CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2019/127 **November 07, 2019**

All Mutual Funds (MFs)/
Asset Management Companies (AMCs)/
Trustee Companies/ Board of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)

Sir / Madam,

Subject: Creation of segregated portfolio in mutual fund schemes

1. In partial modification to SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018 on 'Creation of segregated portfolio in mutual fund schemes', it has been decided to permit creation of segregated portfolio of unrated debt or money market instruments by mutual fund schemes of an issuer that does not have any outstanding rated debt or money market instruments, subject to the following:

    a. Segregated portfolio of such unrated debt or money market instruments may be created only in case of actual default of either the interest or principal amount. As per SEBI circular dated December 28, 2018, credit event is considered for creation of segregated portfolio, however for the purpose of this circular 'actual default' by the issuer of such instruments shall be considered for creation of segregated portfolio.

    b. AMCs shall inform AMFI immediately about the actual default by the issuer. Upon being informed about the default, AMFI shall immediately inform the same to all AMCs. Pursuant to dissemination of information by AMFI about actual default by the issuer, AMCs may segregate the portfolio of debt or money market instruments of the said issuer in terms of SEBI circular dated December 28, 2018.

c. All other terms and conditions as stated in SEBI circular dated December 28, 2018 shall remain the same.

2. Paragraph C-3 of the aforesaid circular stands modified as under:

"Creation of segregated portfolio shall be optional and at the discretion of the AMC. It should be created only if the Scheme Information Document (SID) of the scheme has provisions for segregated portfolio with adequate disclosures. All new schemes to be launched after the date of this circular shall have the enabling provisions included in the SID for creation of segregated portfolio"

3. The aforesaid provisions shall be effective from the date of this circular.

4. 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 regulations 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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