'Total Expense Ratio – Change and Disclosure', is modified as under:

1. Paragraph C(i) of the aforementioned circular shall read as:

'AMCs shall prominently disclose on a daily basis, the TER (scheme-wise, date-wise) of all schemes except infrastructure debt fund (IDF) schemes under a separate head –“Total Expense Ratio of Mutual Fund Schemes” on their website and on the website of AMFI in a downloadable spreadsheet format as per Annexure A.'

2. The proviso to Paragraph C (ii) of the aforementioned circular shall read as:

'Provided that any increase or decrease in TER in a mutual fund scheme due to change in AUM and any decrease in TER in a mutual fund scheme due to various other regulatory requirements would not require issuance of any prior notice to the investors.'

E. No Entry Load on Systematic Investment Plans (SIPs)

1. SEBI Circular SEBI/IMD/CIR No.4/168230/09 dated June 30, 2009 *inter-alia* mandated that there shall be no entry load on investment in Mutual Fund schemes (including additional purchases and switch-in to a scheme from other



schemes) made after August 1, 2009. For SIPs, the above provision was made applicable to SIPs registered on or after August 1, 2009.

2. It has now been decided to make the provisions of the abovementioned circular applicable to all SIPs including SIPs registered prior to August 1, 2009.

F. Borrowing Costs

1. With regard to the cost of borrowings in terms of Regulation 44(2) of SEBI (Mutual Funds) Regulations, 1996, it has been decided that for a given scheme, the same shall be adjusted against the portfolio yield of the scheme and borrowing costs in excess of portfolio yield, if any, shall be borne by the AMC.

G. Disclosure of scheme performance

1. Paragraph D of SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018 stands modified as below:

- a. The following proviso shall be included after Paragraph D(1):

'Provided that all schemes that are in existence for less than one year, other than overnight fund, liquid fund, ultra short duration fund, low duration fund, and money market fund as defined in Circular dated October 6, 2017 on Categorization and Rationalization of Mutual Fund Schemes, shall be exempted from the aforesaid disclosure.'

- b. Paragraph D(5) of the circular shall read as:

'The disclosure should include other important fields such as scheme AUM (excluding overnight and liquid scheme) and previous day NAV. In case of



AUM of overnight and liquid schemes, the closing AUM and the AAUM of the previous month has to be disclosed on AMFI website on daily basis.

However, the day the AUM movement (both upward and downward) of both overnight and liquid scheme is more than 10% cumulatively from the previous disclosed AUM, the AUM of that day has to be disclosed. Such disclosed AUM becomes the reference AUM for future disclosure of AUM for the month.

Further, it has been decided that an appropriate disclosure regarding the AUM of overnight and liquid schemes disclosed on AMFI website on monthly basis including the trigger limit of 10% is to be made as an explanation through footnote.'

H. Clarification on Miscellaneous Expenses

1. The following proviso shall be included after Paragraph A(1) of SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2018/137 dated October 22, 2018:

'Provided that the expenses that are very small in value but high in volume may be paid out of AMC's books. Such expenses can be paid out of AMC's books at actuals or not exceeding 2 bps of respective scheme AUM, whichever is lower. A list of such miscellaneous expenses may be provided by AMFI in consultation with SEBI. Such expenses incurred by AMC should be properly recorded and audited in the books of account of AMC at year end.'

I. Applicability

1. Paragraphs F, G and H of this circular have already been communicated to AMFI vide letter dated February 21, 2019.



2. Paragraphs B, C, D and E of this circular shall be applicable with effect from April 15, 2019.
3. 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, 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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