

DIVISION CHIEF

MUTUAL FUNDS DEPARTMENT

MFD/CIR/4/51/2000

June 5, 2000

All Mutual Funds Registered with SEBI

Unit Trust of India.

Dear Sirs,

We are enclosing herewith guidelines for advertisements by mutual funds. The guidelines based on recommendations made by Association of Mutual Funds in India (AMFI) and further detailed discussion held with them shall also be applicable in case of sales literature and communications of mutual funds.

The guidelines shall be supplementary to the advertisement code as prescribed in SEBI Regulations. The guidelines are being issued in accordance with the provisions of Regulation 77 of the SEBI (Mutual Funds) Regulations, 1996 and must be followed strictly by all mutual funds.

Please acknowledge receipt.

Yours faithfully,

P. K. NAGPAL

Encl : as above

GUIDELINES FOR ADVERTISEMENTS BY MUTUAL FUNDS

The following guidelines are being issued as a supplement to the existing Advertisement Code (Schedule VI) prescribed under SEBI (Mutual Funds) Regulations 1996 and shall be followed wherever applicable.

SECTION I – APPLICABILITY

1. The guidelines mentioned hereunder shall apply to all forms of advertisements, communications, sales literature, howsoever released. These guidelines will also apply to T.V. interviews, public speaking, presentations in seminars and workshops, whichever

the forum is used by the mutual funds concerned, so long as such fora are used to market their schemes or convey the performance of their schemes.

Advertisement: Any material published or designed to be published on which a mutual fund has no control over the audience and which is broadly distributed. The purpose of such communication shall be either to sell mutual fund units or to convey the performance of their funds or to influence the opinion or behaviour of those who receive such communication. All material contained in such advertisements must be verified or substantiated in the offer document of the fund.

Sales Literature : Any written communication offering to sell or induce the sale of units of a fund, distributed or otherwise made available to the customers or to the unitholders. The purpose of such communication shall be either to sell mutual fund units or to convey the performance of their funds or to influence the opinion or behaviour of those who receive such communication.

Communication: Includes all advertisements through any media sales literature /public speaking / presentation at seminars / free writing and websites.

Misleading
Advertisement/
sales literature:

it:

An advertisement/sales literature is misleading if

- Contains an untrue statement
- Omits a material fact – material to an investor’s decision to buy/hold/sell units
- Does not contain appropriate explanation/limitations to make the statements such advertisements clear
- It portrays part incomes, returns, growth in NAV unless such returns/growth are computed as per these guidelines
- It contains any forecasts of growth in NAVs or promise any return that is not backed by adequate reserve funds or sponsors’ or third party guarantees
- It contains unwarranted/unexplained comparisons
- Contains claims about management capability unless such capability is supported by a track record of over 3 years.

1. The guidelines will not apply to communications that carry general messages or public speaking that is a general discourse on mutual funds with no references to a fund scheme or its performance.

2. Issue of advertisements or distribution of sales literature must be accompanied or preceded by issue of an offer document. Provided however, a tombstone advertisement adhering to the guidelines provided herein, may be issued at any point of time and need not be accompanied or preceded by issue of an offer document.

SECTION II - STANDARDS OF COMMUNICATIONS

The following standards for all communications with public shall be followed by the mutual funds:

- a. Communications shall be based upon fair dealings and good faith.
- b. Do not omit any material fact, if such omission will cause the communication to be misread and misunderstood.
- c. Investments in mutual funds are prone to risks to fluctuation in NAVs, uncertainty of dividend distributions, etc. Bring these to the notice of unitholders/public in all communications.
- d. When engaged in public speaking, seminars, TV/Radio shows, interview to the press etc., the mutual funds and their employees should observe the guidelines as stated herein, even though some of such forms of communications may not amount to advertisement and/or distribution of sales literature.
- e. Refrain from using exaggerated or unwarranted claims, superlatives and opinions, which cannot be substantiated by the available public data. Avoid future forecasts and estimates of growth.
- f. Do not treat disclosure of risks as required by Regulations as hedge in communications with investors/customers.
- g. Statistical information, charts, graphs, etc., when used should be supported by their source, if any.
- h. Refrain from making comparisons unless essential to the form and content of the advertisement. If used, such comparisons must be clear and unambiguous.

SECTION III - FORMS OF ADVERTISEMENTS

Advertisements are classified into the following categories with restrictions placed on each of such types.

1. Tombstone advertisement :

As the name suggests this form of advertisement can only give basic information about a fund which is already launched and is in existence and whose offer document is available. The information that may be included in such advertisement are:

General Information :

- Name of the mutual fund/scheme and the Assets Management Company;
- Scheme classification (i.e. income/growth etc.) indicating basic objectives of the scheme i.e. capital appreciation and/or regular income or assured returns with or without assurances for capital, or balanced with income and capital appreciation:
- Logo or trademark, if any
- General services offered i.e. daily NAVs, daily fund sales and

- redemptions etc.,
- Invitation to inquire for further information i.e. contact details for fund literature, etc.,
- Entry and exit loads, if applicable.

Information that is prohibited in this form of advertisement :

- NAV and performance of the fund.
- Promise of any returns except in the case of assured returns schemes.
- Comparisons and usage of ranking given by a third party.
- Product launches.

Risk factors may not be mentioned in such form of advertisement. However, a general statement to refer to the offer document for details is necessary. Tombstone advertisement could be through any media and would cover hoardings, bus panels, kiosks etc.

2. Product Launch Advertisement

As the name suggests this form of advertisement shall be used only for launch and re-launch of funds/schemes and as such must state all that is required by the Advertisement Code and these guidelines. Specifically these advertisements must contain the following minimum information:

- Name of the Fund, the Asset Management Company.
- Scheme classification (i.e. income/growth etc.,).
- Investment objective, asset allocation or highlights thereof.
- Terms of issue and mode of sale and redemption of units.
- Investor benefits, general services offered.
- In case of assured return schemes the resources that back such assurances must be stated.
- Logo, corporate symbol, if any.
- Risk factors as stated in the offer document with a font equivalent to that of the text of the highlights.
- Entry and exit loads applicable.

Any other information as may be required by the Code or voluntarily disclosed by the mutual fund so long as such information is not specifically prohibited by these guidelines as stated herein.

Information prohibited in this form of advertisement:

- NAVs and performance figures of any of the previous schemes unless such performance statements conform to these guidelines.
- Comparisons with any other funds/schemes.
- Ranking by any ranking agencies.

Issue of product launch advertisements must be accompanied or preceded by issue of offer document. All that is stated in product launch advertisements should be substantiated with the offer document.

These advertisements must also state from whom a copy or prospectus and abridged offer document along with an application form may be obtained and that an investor should read the offer document before investing in the scheme.

2. Performance Advertisement :

If any mutual fund uses performance figures in any of its advertisements or sales literature or release/issue exclusive performance advertisements, such performance

advertising must adhere to the following guidelines:

1. Such advertisement/statements must identify the nature of the scheme and its basic investment objective.
2. The dividends declared or paid shall also be mentioned in rupees per unit alongwith the face value of each unit of that scheme and the prevailing NAV at the time of declaration of the dividend.
3. Only compounded annualised yield can be advertised if the scheme has been in existence for more than 1 year. For the calculation of compounded annualised yield the procedure prescribed in the Standard Offer Document shall be followed. All performance calculations shall be based only on NAV and the payouts to the unitholders. The calculation of returns shall assume that all payouts during the period have been reinvested in the units of the scheme at the then prevailing NAV and it should be clarified in the advertisements. The type of plan/option of the scheme for which yield is advertised shall also be mentioned.
4. The aforesaid measurements (annualised yields) when used must be shown for last 1 year, 3 years, 5 years and since launch of the scheme. For funds in existence for less than one year, performance may be advertised in terms of total returns and such return should not be annualised. However, in case of money market schemes/cash and liquid plans, performance can be advertised by simple annualisation of yields if a performance figure is available for atleast 30 days provided it does not give any unrealistic or misleading picture of the performance/future performance of the scheme.
5. All advertisements displaying returns/yields must disclose in the main body of the advertisement, immediately after the returns/yields and in the same font, that past performance may or may not be sustained in future. If the returns/yield are unrealistically higher due to extraordinary circumstances (e.g. rise/fall in interest rates) may be clarified in the advertisement.
6. All performance data contained in the advertisement must be of most recent practicable date depending upon the type of advertisement. These figures must be current to the most recent calendar quarter ended prior to the release of the advertisement.
7. Where performance is compared against benchmarks, use appropriate benchmarks and identical time periods. Some of the benchmarks are illustrated below:
 - If the scheme has stated a benchmark in the offer document, then such benchmark or;
 - Growth funds having a minimum of 60% of their investments in equities should always be compared against BSE Sensex, NSE Fifty, or BSE 100 or CRISIL 500 or similar standard indices. Once chosen, a benchmark cannot be changed unless the funds portfolio has undergone a major shift in asset allocation and the change has been approved by the trustees.
 - Income funds with 60% or more of investments in debt instruments should be compared with a suitable index that is a surrogate for the funds' portfolio.
 - Balanced funds with equity investments of 40%-60% should be compared with a tailored index having 50% of its weight selected from any equity index as above and the other 50% from an appropriate bond return index (e.g. I-sec Bond Total Return Index, etc.)
 - Money Market funds or liquid plans can be compared against a suitable money market instrument or a combination of such instruments.

3.7 Use of Rankings in Advertisements and Sales Literature.

a. Definition of "Ranking Entity"

For purposes of the following guidelines, the term "Ranking Entity" refers to any entity that provides general information about asset management companies/mutual funds to the public, that is independent of the asset management company/mutual fund and its affiliates, and whose services are not procured by the asset management company/mutual

fund or any of its affiliates to assign the asset management company/mutual fund a ranking.

b. General Prohibition

Asset Management Company/Mutual Fund shall not use in advertisements, sales literature or general promotional material any rankings other than those developed and produced by entities that meet the definition of "Ranking Entity" and which conform to the requirements of the guidelines herein.

c. Required Disclosures

1. Headlines/Prominent Statements

- A. A headline or other prominent statement must not state or imply that an Asset Management Company/Mutual Fund is the best performer in a category unless it is actually ranked first in the category.
- B. Prominent disclosure of the Asset Management Company/Mutual Fund's ranking, the total number of asset management companies/mutual funds in the category, the name of the category, and the period on which the ranking is based (i.e., the length of the period and the ending date; or, the first day of the period and the ending date), must appear in close proximity to any headline or other prominent statement that refers to a ranking.

1. All advertisements and sales literature containing an Asset Management Company/Mutual Fund ranking must disclose, with respect to the ranking:

- A. the name of the category (e.g. income/growth);
- B. the number of asset management companies/mutual funds in the category;
- C. the name of the Ranking Entity;
- D. the length of the period and the ending date, or the first day of the period and the ending date;
- E. criteria on which the ranking is based;
- F. for schemes which assess front-end sales loads, whether the ranking takes into account sales charge;
- G. in case the ranking is based on total return of the current standardised yield. if fees/expenses have been waived during the period on which the ranking is based, and the waiver or advancement had a material effect on the total return of yield for that period should be disclosed;
- H. the publisher of the ranking data.

The above disclosures must be set forth prominently in the body of the advertisement or sales literature.

- 1. If the ranking consists of a symbol (e.g., a star system) rather than a number, the advertisement or sales literature also must disclose the meaning of the symbol (e.g., a four-star ranking indicates that the fund is in the top 30% of all mutual fund schemes).
- 2. All advertisements and sales literature containing a ranking must disclose in the main body of the advertisement that past performance is no guarantee of future results.

a. Time Periods

- 1. Any ranking set forth in an advertisement or sales literature must be current to the most

recent calendar quarter ended, in the case of advertising prior to the submission for publication, or in the case of sales literature prior to use.

2. Except for money market mutual funds:
 - A. Advertisements and sales literature must not use any rankings other than rankings based on yield for a period of less than one year;
 - B. A ranking based on compounded annualised yield must be accomplished by rankings based on returns for one year period for scheme in existence for at least one year; one and five year periods for schemes in existence for at least five years, and one, five and ten year periods for scheme in existence for at least ten years supplied by the same Ranking Entity, relating to the same category, and based on the same time period; provided that, if rankings for such one, five and ten year time periods are not published by the Ranking Entity, then rankings representing short, medium and long term performance must be provided in place of rankings for the required time periods; and
 - C. A ranking based on yield may be based only on the current standardised yield. A ranking based on the current standardised yield must be accompanied by rankings based on total return for one year period for scheme in existence for at least one year; one and five year periods for scheme in existence for at least five years, and one, five and ten year periods for scheme in existence for at least ten years supplied by the same Ranking Entity relating to the same category, and based on the same time period; provided that, if rankings for such, one, five and ten year time periods are not published by the Ranking Entity, then rankings representing short, medium and long term performance must be provided in place of rankings for the required time periods.

a. Categories

1. The choice of category (including a subcategory of a broader category) on which the ranking is based must be one that provides a sound basis for evaluating the performance of the Mutual Fund.
2. Subject to the standards mentioned below, a ranking must be based only on (a) a published category or subcategory created by a Ranking Entity or (b) a category or subcategory created by an Asset Management Company/Mutual Fund, but based on the performance measurements of a Ranking Entity.
3. When the ranking is based on a subcategory, the advertisements or sales literature must disclose the name of the full category and the ranking and the number of schemes in the full category. This requirement does not apply if (a) the subcategory is based solely on the investment objectives of the schemes included and (b) created by a Ranking Entity. This disclosure could be included in a footnote.
4. The advertisement or sales literature must not use any category or subcategory that is based upon the Asset Management Company/Mutual Fund's asset size (whether or not it has been created by a Ranking Entity).
5. If an advertisement uses a category created by the Asset Management Company/Mutual Fund, including a "subcategory" of a category established by a Ranking Entity, the advertisement must prominently disclose:
 - A. the fact that the Asset Management Company/Mutual Fund has created the ranking category;
 - B. the number of schemes in the category;
 - C. the basis for selecting the category; and
 - D. the Ranking Entity that developed the research on which the ranking is based.
1. An advertisement or sales literature containing a headline or other prominent statement that proclaims an Asset Management Company/Mutual Fund ranking created by an Asset Management Company/Mutual Fund, it should be mentioned in close proximity the headline or statement, that the ranking is based upon a category created by the Asset Management Company/Mutual Fund.

a. Multiply class/Two-Tier Funds

The rankings for more than one class of asset management company/mutual fund schemes with the same portfolio must be accompanied by prominent disclosure of the fact that the scheme or classes of scheme have a common portfolio.

SECTION IV - SALES LITERATURE

1. Any communication that does not amount to an "advertisement" as defined above and which is distributed to sell units of a scheme or to induce sales or convey periodical performance of the schemes and the disclosure of their portfolios is sales literature. Sales literature includes leaflets, newsletters, brochures, mailers, performance reports, circulars, and seminars/workshop materials. Sales literature will not include motivational letters written to marketing intermediaries and agents.
2. All statements made, facts reported in sales literature issued at the time of launch should have been substantiated/verified from the offer documents issued for the launch of such schemes.
3. Sales literature containing performances of the schemes must adhere to the "performance advertisement" guidelines stated above.
