

**Chief General Manager
Investment Management Department**

SEBI/IMD/CIR No.1/64057/06
April 4, 2006

**All Mutual Funds Registered with SEBI
Association of Mutual Funds in India (AMFI)**

Dear Sirs,

Re: Rationalisation of Initial Issue Expenses and Dividend distribution procedure for Mutual Funds

In order to clarify the expense structure in SEBI (Mutual Funds) Regulations, 1996 with greater precision and to introduce uniform practices in procedure for dividend distribution by the mutual funds, SEBI Board in a recent meeting decided as under:

I. Rationalisation of Initial Issue Expenses

- a. The initial issue expenses will be permitted for closed-ended schemes only.
- b. Open ended scheme should meet the sales, marketing and other such expenses connected with sales and distribution of schemes from the entry load and not through initial issue expenses.
- c. Since closed-ended schemes are allowed to charge initial issue expenses, they shall not charge entry load.
- d. In close-ended schemes where initial issue expenses are amortised, for an investor exiting the scheme before amortisation is completed, AMC shall redeem the units only after recovering the balance proportionate unamortised issue expenses.
- e. Conversion of a closed-ended scheme or interval scheme to open-ended scheme/ or issuance of new units should be done only after the balance unamortised amount has been fully recovered from the scheme.

II. Dividend Distribution Procedure for Mutual Funds

Regulation 53(a) of SEBI (Mutual Funds) Regulations, 1996 permit the mutual funds to distribute returns including dividend. It was noted that mutual funds were following different procedures for dividend distribution. To introduce uniform practices in procedure for dividend distribution by the mutual funds and for development of the mutual funds industry, the following guidelines are being issued

Unlisted Schemes/Plans

- a. Quantum of dividend and the record date shall be fixed by the trustees in their meeting. Dividend so decided shall be paid, subject to availability of distributable surplus.
- b. Record date shall be the date which will be considered for the purpose of determining the eligibility of investors whose names appear on the register of unit holders for receiving dividends. Further, the NAV shall be adjusted to the extent of dividend distribution and statutory levy, if any, at the close of business hours on record date.
- c. Within one calendar day of the decision by the trustees, AMC shall issue notice to the public communicating the decision including the record date. The record date shall be 5 calendar days from the issue of notice.
- d. Such notice shall be given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the head office of the mutual fund is situated.
- e. The notice shall, in font size 10, bold, categorically state that pursuant to payment of dividend, the NAV of the scheme would fall to the extent of payout and statutory levy (if applicable).
- f. Before the issue of such notice, no communication indicating the probable date of dividend declaration in any manner whatsoever, may be issued by any mutual fund or distributors of its products.

Liquid Schemes / debt schemes with frequent dividend distribution.

The requirement of giving notice shall not be compulsory for scheme/plan/option having frequency of dividend distribution from daily upto monthly dividend provided that there is a disclosure to that effect in the offer document.

Listed Schemes/Plans

For declaration of dividend, listed schemes/plans shall continue to follow the requirements stipulated in the listing agreement.

Advertisement

All Advertisements, in any media, containing proposed dividend shall, in the same font as dividend figure (in percentage or in absolute terms), disclose immediately below the dividend figure that the NAV of the scheme, pursuant to payment of dividend would fall to the extent of payout and statutory levy (if applicable).

This circular would be applicable to all mutual fund schemes launched after the date of the circular.

Please note that the necessary amendments to SEBI (Mutual Funds) Regulations, 1996 in this regard would follow.

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,

D. Chanda