

**DIVISION CHIEF
MUTUAL FUNDS DEPARTMENT**

**MFD/CIR/ 9 /120 /2000
November 24, 2000**

**All Mutual Funds registered with SEBI/
Unit Trust of India**

Dear Sir,

The Mutual Fund Advisory Committee, in its meeting held on October 20, 2000 has made certain recommendations. After examining these recommendations, it has been decided that all mutual funds should take steps to implement the following guidelines. These guidelines are being issued in accordance with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996.

1. Initial offer period and time taken for allotment of units and despatch of accounts statements.

It has been decided that the present limit of a maximum of 45 days for initial offer period should be reduced to 30 days in case of open ended schemes and the mutual fund should despatch statements of accounts and the scheme should open for ongoing sales and repurchases within 30 days from the closure of scheme. The AMC may also start despatching the statements of accounts once the minimum subscription amount specified in the offer document is received even before the closure of the issue.

2. Format for half yearly disclosure of portfolio.

In accordance with Regulation 59A, all mutual fund schemes are required to disclose their entire portfolios on half yearly basis. It has been decided to prescribe a common format for this purpose so that the investors get meaningful information on the deployment of funds. The disclosure of portfolio in future shall be made in the format enclosed herewith.

3. Unclaimed redemption amount.

It has been decided that the unclaimed redemption and dividend amounts may be deployed by the mutual funds in call money market or money market instruments only and the investors who claim these amounts during a period of three years from the due date shall be paid at the prevailing Net Asset Value. After a period of three years, this amount can be transferred to a pool account and the investors can claim the amount at NAV prevailing at the end of the third year. The income earned on such funds can be used for the purpose of investor education. It should be specifically noted that the AMC should make a continuous effort to remind the investors through letters to take their unclaimed amounts. Further, the investment management fee charged by the AMC for managing unclaimed amounts shall not exceed 50 basis points.

For the schemes to be launched in the future, disclosures on the above provisions should be made in the offer documents. Also, the information on amount unclaimed and number of such investors for each scheme shall be disclosed in the annual report.

4. Annual reports of the AMCs to be made available to the unitholders.

The Annual Report containing accounts of the asset management companies should be displayed on the websites of the mutual funds. It should also be mentioned in the annual report of mutual fund schemes that the unitholders, if they so desire, may request for the annual report of the asset management company.

5. Expenses chargeable by the AMC

At present mutual funds may charge certain expenses to the scheme as specified in Regulation 52(4). Apart from these expenses, any other expense as may be approved by SEBI under clause (xiii) of Sub Regulation 52(4) can also be charged to mutual fund schemes. With a view to give flexibility to mutual funds, it has been decided that such other expenses, which are directly attributable to the scheme, may be charged with the approval of the trustees within the overall limits as specified in Regulation 52 (6). However, the following expenses cannot be charged to the schemes:

- i. Penalties and fines for infraction of laws.
- ii. Interest on delayed payment to the unitholders.
- iii. Legal, marketing, publication and other general expenses not attributable to any scheme(s).
- iv. Expenses on investment management/general management.
- v. Expenses on general administration, corporate advertising and infrastructure costs.
- vi. Depreciation on fixed assets and software development expenses.
- vii. Such other costs as may be prohibited by SEBI.

It has also been decided that each item of expenditure accounting for more than 10% of total expenditure should be disclosed in the accounts or the notes thereto of the schemes.

6. Prior approval for Investment in Unrated debt Instruments

At present, prior approval of the board of Trustees and Board of AMC is required to invest in unrated debt instruments. With a view to give operational flexibility, it has been decided that the mutual funds may constitute committees who can approve proposals for investments in unrated instruments. However, the detailed parameters for such investments must be approved by the AMC Boards and the trustees. The details of such investments should be communicated by the AMCs to the trustees in their periodical reports. It should also be clearly mentioned in the reports how the parameters have been complied with. However, in case any security does not fall under the parameters, the prior approval of Boards of AMCs and trustees shall be required.

Please acknowledge receipt.

Yours faithfully,

P.K. NAGPAL

Encl. : as above

Name of the Mutual Fund :

Name of the scheme :

Half-yearly Portfolio Statement for the period ended __

Name of the instrument	Quantity	Mkt value (Rs in lakhs)	% to NAV
Equity & Equity related -			

(a) listed / awaiting listing on Stock Exchanges			
1			
2			
3			
Total			
(b) Unlisted			
1			
2			
3			
Total			
Debt Instruments -			
(a) listed/awaiting listing on stock exchanges			
<u>Rating</u>			
1			
2			
3			
Total			
(b) Privately Placed/Unlisted			
<u>Rating</u>			
1			
2			
3			
Total			
Money Market Instruments			
1			
2			
3			
Total			
Others – cash etc. (please specify)			

1. **Entire portfolio irrespective of the quantity, market value and percentage to NAV of any scrip should be disclosed in descending order of weightage within each sub-group. If percentage to NAV of any security is less than 0.01%, it may be indicated by giving asterisk or any other mark instead of showing 0.00.**
 2. **An asterisk / suitable mark should be given against debt instruments which are NPAs in accordance with SEBI Regulations and guidelines.**
 3. **A double asterisk mark should be given against thinly traded / non traded securities and illiquid securities as defined in SEBI Regulations and guidelines.**
 4. **The following information may be given by way of footnotes :**
 - a. **Total NPAs provided for and its percentage to NAV.**
 - b. **Total value and percentage of illiquid equity shares.**
 - c. **NAV at the beginning and end of the half-year period and any dividend, bonus etc declared during the period.**
 - d. **Total outstanding exposure in derivative instruments at the end of the period.**
 - e. **Total investments in foreign securities/ADRs/GDRs at the end of the period.**
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