

Comprehensive review of SEBI (Mutual Funds) Regulations, 1996

1. Objective

This memorandum seeks approval of the Board to replace SEBI (Mutual Funds) Regulations, 1996 with the proposed SEBI (Mutual Funds) Regulations, 2026, with an intent to inter alia (a) simplify the regulatory framework for mutual funds (b) remove redundancies and ambiguities (c) enhance clarity and ease of understanding, and (d) align the regulatory provisions with the evolving mutual fund landscape.

2. Background

- 2.1. The mutual fund industry in India started in 1963 with formation of UTI in 1963 by an Act of Parliament and functioned under the Regulatory and administrative control of the Reserve Bank of India (RBI). Unit Scheme 1964 (US '64) was the first scheme launched by UTI. At the end of 1988, UTI had ₹6,700 crores of assets under management (AUM).
- 2.2. After establishment of SEBI in April 1992, the first set of SEBI regulations for mutual funds came into being for all mutual funds, except UTI in 1993. The initial regulations for mutual funds were revised and replaced in 1996 with a comprehensive set of regulations, viz., SEBI (Mutual Funds) Regulations, 1996 ("**MF Regulations**"), which is currently applicable.
- 2.3. Over the past 29 years, the mutual fund industry has witnessed significant growth and transformation in terms of practices as well as in adoption of technology in the investment management space. Presently, the AUM of the mutual fund industry has reached ₹79.87 lac crore as on October 31, 2025 and total number of accounts or folios as on October 31, 2025 stood at 25.60 crore. As such, the MF Regulations has been regularly updated to keep pace with the evolving market dynamics and to protect the investor interests.

2.4. Thus, as numerous amendments over the last 29 years have contributed to the MF Regulations becoming considerably voluminous and complex, SEBI undertook an exercise to comprehensively review the same.

3. Public Consultation

3.1. A survey was carried out among the industry stakeholders through Association of Mutual Funds in India (AMFI) to gather suggestions on the areas of the MF Regulations that may require review. Pursuant to the feedback received from the industry and after internal deliberations, a consultation paper soliciting public comments on the changes to the applicable regulations to mutual funds along with the proposed draft SEBI (Mutual Funds) Regulations, was issued by SEBI on October 28, 2025 (a copy placed at **Annexure A1**). In response, a total of around 450 comments have been received on various proposals relating to the comprehensive review. A summary of the public response to the proposals along with SEBI's response thereon is placed at **Annexure A2**.

3.2. The proposals were also placed before the Mutual Funds Advisory Committee ("MFAC") [comprising of Asset Management Companies (AMCs), Stock Exchanges, Association of Mutual Funds in India (AMFI), independent trustees of mutual funds, market experts, Registrar and Share Transfer Agents (RTAs) and other stakeholders], in November 2025 for deliberation.

3.3. Taking into consideration the feedback received on the consultation paper, recommendations of the MFAC and internal deliberations, the regulations for mutual funds have been comprehensively reviewed and redrafted, to inter alia ensure –

- simplification of regulatory language;
- removal of redundant provisions and ambiguities;
- enhancement of ease of understanding; and
- alignment of regulatory provisions with the evolving market requirements

3.4. The draft of proposed SEBI (Mutual Funds) Regulations, 2026 along with mapping to the SEBI (Mutual Funds) Regulations, 1996 is placed at **Annexure A3** and **Annexure A4** respectively.

4. Regulatory changes pursuant to consultation paper

4.1. Changes to the MF Regulations for simplification and clarity:

4.1.1. Suggestion in consultation paper:

- i. As part of the comprehensive review of the MF Regulations, all provisions of the MF Regulations were examined in detail to identify areas requiring simplification for improved understanding. The provisions in the MF Regulations were accordingly redrafted to enhance clarity and remove ambiguities. Additionally, provisions with overlapping requirements were consolidated and provisions that addressed multiple distinct subjects were appropriately segregated under relevant heads. Further, the placement and sequencing of provisions were reorganized to improve the overall structure and readability of the MF Regulations.
- ii. In the revised draft MF regulations, two areas where substantial restructuring was carried out are:
 - a) Eligibility criteria for sponsors of both mutual funds and mutual fund lite were tabulated and streamlined for ease of reference;
 - b) The roles and responsibilities of the AMC and Trustees were reorganized under common thematic headings and consolidated at one place, for improved clarity and simplification.
- iii. Some of the broad changes in the proposed Regulations to bring about simplification and regulatory clarity are provided in **Annexure A5**.

4.1.2. Summary of public comments:

- i. The comments received are **largely in favour** of the changes proposed to bring about simplification and regulatory clarity. Large number of respondents appreciated SEBI's initiative to streamline and restructure the regulatory framework.

- ii. With respect to the eligibility criteria for sponsors of mutual funds and MF Lite, one respondent suggested that where two or more sponsors jointly apply for registration of a mutual fund, each sponsor should be allowed to independently opt for Route 1 or Route 2, rather than being required to follow a common route. The same respondent also commented that, out of the initial capital contribution of INR 150 crore to the AMC, only INR 100 crore should be subject to the five-year lock-in and deployed in specified assets, while the remaining INR 50 crore may be permitted to be used for other business activities without any lock-in requirement.

4.1.3. Examination of issues:

- i. As regards the suggestions on eligibility criteria, considering that the two routes presently available for sponsors comprise different eligibility requirements including net worth of the AMC and lock in requirements on the sponsor's capital contribution, permitting each sponsor (in cases where two or more sponsors jointly apply for registration of a mutual fund) to opt for a different route would create operational complexity and regulatory oversight challenges. Hence, it is imperative that a single route is followed by all the sponsors collectively while applying for grant of registration of a mutual fund.
- ii. With respect to the comment on the lock-in of the initial contribution by the sponsor, considering that the eligibility conditions under Route 2 are less stringent as compared to Route 1 and also considering that the AMCs are engaged in managing public money, the regulatory intent has been to ensure lock in of sponsor's entire initial shareholding to the extent of INR 150 crore in the AMC for a period of five years. Accordingly, the proposed suggestion may not be acceded to.

4.1.4. Proposal:

Considering the above, the proposals at para 4.1.1 above may be accepted.

4.2. Changes to the MF Regulations for ease of compliance:

4.2.1. Suggestion in consultation paper:

The changes proposed to the MF regulations to enhance ease of compliance are in line with evolving industry practices and the needs of the current regulatory environment. The proposed changes are aimed at easing compliance and shifting the approach from a prescriptive regulatory framework to a more principle-based, facilitative regulatory regime, while continuing to safeguard investor interests. Some of the broad changes to enhance ease of compliance are provided in **Annexure A6**.

4.2.2. Summary of public comments:

- i. The public comments received are **largely in favour** of the proposed changes aimed at enhancing ease of compliance.
- ii. One of the respondents suggested relaxing the requirement to publish newspaper advertisements in all instances where the existing regulations mandate such disclosures, citing high associated costs and the need to align with SEBI's digital first approach.
- iii. It was suggested that the regulations explicitly clarify that references to written communication to unitholders should include digital modes of communication.
- iv. Comments were received requesting exemption of reappointment of trustee directors from SEBI's prior approval, considering that the initial appointment is already subject to prior approval by SEBI.
- v. One respondent suggested assigning responsibility and accountability for implementing institutional mechanism for market abuse deterrence to

Chief Risk Officer (CRO) instead of Chief Compliance Officer (CCO), given that CRO is already accountable to the Risk Management Committee and Board for risk-related matters, making them the natural fit for overseeing this mechanism, which directly aligns with SEBI's expectations for surveillance, making the CRO better equipped than the CCO to manage complex data-driven alerts and investigations.

- vi. With respect to the proposed requirement to provide 10 days' prior intimation to SEBI for appointment of Key Management Personnel (KMPs) and AMC's directors, several AMCs highlighted practical challenges, as candidates selected for key roles, at times may decline the offer prior to their formal joining date. In such cases, any bio-data or related documentation shared in advance becomes redundant, rendering the approval process ineffective and potentially causing procedural delays. Similarly, as regards appointment of AMC directors, it was mentioned by AMCs that the appointment could potentially be sensitive. It was therefore suggested that the existing requirement of submitting bio data within 15 days of appointment be retained.
- vii. A comment was received seeking deletion of proposed Regulation 22(7)(C)(g) regarding avoiding conflict of interest between the deployment of the AMC's net worth and the interest of unit holders, on the ground that liquid net worth deployment is already regulated and deployment beyond liquid net worth could be subjective and a matter of contention and judgement.
- viii. One of the respondents recommended that timelines currently expressed in calendar days in the regulations be aligned to working days, to ensure practical ease of compliance.
- ix. It was suggested that in view of the practical problems being faced by MF industry in complying with the mandate of keeping securities (G-Sec, TREPS and repo on G-sec) in the name of mutual fund on account of

concerned scheme, an exception may be provided to G-sec, including TREPS and repo on G-sec held in pool account of the mutual fund.

- x. One of the respondents highlighted that blanket restriction of “execution of transactions” from outside the territory of India, under proposed Regulation 22(9)(f) could be construed to restrict trades executed in foreign securities by execution brokers outside India on overseas stock exchanges and hence may be redrafted.

4.2.3. Examination of issues:

- i. The requirement to publish newspaper advertisements is already proposed to be relaxed for instances of change in control over AMCs and change in fundamental attributes of any scheme. As per the proposed draft MF regulations, the requirement for newspaper advertisement has been specified for two instances, i.e. a) winding up of a scheme; b) publishing half yearly unaudited financial results. Based on the feedback received, it is proposed to exempt requirement of newspaper advertisement for publishing of half yearly unaudited financial results also. However, the requirement of advertisement is proposed to be retained in the context of winding up of schemes as wide spread dissemination of information on winding up of schemes may be important.
- ii. Based on the feedback received, the draft MF regulations have been modified to clarify that the words ‘written communication’ used throughout the regulations includes digital modes (email, SMS etc.).
- iii. The requirement to obtain prior approval of SEBI for reappointment of trustee directors may be retained to ensure continuous assessment of eligibility of trustees and adherence to fit and proper criteria.
- iv. With respect to replacing CCO with CRO in terms of assignment of responsibility for AMCs’ institutional mechanism on market abuse

deterrence, it is proposed that responsibility may continue to rest with the CCO, given the CCO's overarching accountability for regulatory compliance.

- v. The provision of prior intimation to SEBI regarding appointment of KMPs and AMC directors was brought in with the objective to allow SEBI to provide adverse remarks, if any, before such appointment materializes. However, based on the feedback received from the industry highlighting the practical challenges involved in the appointment of KMPs and AMC directors, the appointment of KMPs and AMC directors may be intimated to SEBI within 15 days' post appointment.
- vi. The principle of the present requirement under proposed regulation 22(7)(C)(g) requires that there should not be any conflict of interest between the deployment of the AMC's net worth and the interest of unit holders. Hence, the present requirement may be retained.
- vii. The proposal to revise all calendar days to working days across the regulations may not be accepted as 'working day' may be different for different entities and hence, may pose challenges in monitoring compliance.
- viii. With regard to the suggestion on settlement of G(Secs), for the purpose of trades and settlement of G-Secs, RBI, as per its Notification No.183 dated September 05, 2011 on 'SGL Account: Eligibility Criteria and Operational Guidelines', permits opening of only one pool account at a mutual fund level. Thus, G-Secs are required to be held in the name of the mutual fund. However, due to this practical issue, mutual funds face a challenge in complying with requirement under the MF Regulations to transact only in the account of the concerned scheme. Considering the above, it is proposed to add an enabling clause to MF regulation to permit G-Secs, including TREPS and repo in G-Sec to be traded in the

name of mutual fund itself. Detailed modalities regarding securities to be permitted and internal segregation mechanism of securities shall be specified through issuance of circular. Modified clause of the MF Regulation is as under:

“(This has been excised for reasons of confidentiality. The amended regulations shall be notified after following the due process)”

- ix. Based on the feedback received on blanket restriction of execution of transactions from outside the territory of India under proposed Regulation 22(9)(f), the same has been modified to permit execution in overseas securities by brokers outside India. The revised regulation reads as under:

“(This has been excised for reasons of confidentiality. The amended regulations shall be notified after following the due process)”

4.2.4. Proposal:

Considering the above, the proposals at para 4.2.1 above may be accepted, subject to the modifications to the draft regulations as mentioned at (i), (ii), (v), (viii) and (ix) of para 4.2.3 above.

4.3. Changes to the section on ‘Definitions’:

4.3.1. Suggestions in consultation paper:

- i. The definitions section of the MF Regulations has been rationalized as part of the review to enhance clarity and relevance. Accordingly, certain existing definitions have been updated to reflect current industry practices and regulatory developments. Further, new definitions have been introduced wherever required for clarity and terms that are redundant or no longer applicable, have been removed.
- ii. Some of the major changes proposed to this section are provided in **Annexure A7.**

4.3.2. Summary of public comments:

- i. The public comments are **largely in favour** of the changes proposed to the section on definitions.
- ii. Some of the specific comments received include:
 - a. Incorporating the definition of “Independent Director” under the definitions section;
 - b. Within the definition of the term ‘Investment Strategy’, the regulation should clearly specify that the said definition is only applicable in the context of Specialized Investment Fund (SIF) as the same term is also used to refer to strategies employed by mutual fund schemes;
 - c. The definition of the term ‘to be listed’ be modified to include quota under Qualified Institutional Buyers (QIB) and public issue in an Initial Public Offer in addition of Anchor Investor category. One of the other comments received suggested that the definition be amended to include participation in pre-IPO stage as well;
 - d. The definition of the term ‘control’ may be aligned with the definition under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011(SAST Regulations) or the Companies Act, 2013 which define ‘control’ based on the ability to influence management or policy decisions rather than a nominal shareholding percentage (as of now 10%). Also, definition of the term “associate” may be aligned with the corresponding definition specified in the Companies Act, 2013;
 - e. The definition of “Liquid Net Worth” should include seed capital investments made by AMCs in the schemes of the mutual fund and investment in liquid schemes or overnight schemes and bank deposits;

- f. The definition of “Free Reserves” should include “Capital Redemption Reserve”.

4.3.3. Examination of issues:

- i. With respect to the suggestion at 4.3.2 (ii) (a) to incorporate a separate definition of ‘Independent Director’, the proposed regulations already provide that words and expressions not defined therein shall carry the meaning assigned to them under the Companies Act, 2013, Securities Contract (Regulation) Act, 1956 or other applicable laws. Hence, a separate definition may not be warranted and may lead to duplication.
- ii. The feedback at 4.3.2 (ii) (b) on modifying the definition of ‘Investment Strategy’ may be accepted. Accordingly, the definition of Investment Strategy has been suitably modified to clarify that it applies specifically in the context of SIF.
- iii. The feedback at 4.3.2 (ii) (c) to include application under the Qualified Institutional Buyers (QIB) category and public issue in an IPO, in addition to the Anchor Investor category may be accepted. However, the feedback to include participation at the pre IPO stage may not be accepted.

Accordingly, the new definition of “to be listed” may read as under:

“(This has been excised for reasons of confidentiality. The amended regulations shall be notified after following the due process)”

- iv. The feedback at 4.3.2 (ii) (d), seeking alignment of the definitions of ‘control’ and ‘associate’ with those under the Companies Act/SAST Regulations may not be accepted. The 10% threshold prescribed for determining ‘control’ in the MF Regulations is a calibrated regulatory decision considering the extensive retail participation and the sensitivity

associated with control by any entity over the AMCs. Similarly, the definition of 'associate' in the MF Regulations particularly the specific inclusion of subsidiaries, is tailored to the mutual fund context and need not be aligned with other statutes.

v. As regards the feedback at 4.3.2 (ii)(e) above, suggestion regarding seed capital investment and investments in other mutual fund schemes be explicitly included in the definition of 'Liquid Net Worth', it is noted that the current definition already contains an enabling provision that allows SEBI to specify additional instruments. As seed capital investment is already treated as part of liquid net worth under the SEBI Master Circular, a separate reference in the Regulations may not be necessary. However, with respect to the suggestion on inclusion of bank deposits in the definition of 'liquid net worth', the definition has been modified to include bank deposits with Scheduled Commercial Banks.

vi. The feedback at 4.3.2 (ii) (f) to include Capital Redemption Reserve within the definition of 'Free Reserves' may not be accepted. The present definition states that 'Free Reserve' shall have the same meaning as defined under Companies Act, 2013. Hence, any change in the definition of 'Free Reserve' in Companies Act would automatically be applicable.

4.3.4. Proposal:

Considering the above, the proposals at para 4.3.1 above may be accepted, subject to the modifications to the revised draft regulations mentioned at (ii), (iii) and (v) of para 4.3.3 above.

4.4. Deletion of redundant/replicative chapters/clauses:

4.4.1. Suggestion in consultation paper:

i. As part of the overarching effort to streamline the regulatory framework, it was proposed that certain redundant and duplicative provisions and

chapters be removed so as to improve readability and reduce interpretational complexities, while furthering ease of compliance without altering the underlying regulatory intent.

- ii. Some of the broad areas where such deletions have been carried out are outlined in **Annexure A8**.

4.4.2. **Summary of public comments:**

No major suggestions/ feedback were received on the proposed changes.

4.4.3. **Proposal:**

The proposals at para 4.4.1 may be accepted.

4.5. **Changes to the MF regulations to enhance transparency and investor protection:**

The regulations were comprehensively reviewed to identify areas requiring enhanced transparency and those where investor protection needed to be further strengthened. The proposals highlighted in the consultation paper under the heading of 'Transparency and Investor Protection' are placed at **Annexure A9**. Further, specific proposals where the industry had expressed major concerns are brought out below:

4.5.1. **Brokerage and transaction charges over and above the TER limit.**

4.5.1.1. **Suggestions in consultation paper:**

- i.* Presently, MF Regulations permit AMCs to charge brokerage and transaction costs incurred for the purpose of execution of trade up to 0.12% (12 bps) of trade value in case of cash market transactions and 0.05% (5 bps) of trade value in case of derivatives transactions.
- ii.* Based on the analysis of execution cost derived from arbitrage funds and keeping in view the objective of enhancing transparency and ensuring that only execution-linked brokerage is passed on to investors, the consultation paper proposed the following:

- a. Brokerage cost to be reduced from 12 bps to 2 bps of trade value for cash market transactions and from 5 bps to 1 bps of trade value for derivatives transactions.
- b. All statutory and regulatory levies such as STT/CTT/GST/Stamp Duty/SEBI Fees/Exchange Fees etc. incurred for execution of trades to be charged on actual basis and over and above the aforesaid limits of 2/1 bps.

4.5.1.2. **Summary of public comments:**

- i.* While most public comments supported the underlying objective of transparency and safeguarding the interests of investors, many expressed concerns with the magnitude of reduction in the limits on brokerage and transaction cost.
- ii.* Key submissions from the public comments and industry feedback are highlighted below:
 - a. Brokerage charged by institutional brokers represents a bundled service, comprising execution quality, access to sell side research, corporate access, issuer interactions, site visits, and market intelligence. Strictly separating and capping the brokerage at the level of pure execution cost may disrupt a long-standing model through which institutional investors globally access integrated market services.
 - b. Sell-side research in India is largely funded by institutional brokerage revenues. The proposed reduction is expected to materially reduce broker income, which could constrain investments in equity research, particularly for mid-cap and small-cap companies, leading to reduced coverage, weaker price discovery, and lower liquidity in these segments.
 - c. If AMCs are required to operate under materially lower caps, brokers may naturally prioritize investors, such as other

institutional investors, paying higher brokerage, thereby affecting execution efficiency and ultimate interest of investors.

- d. Concerns were also raised regarding international experience, especially under Markets in Financial Instruments Directive (MiFID II), where mandatory unbundling of research and execution charges impacted research coverage and liquidity in mid and small size companies.
- e. AMFI, in its submissions also highlighted similar concerns and suggested that the brokerage caps may be revised from proposed 2 bps to 6 bps for cash transactions and proposed 1 bps to 2 bps for derivative transactions.

4.5.1.3. Examination of issues:

- i. The proposal in the consultation paper aimed to enhance transparency in brokerage being charged to schemes and avoid the risk of research and other allied costs being embedded within execution charges. However, the concerns raised during public consultation highlight that such unbundling of brokerage and associated services may have unintended consequences for AMCs and brokers.
- ii. Industry submissions also indicate that brokerage paid by AMCs supports a broader range of services such as research, corporate access, site visits, access to block deals etc., which contribute meaningfully to the asset management industry. A sharp reduction in brokerage caps may reduce availability and quality of these services, resulting in AMCs having to incur such costs separately or operating with reduced market intelligence relative to other institutional investors.

- iii. However, transparency in the cost structure remains important. The statutory and regulatory levies being kept outside the brokerage cap ensures that the proposed cap relates only to component of brokerage. This brings enhanced clarity and transparency in charging of expenses and disclosures to unitholders. Therefore, while unbundling of brokerage and associated services may merit reconsideration at this stage, the existing caps on brokerage need to be revised to factor the impact of exclusion of statutory and regulatory levies from existing caps.
- iv. Data analysis on actual brokerage paid by AMCs during the Financial Year 2024-2025, indicates the following ranges for brokerage after excluding statutory and regulatory charges:
 - a. Cash market transactions:
 - Large AMCs (Top 20 by AUM): in the range of 3.9 to 5 bps of trade value
 - Smaller AMCs: in the range of 5.7 to 6.5 bps of trade value
 - b. Derivatives transactions:
 - Around 1 bps, after statutory and regulatory charges are excluded.
- v. While a significant difference exists between large and small AMCs with respect to economies of scale in trade execution, the above data suggests that the proposed cap of 2 bps for cash market transactions may not fully compensate the brokerage cost currently being paid by the industry.
- vi. Therefore, a cap of 6 bps of trade value for cash transactions and 2 bps of trade value for derivative transactions may be more consistent with the industry practice and appropriate when statutory levies are excluded.

- vii. Further, in case of certain transactions requiring even higher brokerage, AMCs are permitted to charge the associated additional cost of brokerage in the overall Total Expense Ratio (TER) limits.

4.5.1.4. Proposal:

In view of the above and considering the need to enhance transparency while maintaining the operational viability of market intermediaries, the proposal at para 4.5.1.1 may be accepted with the following modification:

- i. Brokerage cap on cash market transactions may be 6 bps of trade value.
- ii. Brokerage cap on derivative transactions may be 2 bps of trade value.

4.5.2. Total Expense Ratio

4.5.2.1. Suggestions in consultation paper:

- i. Presently, Goods and Services Tax (GST) on the 'Investment Management and Advisory Fees' component of TER is permitted to be charged by AMCs over and above the base TER limit. However, GST on all other fees (i.e. Distribution Commission, RTA fee, Custodian fee, Depository fee, etc.) are required to be included within the base TER limit.
- ii. In order to provide greater clarity and transparency for investors and to ensure that any future changes in statutory levies are passed on to the investors, the consultation paper proposed that the base TER limits shall be exclusive of all statutory levies.
- iii. Accordingly, revised base TER limits were proposed after making a downward adjustment to reflect the impact of exclusion of statutory levy(s) on expenses other than management fees.

4.5.2.2. Summary of public comments:

- i. While public comments broadly supported the proposal of excluding statutory levies from base TER limits, concerns were expressed regarding the proposed base TER limits.
- ii. Many respondents highlighted that the extent of downward revision in base TER limits, especially in equity-oriented schemes, as proposed in the consultation paper may be higher than the actual impact of statutory levies, and thereby resulting in considerable reduction in the overall revenues of AMCs or their ability to pay distribution commissions.
- iii. The majority of respondents suggested that the proposed thresholds in the consultation paper be revised upward by 5 bps for higher AUM slabs to neutralize the adverse impact of the downward adjustment.
- iv. While most feedback received were related to equity-oriented schemes, several respondents, including AMFI, recommended that TER limits for debt-oriented schemes, index funds, ETFs and other passive funds may also be revised upward to ensure neutrality and avoid disruption in those schemes' cost structures.
- v. Suggestions were also received to broaden the existing TER slabs, given the substantial increase in industry AUM over recent years and to appropriately reflect economies of scale.
- vi. AMFI, in its submissions, also suggested that for certain scheme categories such as Commodity ETFs and Fund of Funds (FoFs), the proposed TER reduction does not adequately reflect the underlying cost structure and may lead to an unintended compression of recoverable management fees. Further, with respect to direct plans, AMFI proposed that an additional 10 bps may be provided as a fixed allowance to account for operational costs associated with

onboarding assistance, digital and offline support and other investor servicing activities.

4.5.2.3. Examination of issues:

- i. Under the broader objective of enhancing transparency in charging TER and improving disclosures of costs to investors, the proposal in the consultation paper to exclude statutory levies from TER limits was broadly agreed by the stakeholders.
- ii. The objective of the proposed TER limits in consultation paper was to adjust existing TER limits to the extent necessary to account for the exclusion of statutory levy(s) on non-management fee expenses. Structural changes, such as broadening of AUM slabs, were not under consideration as such a change would inherently increase the TER for the investors.
- iii. With respect to AMFI's suggestion of providing additional 10 bps allowance for direct plans, it may be noted that the only substantive difference envisaged between regular and direct plans is the exclusion of distribution expenses, while all other expenses such as management fees, technology, marketing and KYC etc. are common across both direct and regular plans. TER is also fungible, enabling AMC's to allocate expenses between direct and regular plans within the overall TER limits. Further, the services such as technology, digital access etc. cited by AMFI are uniformly available to unitholders of both direct and regular plan. Introducing an additional allowance specifically for direct plans would also constitute a structural change with potential increase in cost for unitholders of direct plans. Therefore, considering the fungibility available with AMC's in charging TER and given the potential increase in the overall cost to investors of direct plans, AMFI's suggestion may not be accepted.

- iv. Based on industry feedback received, the TER calculations have been revised to ensure that the exclusion of GST does not inadvertently impact AMCs' cost structures for various schemes of mutual funds.
- v. *“(This has been excised for reasons of confidentiality)”*
- vi. *“(This has been excised for reasons of confidentiality)”*
- vii. In line with the above principle of ensuring neutrality and minimum disruption in cost structures and taking into consideration the feedback received from industry and AMFI, TER slabs for certain scheme categories i.e. debt-oriented schemes, index funds, ETFs and FoFs have also been revised appropriately. Accordingly, base TER slabs proposed in the consultation paper have been revised as highlighted in **Annexure A10**, reflecting the adjustments made to achieve neutrality after exclusion of statutory levies.

4.5.2.4. **Proposal:**

In view of the above and with a view to ensuring minimal impact on AMCs' cost structure while achieving the intended transparency in charging TER, the proposals at para 4.5.2.1 may be accepted subject to modifications as proposed at paras 4.5.2.3 (v) and (vii).

4.5.3. **Removal of additional 5 basis points**

4.5.3.1. **Suggestion in consultation paper:**

- i. Regulation 52(6A)(c) of the MF Regulations, 1996 enables AMCs to charge additional 5 bps on the whole AUM of the scheme for schemes where exit load is applicable/levied.
- ii. Considering the transitory nature of the above provision and with an objective to rationalize the cost for unitholders, the consultation paper proposed to do away with this additional 5 bps expense.

4.5.3.2. Summary of public comments:

- i. While few respondents agreed with the proposal in the consultation paper citing the reasons of reduction in cost, many industry participants were not in favour of removal of provision of additional 5 bps.
- ii. AMC's highlighted that exit loads are important and act as a disincentive for unitholders from frequently subscribing or redeeming the mutual fund units.
- iii. It was also highlighted that the current provision of allowing additional 5bps TER for schemes that levy exit load acts as an incentive for AMC's to retain exit loads. Eliminating this incentive may lead to schemes withdrawing exit loads provision for tactical or competitive reasons.
- iv. Some of the respondents suggested that given the impact of sudden discontinuation of additional 5 bps provision, a phased approach may be adopted.

4.5.3.3. Examination of issues:

- i. Prior to 2012, exit load charged to mutual fund schemes was used by AMC's for payment of distribution commission and other marketing/selling expenses. In 2012, mutual funds were mandated to credit exit load to the scheme and AMC's were allowed to charge 20 bps as additional expense to compensate for the impact of policy change.
- ii. Due to structural changes in scheme cost structure brought in 2012, the additional 20 bps acted as a cushion for the AMC's from any adverse policy impact. This was subsequently rationalized to 5 bps

in 2018, wherein it was noted that the same may be reviewed in future.

- iii. At present, given the substantial increase in the overall AUM of the industry and associated benefits in magnitude of TER, the provision of additional 5 bps, in lieu of policy change done in 2012, may not be relevant anymore.
- iv. It may further be noted that the additional 5 bps currently charged is applied on the entire AUM. As a result, schemes presently charge a flat additional 5 bps of total AUM irrespective of any exits by unitholders in such schemes.
- v. With regard to suggestions for a phased reduction, it may be noted that a phased approach has already been undertaken, first through the provision of additional 20 bps in 2012 and then subsequent reduction to 5 bps in 2018, with an intent to review the same in future.
- vi. In view of the above, the suggestions of the industry regarding retaining the provision of additional 5 bps may not be acceded to.

4.5.3.4. Proposal:

In view of the above, the proposal at para 4.5.3.1 may be accepted.

4.5.4. Performance based expense ratio:

4.5.4.1. Suggestion in the consultation paper:

A provision enabling expense ratio to be charged based on performance of a scheme has been introduced and the detailed framework in this regard shall be prescribed.

4.5.4.2. Public Comments:

The public comments were in favour of the above proposal.

4.5.4.3. Proposal:

Considering the above, the proposal at para 4.5.4.1 above may be accepted and the modalities may be prescribed by way of a Circular, pursuant to consultation with AMFI.

4.6. Other changes to the proposed draft regulations:

4.6.1. Borrowing during Closing Auction Session and intra-day borrowings by mutual funds.

4.6.1.1. Examination of issue:

- i. Presently, the regulatory framework for mutual funds permits borrowing by mutual funds (upto 20% of the net asset of the scheme and with duration not exceeding six-month period) to meet only temporary liquidity needs of the mutual funds for the purpose of repurchase, redemption of units or payment of interest or dividend to the unitholders.
- ii. SEBI is in the process of introducing Closing Auction Session (CAS) for equity cash segment in India. Pursuant to the consultation carried out in this regard, feedback has been received inter alia stating that the order execution in the proposed CAS is not guaranteed and may lead to net-cash requirement, in case of under-execution of sell trades by mutual funds.
- iii. Index Funds and Exchange Traded Funds maintain negligible cash in order to fully deploy the funds in securities so as to ensure minimum tracking difference and tracking error. Hence, due to negligible cash being maintained by such schemes, there is a possibility of net-cash shortfall for such funds in case of under execution of sell trades when participating in CAS. In order to address the issue of net-cash shortfall, it has been represented by concerned stakeholders including AMFI that temporary borrowings by such schemes may be considered in the event of CAS being implemented.

- iv. In view of the above, there may be merit in the concerns highlighted by AMFI and we may consider enabling limited borrowing by Index Funds and Exchange Traded Funds for settling their trades in the event of any under execution of trades.
- v. Also, mutual funds typically process redemption payouts to investors in the early morning hours. However, the maturity proceeds from certain investments such as TREPS, reverse repos, G-Sec, where mutual funds are net lenders, are credited by the Reserve Bank of India or Clearing Corporation of India Ltd. (CCIL) during late market hours on the same day. This may thus result in intra-day timing mismatch between outflows and inflows for schemes.
- vi. To bridge this timing gap, mutual funds enter into formal intra-day borrowing arrangements with banks. The intra-day borrowing arrangements is to bridge finance receivables pending to be received from RBI or CCIL, which would be paid off later the same day.

4.6.1.2. Proposal:

- i. It is proposed that necessary changes may be carried out in the present provisions to facilitate borrowings for equity oriented index funds and equity oriented exchange traded funds on account of under execution of sell trades on the stock exchange. The detailed modalities in this regard may be finalized in consultation with AMFI and issued by way of a circular.
- ii. Further, in order to facilitate and formalize the above mentioned intra-day borrowing arrangement with banks by mutual funds, an enabling provision in the MF regulations is proposed. The necessary safeguards on intra-day borrowings may be prescribed by way of a circular.
- iii. In view of para i. and ii. above, the Regulation 42(1) and 42(2) of the revised draft MF Regulations may be modified appropriately to read as under:

“(This has been excised for reasons of confidentiality. The amended regulations shall be notified after following the due process)”

Proposal for consideration and approval of the Board

- 4.7. The Board may consider and approve the proposals at para 4.1.4, 4.2.4, 4.3.4, 4.4.3, 4.5.1.4, 4.5.2.4, 4.5.3.4, 4.5.4.3 and 4.6.1.2 above. The draft SEBI (Mutual Funds) Regulations, 2026, is placed at **Annexure A3**.
- 4.8. It is proposed that the SEBI (Mutual Funds) Regulations, 2026 may be made effective after providing reasonable time for implementation.
- 4.9. The Board may authorize the Chairman to take steps to implement the proposals, with consequential and appropriate changes, as may be required, and to notify the necessary regulations and/or issue circular(s) in this regard.

Enclosures:

1. Annexure A1 (Pages 1 to 25)
2. Annexure A2 (Pages 1 to 15)
3. Annexure A3 (Pages 1 to 88)
4. Annexure A4 (Pages 1 to 07)
5. Annexure A5 (Pages 1 to 02)
6. Annexure A6 (Pages 1 to 03)
7. Annexure A7 (Pages 1 to 03)
8. Annexure A8 (Pages 1 to 03)
9. Annexure A9 (Pages 1 to 06)
10. Annexure A10 (Pages 1 to 03)

Annexure A1

Available on SEBI website

[\(SEBI Consultation Paper on comprehensive review of SEBI \(Mutual Funds\) regulations, 1996\)](#)

Annexure A2

“(This has been excised for reasons of confidentiality)”

Annexure A3

“(This has been excised for reasons of confidentiality. The amended regulations shall be notified after following the due process)”

Annexure A4

“(This has been excised for reasons of confidentiality. The amended regulations shall be notified after following the due process)”

Annexure A5

PROPOSED CHANGES TO BRING ABOUT SIMPLIFICATION AND REGULATORY CLARITY

Sr. No	Provision in the existing MF Regulations	Proposed Change in consultation paper
1.	Eligibility Criteria for registration of a Mutual Fund (Reg. 7 & 81)	The eligibility criteria for sponsors, for registration of MF as well as MF Lite, has been tabulated for easy reference.
2.	Rights and obligations of the	For ease of reference and

Sr. No	Provision in the existing MF Regulations	Proposed Change in consultation paper
	trustees and asset management companies as specified under Regulations 16, 25, 85 and 87 of the MF Regulations	simplification, the roles and responsibilities of both board of trustees and board of Asset Management Companies (AMCs) has been standardised and categorized under different heads.
3.	Regulation 56 pertaining to providing copies of Annual report and summary thereof to investors	The regulation has been revised to enable AMCs to send both Annual Report and the abridged summary thereof, to investors in digital format .
4.	Prudential investment limits (Seventh Schedule)	<p>Presently, restrictions on investments (i.e. prudential limits) have been specified in both the MF Regulation and the Master Circular for Mutual Funds.</p> <p>For ease of reference the investments restrictions have been tabulated and incorporated in a single table which would form part of the Master Circular for Mutual Funds.</p> <p>Further, the Schedule on Restrictions on Investments has been simplified to provide broad principles.</p>
5.	Detailed Valuation Guidelines (Reg. 47 & Eighth Schedule)	<p>Valuation guidelines have been specified in both the MF Regulations and Master Circular for Mutual Funds.</p> <p>For ease of reference, all valuation</p>

Sr. No	Provision in the existing MF Regulations	Proposed Change in consultation paper
		<p>related guidelines is proposed to be placed in the Master Circular for Mutual Funds.</p> <p>Accordingly, the broad principles for valuation has been retained in the Schedule to Mutual Funds Regulations.</p>

Annexure A6

PROPOSED CHANGES FOR EASE OF COMPLIANCE

Sr. No	Provision in the existing MF Regulations	Proposed Change in consultation paper
1	Minimum number of Trustee meetings during the year (Third Schedule)	<p>Currently, trustees are required to hold at least one meeting every two calendar months and at least six such meetings in a year. The requirement has been revised to mandate one meeting every three calendar months and minimum four meetings in a year. Along with the above change, in order to enable trustees to conduct more meetings, the following clause has been added- <i>“(This has been excised for reasons of confidentiality. The amended regulations shall be notified after following the due process)”</i></p>
2	Regulations 18(11) and 85(11) of MF Regulations mandate disclosure of	Mutual fund units are now covered under SEBI (Prohibition of Insider

Sr. No	Provision in the existing MF Regulations	Proposed Change in consultation paper
	<p>details of transactions of trustees of dealing in securities with the Mutual Funds.</p>	<p>Trading) Regulations, 2015 and thus AMC's are responsible to exercise oversight on the transactions of insiders, including trustees, wherever relevant.</p> <p>The trustees are presently required to submit details of their transactions to the board of trustees and to the AMC's. In order to align the requirement with the SEBI (PIT Regulations), the requirement under MF Regulations has been deleted.</p>
3	<p>Regulation 30 of MF Regulations, inter alia mandates submission of advertisement issued by AMC to SEBI 7 days from the date of issue.</p>	<p>The examination of online advertisements issued by SEBI registered entities has been automated by SEBI.</p> <p>Therefore, the current requirement of submitting hard copy of the advertisement to SEBI has been done away with, which will reduce the compliance burden of AMC's.</p>
4	<p>Regulation 59A inter alia mandates disclosure of statement of portfolio on half yearly basis.</p>	<p>AMC's are required to disclose the statement of portfolio of mutual fund schemes fortnightly (debt schemes) and monthly (all schemes other than debt schemes) basis.</p> <p>Additionally, AMC's are also required to disclose the statement of portfolio on half yearly basis, which majorly</p>

Sr. No	Provision in the existing MF Regulations	Proposed Change in consultation paper
		<p>contains same information as disclosed on fortnightly/monthly basis.</p> <p>To reduce the cost of compliance for AMCs and reduce duplication of disclosures to investors, the separate requirement of half yearly disclosure has been done away with.</p>
5	<p>Regulation 22(e)(ii), Regulation 29(i) and Regulation 59(2), Regulation 87(29) (i) of MF Regulations inter alia mandate advertisement in one English daily newspaper with nationwide circular and in a newspaper published in the language in the region where the head office is situated, for the following:</p> <ul style="list-style-type: none"> i. Change in control and ii. Change in fundamental attribute of the scheme of AMC or MF Lite AMC. 	<p>AMCs are required to send written communication to investors for any change in control or change in fundamental attribute of the scheme.</p> <p>The requirement of advertisement in newspaper was introduced in 1996. With development of technology and improved digital modes of communications, the disclosure to investors has been digitally enabled through email/SMS and also by posting the relevant information on AMCs' websites.</p> <p>Accordingly, for change in control or change in fundamental attribute of the schemes, the requirement of advertisement in newspaper has been replaced with publishing the information on the website of AMCs.</p>
6	Regulation 16(5) of the MF Regulations inter alia mandates	It has been clarified that "independent trustees" shall not be associated with

Sr. No	Provision in the existing MF Regulations	Proposed Change in consultation paper
	<p>appointment of two third of independent trustees who shall not be associated with the sponsors or be <u>associated with them in any manner whatsoever.</u></p> <p>Further Regulation 21(1)(d) of the MF Regulations inter alia mandates that the board of directors of AMC to have at least fifty per cent directors, who are not associate of, <u>or associated in any manner with,</u> the sponsor or any of its subsidiaries or the trustees;</p>	<p>the sponsor and the term “associated” is defined in the proposed regulations.</p> <p>Further, the phrase ‘associated with them in any manner whatsoever’ has been deleted as it is restrictive.</p> <p>On similar lines, the phrase ‘or associated in any manner with’ has been deleted from regulation 21(1)(d) regarding appointment of independent director on the board of AMC.</p>

Annexure A7

PROPOSED CHANGES TO SECTION ON DEFINITIONS

Sr. No	Provision in the existing MF Regulations	Proposed Change in consultation paper
1	<p>Certain new terms have been incorporated under the section on ‘Definitions’ in the proposed draft MF Regulations.</p>	<p>The terms “Exit Load”, “Free Reserve” and “Total Expense Ratio (TER)” while referred, are not defined in the present MF Regulations.</p> <p>As regards TER, to bring more transparency and clarity, the same has been defined to cover all the scheme expenses charged to investors.</p>

2	<p>Modifications of certain terms under the definition section of the MF Regulations</p>	<p>The definitions of the following terms have been modified in the proposed draft Regulations to provide better clarity:</p> <ul style="list-style-type: none"> i. Mutual Fund ii. Liquid Net worth iii. Offer document
3	<p>Deletion of following terms from the definition section of the MF Regulations:</p> <ul style="list-style-type: none"> i. Capital Protection Oriented Schemes ii. Money market mutual fund iii. Proviso to definition of 'Trustees' iv. Real Estate Mutual Fund Scheme 	<ol style="list-style-type: none"> 1. Mutual funds are pass through vehicles and AMCs do not take responsibility to meet commitments towards capital protection, in the situation of loss of capital. Therefore, the provisions enabling launch of Capital Protection Oriented Schemes (CPOS) has been deleted from the Regulations. Accordingly, the definition of CPOS has been deleted. 2. The category of schemes a mutual fund can launch, along with the instruments in which these schemes can invest, which includes Money Market Mutual Fund, is laid down in the relevant provisions on Categorisation and Rationalisation of Mutual Fund Scheme in the Master Circular for Mutual Funds. Therefore, the same has been deleted from the definitions in the MF Regulations.

		<p>3. The proviso to definition of “trustees” was transitory in nature and hence deleted.</p> <p>4. A separate framework for launch of Real Estate Schemes is laid down by SEBI. Further, no Real Estate Mutual Fund scheme have been launched since the framework under MF Regulations was put in place. Therefore, the definition of "real estate mutual fund scheme" has been deleted.</p>
4	Streamlining definitions of certain terms appearing in different chapters of the extant MF regulations	<p>Presently, the following terms are defined and/or explained at various provisions/chapters. For ease of reference, all definitions and explanations related to the definitions have been placed under the “definitions” section in the proposed draft MF Regulations.</p> <ul style="list-style-type: none"> i. Accredited Investor ii. Broad based fund iii. Corporate Debt Market Development Fund iv. Investment Strategy v. Mutual Fund Lite vi. Mutual Fund Lite AMC vii. Mutual Fund Lite Scheme viii. Specialised Investment Fund ix. Proviso to the definition of associate (related to private

		<p>equity fund or a pooled investment vehicle or a pooled investment fund acting as sponsor of mutual funds)</p> <p>x. Proviso to 'Net worth'</p>
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Annexure A8

DELETION OF REDUNDANT PROVISIONS/ CHAPTERS/ CLAUSES

Sr. No	Provision in the existing MF Regulations	Proposed Change in consultation paper
1	Regulation 38(A) pertaining to capital protection oriented schemes.	Mutual funds are pass through vehicles and AMCs do not take responsibility to meet commitments towards capital protection, in the situation of loss of capital. Therefore, the provisions enabling launch of Capital Protection Oriented Schemes (CPOS) has been deleted from the Regulations.
2	Chapter VI-A of MF Regulations on Real Estate mutual fund schemes and all references pertaining to real estate mutual fund schemes in the regulations.	A separate framework for launch of schemes relating to Real Estate, has been laid down by SEBI i.e. Regulatory framework for REITs. Further, no Real Estate mutual fund scheme have been launched since the framework under present MF Regulations was put in place. Therefore the chapter on "Real Estate Mutual Fund Schemes" (chapter VI-A) has been deleted.
3	Chapter VI-B of MF Regulations on	A separate framework for launch of

Sr. No	Provision in the existing MF Regulations	Proposed Change in consultation paper
	Infrastructure Debt Fund Schemes (IDFs) and all references pertaining to infrastructure Debt Fund Schemes.	<p>schemes relating to Infrastructure Debt Fund has been laid down by SEBI i.e. Regulatory framework relating to InvITs. Currently, there are 2 Infrastructure Debt Fund schemes registered with SEBI and one of the said schemes is in the process of winding up.</p> <p>Accordingly, the existing IDF schemes may be grandfathered and no new IDFs may be permitted under proposed draft regulations. Accordingly, the provisions related to IDFs given in the extant regulations is proposed to be shifted to Master Circular and an enabling provision for IDF Schemes has been included in the proposed draft MF Regulations under the definition of IDFs.</p>
4	Regulation 33(2) of MF Regulations pertaining to buy and sell of units of close ended schemes at fixed predetermined interval is deleted.	The regulation was with reference to proviso to Regulation 32, which was deleted in March 05, 2021 and hence, is deleted in proposed Regulations also.
5	Proviso to Regulation 83 of MF Regulations pertaining to signatory of trust deed in case of disassociation of sponsor.	Under the extant MF Lite framework, an AMC is signatory to the trust deed and not the sponsor. Thus, as the disassociation of sponsor may not have any impact on the trust deed, the reference to the same has been removed under proposed draft

Sr. No	Provision in the existing MF Regulations	Proposed Change in consultation paper
		Regulations.
6	Regulation 7(b) and Regulation 81(c) of the MF Regulations specify that existing mutual fund shall be in the form of trust and the trust deed shall be approved by the Board.	These were grandfathering clauses and hence deleted.
7	Eleventh Schedule of the MF Regulations on Annual Report mandates that the Auditor's Report shall form a part of the Annual Report and it should accompany the Abridged Balance Sheet and Revenue Account	Considering that the Auditor's report is already part of the Annual report which shall contain balance sheet as on date and revenue account also, the requirement of abridged balance sheet and revenue account has been deleted.
8	Regulation 18(27)(viii), proviso to Regulation 25(8), Regulation 87(25)(viii) and Clause (l) of ninth schedule and clause 3(ix) of eleventh schedule pertaining to underwriting by Mutual Fund schemes	As Regulation 46 pertaining to underwriting of securities was deleted in 2023, other provisions pertaining to underwriting by Mutual Funds have been deleted.
9	Clause 4(iii) of Eleventh Schedule of MF Regulations pertaining to unprovided depreciation is deleted.	As AMCs have to ensure fair valuation of securities and valuation has to be on a mark to market basis, the clause pertaining to unprovided depreciation has been deleted.

**PROPOSED CHANGES FOR ENHANCED TRANSPARENCY AND
INVESTOR PROTECTION**

Sr. No.	Provision in the existing MF Regulations	Proposed Change in consultation paper
1	Regulation 52(6A)(c) enables mutual fund schemes to charge additional 5 bps on the whole AUM of the scheme for schemes where exit load is applicable/levied.	<p>Prior to 2012, exit load charged to the scheme was used by AMCs for payment of distribution commission to the distributors and other marketing /selling expenses. In 2012, Mutual funds were mandated to credit exit load to the scheme and AMCs were allowed to charge additional 20 bps as additional expense to the scheme. The said additional charge, was reduced from 20 bps to 5 bps in 2018.</p> <p>The provision for additional expense of 5 bps allowed to the AMCs to charge the mutual fund schemes, was transitory in nature.</p> <p>Therefore, with an objective to rationalize cost for unitholder, this expense charged to the scheme has been removed from the draft MF Regulations.</p>
2	Revised expense ratio slabs with statutory levy over and above the expense ratio limit. (Reg. 52)	With a view to facilitate greater clarity and transparency, it is proposed to exclude all statutory levy i.e. STT,

Sr. No.	Provision in the existing MF Regulations	Proposed Change in consultation paper
		<p>GST, CTT, Stamp duty from the expense ratio limits along with the present permissible expenses for brokerage, exchange and regulatory fees.</p> <p>Presently GST on management fees is permitted over and above the TER limit. However, all other statutory charges are part of the overall TER limit specified for mutual fund schemes.</p> <p>The expense ratio limits are proposed to be exclusive of statutory levy, so that any change in statutory levy in future are passed on to the investors. Hence, the expense ratio limits are revised downward to the extent of GST on all expenses other than management fees.</p>
3	Brokerage and Transaction charges over and above the TER limit (Reg. 52)	<p>The present MF regulations permit AMCs to charge brokerage and transaction costs incurred for the purpose of execution of trade up to 0.12 per cent of trade value in case of cash market transactions and 0.05 per cent of trade value in case of derivatives transactions.</p> <p>Based on analysis of data it has been observed that the brokerage paid by AMCs for arbitrage fund is generally</p>

Sr. No.	Provision in the existing MF Regulations	Proposed Change in consultation paper
		<p>lower than the brokerage paid by AMCs for other than arbitrage funds. For example, the brokerage for arbitrage fund was in the range of 1.18 bps to 1.34 bps during the period April 01, 2023 to March 31, 2024 whereas during the same period the brokerage for other equity schemes was in the range of 5 bps to 12 bps.</p> <p>The high brokerage charges can be attributed to services other than execution which may include research. As research is inherent to investment management and advisory a separate limit for the same may not be appropriate. Due to such bundled service arrangements, the investors may often end up paying twice for the research i.e., one which is charged as part of investment management and advisory fees (which is charged by AMCs primarily for their expertise/research and management of funds) and another which is covered under brokerage and transaction cost.</p> <p>Thus, to protect interest of investor and to ensure that expenses are</p>

Sr. No.	Provision in the existing MF Regulations	Proposed Change in consultation paper
		<p>charged fairly only once to the investors, the brokerage charge has been revised from 12 bps to 2 bps for cash market transactions and 5 bps to 1 bps for derivative transactions to bring clarity and transparency.</p> <p>The limit mentioned above (i.e. 2 bps/1 bps) shall be the limit for brokerage. All other costs relating to execution of transaction may be charged on actual basis.</p> <p>Further, all statutory levies are proposed to be outside the expense ratio limits. i.e. STT/CTT/GST/stamp duty incurred for execution of trades can be over and above the limit of 2/1 bps.</p>
4	Disclosure of Total Expense Ratio (new Regulation)	<p>Clarity has been provided on 'Total Expense Ratio' which shall clearly include expense ratio (as per the limits specified) plus brokerage, exchange and regulatory fee and statutory levy.</p> <p>Further, to enhance transparency, disclosure requirement of Total Expense Ratio with all relevant heads has also been mandated in the revised MF Regulations.</p>

Sr. No.	Provision in the existing MF Regulations	Proposed Change in consultation paper
5	Differential expense ratio (new Regulation)	A provision enabling expense ratio to be charged based on performance of a scheme has been introduced and same shall be voluntary for AMCs. A detailed framework in this regard shall be finalised separately in consultation with stakeholders.
6	Regulation 52(2) read with Regulation 52(4) and 52(4A) of MF Regulations specifies that all expenses other than those specified under the above referred regulations are to be borne by the AMC or Trustees or Sponsors.	In line with the existing practice, it has been clarified in the proposed draft Regulations that all the expenditures pertaining to launch of new fund offer till the date of allotment of mutual fund units to investors, shall be borne by the AMC or Trustees or Sponsor.
7	Explanation has been added to Regulation 41 (2)(b) of MF Regulations pertaining to scheme winding up related cost.	<p>In view of the Hon'ble Supreme Court's order dated August 12, 2022, expenses that are connected with the winding up of a MF scheme can be deducted after such winding up is announced. Accordingly, the following explanation, has been added to the draft MF Regulations:</p> <p><i>“(This has been excised for reasons of confidentiality. The amended regulations shall be notified after following the due process)”</i></p>
8	Regulatory timelines as specified in “days” under Regulation 25(12)(a), Regulation 25(22)(a)(ii), Regulation 26(1), proviso to Regulation 39(3)(b),	Regulatory requirements wherein timelines were specified in “days” have been clarified to specify whether the referred timelines have to be

Sr. No.	Provision in the existing MF Regulations	Proposed Change in consultation paper
	Regulation 62(1), Regulation 87(14)(a), Regulation (22)(a)(ii) of the MF Regulations	considered as “calendar days” or “business days” or “working days”.
9	Regulation 7 and Regulation 81 of MF Regulations specifies eligibility criteria for sponsoring a Mutual Fund and MF Lite, which inter-alia includes the profitability criteria under regulation 7(a)(iv), 7(a)(v), 81(a)(iii) and 81(a)(iv).	Under the proposed draft Regulations, it has been clarified that the profit from the business relating to financial services , shall be considered under the relevant eligibility criteria. A 3 years minimum individual experience for CXOs has been specified.
10	Provisos to Regulation 33(4) of MF Regulations permit roll over of close ended schemes subject to conditions specified therein. Also, AMCs are mandated to grant exit to investors not giving positive consent for rollover.	Under the proposed draft Regulations, it has been clarified that a process similar to filing of offer document shall be followed if the scheme is to be rolled over. Further, units of investors who have not provided positive consent for roll over, shall be redeemed on the earlier decided maturity date of the scheme.

RECALIBRATION OF TER SLAB LIMITS

(a) OPEN ENDED SCHEMES

Sr. No	Scheme Category	Maximum Base Expense ratio as per cent of the daily net assets		
		Existing (incl. GST)	Proposed in Consultation paper (excl. GST)	Proposed in Board Memorandum (excl. GST)
	Index fund scheme or exchange traded fund			
(i)	Index fund scheme or exchange traded fund	1.00%	0.85%	0.90%
	Fund of Funds			
(ii)	Expense ratio of Fund of Funds investing in liquid schemes, index fund scheme and exchange traded funds (including weighted average of the total expense ratio levied by the underlying scheme(s))	1.00%	0.85%	0.90%
(iii)	Expense ratio of Fund of Funds, other than Fund of Funds mentioned at sub-section (a)(ii), investing a minimum of sixty-five per cent of assets under management in equity oriented schemes as per	2.25%	2.10%	2.10%

	scheme information document (including weighted average of the total expense ratio levied by the underlying scheme(s))			
(iv)	Expense ratio of Fund of Funds not covered at sub-section (a)(ii) and (a)(iii) above (including weighted average of the total expense ratio levied by the underlying scheme(s))	2.00%	1.85%	1.85%

(b) OPEN ENDED SCHEMES OTHER THAN THE SCHEMES SPECIFIED UNDER SECTION (a)

Assets under management Slab (In Rs. crore)	Base expense ratio limits for equity oriented schemes			Base expense ratio limits for other than equity oriented schemes		
	Existing (incl. GST)	Proposed in Consultation paper (excl. GST)	Proposed in Board Memorandum (excl. GST)	Existing (incl. GST)	Proposed in Consultation paper (excl. GST)	Proposed in Board Memorandum (excl. GST)
on the first Rs.500 crores of the daily net assets	2.25%	2.10%	2.10%	2.00%	1.85%	1.85%

on the next Rs.250 crores of the daily net assets	2.00%	1.90%	1.90%	1.75%	1.65%	1.65%
on the next Rs.1,250 crores of the daily net assets	1.75%	1.60%	1.60%	1.50%	1.35%	1.40%
on the next Rs.3,000 crores of the daily net assets	1.60%	1.45%	1.50%	1.35%	1.25%	1.25%
on the next Rs.5,000 crores of the daily net assets	1.50%	1.35%	1.40%	1.25%	1.15%	1.15%
On the next Rs.40,000 crores of the daily net assets	Expense ratio reduction of 0.05% for every increase of Rs.5,000 crores of daily net assets or part thereof.					
On balance of the assets	1.05%	0.90%	0.95%	0.80%	0.70%	0.70%

(c) CLOSE ENDED SCHEMES

Sr. No	Scheme Category	Maximum Base Expense ratio as per cent of the daily net assets		
		Existing (incl. GST)	Proposed in Consultation paper (excl. GST)	Proposed in Board Memorandum (excl. GST)

(i)	Equity oriented scheme(s)	1.25%	1.00%	1.00%
(ii)	Other than equity oriented schemes(s)	1.00%	0.80%	0.80%