

Amendment to SEBI (Collective Investment Schemes) Regulations, 1999

1.0 Objective:

1.1 This Board memorandum proposes to amend SEBI (Collective Investment Schemes) Regulations, 1999 to further strengthen the regulatory framework for Collective Investment Schemes (CIS).

2.0 Background:

2.1 Many companies had been raising capital from investors through issuance of agro bonds, plantation bonds, etc., which were in the form of CIS, but without providing adequate protection to investors.

2.2 Accordingly, SEBI notified SEBI (Collective Investment Schemes) Regulations, 1999 (hereinafter called "CIS Regulations"), consequent to recommendations made by the Dave Committee, a Committee under the Chairmanship of Dr. S. A. Dave.

2.3 The structure of CIS is a two-tier one. There are two entities involved in the process- the Collective Investment Management Company (hereinafter called "CIMC") and Trustees. CIMC is an entity incorporated under the Companies Act, 1956 and registered with the Board under CIS regulations, whose object is to organise, operate and manage a CIS. Subsequently, a Trustee is appointed as the guardian of fund and assets of the CIS. The CIMC manages funds as per the scheme mandate and the Trustees monitor the activities of the CIMC and oversee its regulatory compliances.

2.4 No person other than a CIMC, which has obtained a certificate under these regulations, can carry on or sponsor or launch a CIS.

- 2.5** The objective of the CIS Regulations, inter alia, is to lay down the framework for CIMCs, who act in a fiduciary capacity towards their clients. CIMCs are required to comply with various requirements such as net-worth criteria, representation on board of self as well as other CIMCs, disclosures, custodial compliances, scheme appraisal, maintenance of records, etc.
- 2.6** A CIS is a pooled investment vehicle in the closed ended investment space and the units of its schemes are to be listed on exchange. With no limit on minimum investment by the investor, retail investors are the primary target investor base for CIS. The same provides an avenue to the investors to have a professionally managed pooled investment vehicle through which they can have exposure to a wide variety of underlying assets. However, this investment strategy also exposes the investors to a wide array of risks associated with the underlying assets.
- 2.7** Just like CIS, Mutual Funds are also structured as pooled investment vehicles. However, the underlying investment of mutual funds are “Securities” as defined under section 2(h) of Securities Contracts (Regulation) Act, 1956, whereas, the underlying investment of CIS are assets other than “Securities”.
- 2.8** SEBI (Mutual Funds) Regulations, 1996 (hereinafter called “MF Regulations”) notified in the year 1996 to regulate mutual funds have since undergone several amendments and various circulars have been issued thereunder, broadly to enhance transparency and disclosures, to address emerging issues, to improve operational efficiency, to further protect the interest of investors, to facilitate development and growth and to strengthen the regulatory framework for mutual funds in India.
- 2.9** On the other hand, CIS Regulations, notified in the year 1999, have not been reviewed since then. With a view to removing any regulatory arbitrage among various pooled investment vehicles as available to retail investors, it is important that the regulatory requirement for CIS as a pooled investment vehicle should be aligned with those for Mutual Funds.

3.0 Consultative Process:

3.1 Accordingly, a consultation paper containing comparison of regulatory provisions applicable for Mutual Funds and CIS along with proposed changes to CIS regulations was made available for public comments from January 07, 2022 till February 15, 2022. The consultation paper is placed alongside at **Annexure I.**

3.2 The consultation paper broadly covers the following proposals in order to align the regulatory requirements for CIS with those for Mutual Funds:

3.2.1 Track record and net-worth of the CIMC,

3.2.2 Conflict of interest among CIMCs,

3.2.3 Alignment of interest of CIMC and key employees of CIMC with investors,

3.2.4 Expenses related to CIS,

3.2.5 Minimum number of investors and minimum subscription amount for a CIS,

3.2.6 Maximum offer period for CIS, allotment of units and refunds of moneys.

3.3 In response to the Consultation Paper, a total of 55 comments have been received from 12 commentators. Comments were received from various stakeholders such as law firms, institutions, Mutual Funds, academicians, etc.

4.0 Proposed regulatory changes pursuant to consultation paper:

The proposals are divided into the following broad categories:

4.1 Policy Changes as proposed in consultation paper

Proposals in the nature of policy changes leading to amendments to CIS Regulations are as under:

4.1.1 Track record and net-worth of the CIMC

A. Suggestions in the consultation paper

Criteria / Particulars	Track record	Net-worth of AMC
Mutual Fund (Existing requirements)	Sponsor Track Record: a) In financial services > 5 years. b) Positive Net-worth in immediately preceding 5 years c) Current net-worth > proposed capital contribution in AMC d) Profitability of Sponsor – 3 out of 5 years including 5th year	Minimum INR 50 crores shall be maintained continuously Minimum INR 100 crore, if sponsor is not meeting profitability criteria
CIS (Existing requirements)	No such provision in CIS	CIMC shall have minimum INR 3 crores networth at the time of registration, and the same shall be increased to INR 5 crores within 3 years of grant of registration. The networth shall be maintained continuously.
CIS (Proposal in consultation paper)	CIMC or promoters of CIMC shall meet the following criteria with respect to track record and net-worth; i. shall be carrying out the business in the relevant field, in which CIS schemes are proposed to be launched, for a period not less than five years	CIMC or its promoters of CIMC shall meet the following criteria with respect to net-worth; Minimum net-worth of the CIMC shall be INR 50 Crores and shall be maintained continuously.

Criteria / Particulars	Track record	Net-worth of AMC
	ii. the net-worth is positive in all the immediately preceding five years iii. has profits after providing for depreciation, interest and tax in three out of the immediately preceding five years, including the fifth year	

Currently, CIS regulations do not specify requirement to have previous track record of the applicant (CIMC) in terms of carrying on the relevant business or in terms of net-worth or profitability. Further, CIS regulations require applicant to have a net worth of not less than rupees five crores, whereas in case of AMC of a Mutual Fund the minimum required net-worth is rupees fifty crore.

B. Public comments

Track record:

Out of the 12 commentators, 9 persons are in support of the proposal and 3 persons have responded against / to modify the proposal. The summary of the comments received against / to modify the proposal is as under:

- If CIMCs are mandated to be operating companies that can launch schemes only related to their field of operations, then invariably such CIS will only be to finance their own projects with conflict of interest. The same would increase the risk of the scheme. Further, restricting the entities to carry on the business in the relevant field will restrict entities which have multiple business lines to launch collective investment schemes and raise funds for a particular field.

Net-worth:

Out of the 12 commentators, 9 persons are in support of the proposal and 3 persons have responded against / to modify the proposal. The summary of the comments received against / to modify the proposal is as under:

- In the initial period, minimum networth requirement may be kept at lower threshold or can be in proportion to the fund raised by the entity or step-up approach may be considered.
- The CIMC may be required to maintain a minimum net worth of say INR 100 crores if the profitability criteria is not met.
- Applicants who have submitted their applications prior to consultation paper, be granted registration based on the existing parameters and be given at least two years to increase their networth to the new prescribed limits.

C. Analysis and Proposal

- a. It is important that CIMC has the relevant track record or experience in the area in which it proposes to manage the CIS, failing which it would not be in a position to evaluate investible projects and manage the funds of the investors and the underlying projects in an efficacious manner. Further, to avoid the risks associated with investments of CIS in projects owned directly or indirectly by CIMC, investment in such projects by CIMC may be limited to 25% of the amount mobilized by CIMC. It is therefore recommended that track record, as proposed in consultation paper for CIMC may be adopted. Additionally, investment in projects owned directly or indirectly by CIMC may be limited to maximum 25% of the amount mobilized by CIMC.
- b. The CIMC is entrusted with the responsibility to manage funds of investors, especially those of retail investors. Unlike mutual funds, a CIS may invest upto 100% of its funds in a single project. Given the concentration risk, it is necessary that the CIMC puts in sufficient investment in personnel, risk management systems, technology, etc. to ensure that there is no compromise in the quality of management of funds

and management of assets of the CIS for the benefit of investors. It is, therefore, important that the existing networth requirements of CIMC be sufficiently enhanced so that the CIMC has the capacity to discharge its responsibilities. In this regard, it is proposed that the minimum net-worth of the CIMC be kept at rupees fifty crores at all points of time. Incidentally, the networth requirement for mutual funds is also kept at rupees fifty crores.

- c. One of the public comments was in respect of permitting entities without profit track record into CIS space. It is felt that there is a need to encourage setting up of CIMCs by entities that can facilitate enhanced reach to larger number of investors though they may yet not be profitable due to their business models. It is observed that MF Regulations permit entities who may not have profit track record; however such AMC's are required to have networth of rupees hundred crore. In this regard, in line with Mutual Funds, it is proposed that, if CIMC or its promoters do not meet the profitability criteria, in such cases CIMC shall have a higher networth requirement of rupees hundred crores and the enhanced networth has to be maintained till it has profits for five consecutive years.
- d. In view of the above, it is proposed that, CIMC or the promoters of the CIMC shall be mandated to meet the following criteria with respect to track record and net-worth;
 - i. shall be carrying out the business in the relevant field in which schemes are proposed to be launched, for a period not less than five years
 - ii. the net-worth is positive in all the immediately preceding five years
 - iii. has profits after providing for depreciation, interest and tax in three out of the immediately preceding five years, including the fifth year
 - iv. Minimum net-worth of the CIMC shall be rupees fifty crores and shall be maintained on a continuous basis. Further, if CIMC or its promoters do not meet the profitability criteria, in such cases CIMC shall have a networth not less than rupees hundred crores till it has profits for five consecutive years.

- v. CIMC may invest upto 25% of the amount mobilized in projects owned directly or indirectly by CIMC.

4.1.2 Conflict of interest among CIMCs

A. Suggestions in the consultation paper

Criteria / Particulars	Conflict of interest
<p>Mutual Fund (Existing requirements)</p>	<p>Sponsor of a mutual fund, its associate or group company including AMC shall not have</p> <ul style="list-style-type: none"> a) 10% or more shareholding in other AMC or Trustee company of any other Mutual Fund b) representation on the board of AMC or trustee company of any other Mutual Fund <p>Shareholder holding 10% or more of the shareholding or voting rights in the AMC or the trustee company of a mutual fund shall not have</p> <ul style="list-style-type: none"> (a) 10% or more shareholding in other AMC or Trustee company of any other Mutual Fund (b) representation on the board of AMC or trustee company of any other Mutual Fund
<p>CIS (Existing requirements)</p>	<p>No such provision restricting the shareholding in other CIMC.</p> <p>However, director of CIMC shall not be a director in any other CIMC unless such person is an independent director.</p>
<p>CIS (Proposal in consultation paper)</p>	<p>CIMC, its shareholders holding 10 % or more, its associate or group, individually or collectively, directly or indirectly, shall not have 10% or more of the shareholding or voting rights in any other CIMC and shall not have representation on the board of any other CIMC.</p>

Currently, there are no stipulations on the CIMC or its shareholders to not to hold controlling interest in other CIMC.

B. Public comments

No comment was received against the proposal.

C. Analysis and Proposal

In view of the need to avoid potential conflict among CIMCs, it is proposed that CIMC, its shareholders holding 10 % or more, its associate or group, individually or collectively, directly or indirectly, shall not have 10% or more of the share-holding or voting rights in any other CIMC and shall not have representation on the board of any other CIMC.

4.1.3 Alignment of interest of CIMC and key employees of CIMC with investors of CIS

A. Suggestions in the consultation paper

Criteria / Particulars	Alignment of interest of entity	Alignment of interest of key employees of entity
Mutual Fund (Existing requirements)	The asset management company shall invest such amounts in such schemes of the mutual fund, based on the risks associated with the schemes.	A minimum of 20% of the salary/ perks/ bonus/ non-cash compensation (gross annual CTC) net of income tax and any statutory contributions (i.e. PF and NPS) of the Key Employees of the AMCs shall be invested in the units of Mutual Fund schemes in which they have a role/ oversight.
CIS (Existing requirements)	No such provision in CIS	No such provision in CIS
CIS	i. CIMC shall have a continuing interest of not	A minimum of 20% of the salary/ perks/ bonus/ non-

Criteria / Particulars	Alignment of interest of entity	Alignment of interest of key employees of entity
(Proposal in consultation paper)	<p>less than two and half percent of the corpus or five crores rupees, whichever is lower, in the form of investment in CIS.</p> <p>ii. The investment by CIMC shall be maintained at all points of time till the completion of tenure of the CIS or till the CIS is wound up.</p> <p>iii. CIMCs may invest from their net-worth to fulfil the aforesaid obligations, if required. However, the CIMCs shall be required to make good the shortfall in the minimum net-worth to comply with the requirement of the CIS Regulations in case of sustenance of temporary Mark to Market loss for two consecutive quarters.</p>	<p>cash compensation (gross annual CTC) net of income tax and any statutory contributions (i.e. PF and NPS) of the designated employees of the CIMCs shall be mandatorily invested in the units of CIS in which they have a role/oversight.</p>

In order to align the interest of the CIMC and its key employees with the unitholders of the CIS, there is a need for CIMC and its employees to invest in the CIS.

B. Public comments

Out of the 12 commentators, 10 persons are in support of the proposal and 2 persons have responded against / to modify the proposal. The summary of the comment received against / to modify the proposal is as under:

- The continuing interest of the CIMC in each of its schemes be kept at 0.25% of the funds raised or INR 1 crore, whichever is lower.

- Employees of CIMCs should not be forced to invest 20% of their salary in the CIS in which they have oversight. A particular manager may not have the same risk profile as that of the scheme which he/she oversees.
- Designated employees should be clearly defined to include CEOs, Head – Sales, and fund managers who are responsible for managing the funds and not the entire gamut of support system like head operations, compliance, head customer services, CFO etc. who are not involved in the funds.

C. Analysis and Proposal

- a. With regard to alignment of interest of CIMCs with the unitholders of the CIS schemes, the need for skin in the game arises mainly to ensure that key decision makers take balanced decisions. Considering the possibility of high concentration risk of the CIS, the need for skin in the game increases and the same may effectively be attained by mandating CIMC and its designated employees to personally and profoundly invest in the CIS. Hence, the proposal in respect of the continuing interest by CIMC and its designated employees is essential and be accepted as proposed in the consultation paper.
- b. As observed from the public comments, designated employees may be clearly defined to include CEO, fund managers who are responsible for managing the funds and key employees having control over managing the funds of CIS.
- c. In view of the above, it is proposed that;
 - i. CIMC shall have a continuing interest of not less than two and half percent of the corpus or five crores rupees, whichever is lower, in the form of investment in each CIS.
 - ii. A minimum of 20% of the salary/ perks/ bonus/ non-cash compensation (gross annual CTC) net of income tax and any statutory contributions (i.e. PF and NPS) of the designated

employees of the CIMCs shall be mandatorily invested in the units of CIS in which they have a role/ oversight.

- iii. The investment by CIMC shall be maintained at all points of time till the completion of tenure of the CIS or till the CIS is wound up.
- iv. CIMCs may invest from their net-worth to fulfil the aforesaid obligations, if required. However, the CIMCs shall be required to make good the shortfall in the minimum net-worth to comply with the requirement of the CIS Regulations in case of sustenance of temporary Mark to Market loss for two consecutive quarters.
- v. Designated Employees of the CIMCs shall include:
 - a. Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Chief Information Security Officer (CISO), Chief Operation Officer (COO), Fund Manager(s), Compliance Officer, Sales Head, Investor Relation Officer(s) (IRO), heads of other departments, Dealer(s) of the CIMC;
 - b. Direct reportees to the CEO (excluding Personal Assistant/Secretary);
 - c. Fund Management Team and Research team;
 - d. Other employees as identified & included by CIMCs and Trustees.

4.1.4 Expenses related to CIS

A. Suggestions in the consultation paper

Criteria / Particulars	Scheme initial issue expenses	TER (Expense Ratio) to be charged to scheme
Mutual Fund (Existing requirements)	Shall be borne by AMC	In case of close ended and interval schemes, (i) the total expense ratio of equity oriented scheme(s) shall not exceed 1.25 per

Criteria / Particulars	Scheme initial issue expenses	TER (Expense Ratio) to be charged to scheme
		<p>cent of the daily net assets of the scheme.</p> <p>(ii) the total expense ratio of close ended and interval scheme(s) other than schemes specified in clause above shall not exceed 1.00 per cent of the daily net assets of the scheme.]</p>
<p>CIS (Existing requirements)</p>	<p>Shall be borne by scheme</p> <p>Shall not exceed 7% of the funds raised upto 8 years and 9% for more than 8 years- to be amortized</p>	<p>Management and Advisory Fees to CIMC</p> <p>Basic Fee - shall not exceed</p> <p>(a) 1 % p.a. for the first 5 years</p> <p>(b) 1.25% p.a. for the next 5 years</p> <p>(c)1.5% for the subsequent period till the termination</p> <p>Incentive Fee - <= 25% of the excess returns realized over and above the indicative returns</p> <p>Other Expenses- RTA fee, Trustee Fees and expenses, Audit fees; Rating and Appraisal fees; Listing fees; other direct incidental cost approved by Trustees are to be charged to scheme;</p>
<p>CIS (Proposal consultation paper)</p>	<p>Initial Issue expense shall be borne by scheme not exceeding 2% of fund raised</p>	<p>a. Expenses and fee to be charged to scheme as below may be capped at 2%</p> <p>i. Management and Advisory Fees</p> <p>ii. Registrar services for transfer of units sold or redeemed;</p>

Criteria / Particulars	Scheme initial issue expenses	TER (Expense Ratio) to be charged to scheme
		<ul style="list-style-type: none"> iii. Fees and expenses of trustees; iv. Audit fees; v. Subsequent Rating and Appraisal fees; vi. Listing fees; <p>b. Other direct costs, if any, which are incidental to the operation of the CIS, may be charged to scheme as approved by trustee;</p> <p>c. No incentive fee based on performance of the scheme shall be charged to the scheme.</p>

In order to align the expenses related to the scheme, there is a need for CIMC to review the expenses.

B. Public comments

Out of the 12 commentators, 8 persons are in support of the proposal and 4 persons have responded against/ to modify the proposal. The summary of the comment received against / to modify the proposal is as under:

- Entire initial issue expenses should be borne by CIMC. End investors will be impacted if the initial issue expenses are borne by the scheme.
- The current regulation allows initial expenses of maximum 8% of funds raised. A steep decline in initial expenses may result in difficulties for various stakeholders involved and can compromise quality of services.

- The Management fees, Advisory fees and Fees and expenses of trustees can be capped at 2%. However, expenses in nature of compliance costs and not completely in control of the trustees / management (like as RTA fee, audit fees, listing fees, rating fees etc.) can be approved by the trustees as permitted in current regulations.
- The existing expense structure be retained upto a scheme size of Rs.200 crores. The management fees, expenses and incentive fees shall be continued as CIS will operate on a smaller denominator, if capped will make the schemes unviable.
- The CIMC should be permitted to charge performance based incentive fee. This incentivises CIMC to perform better and achieve the indicative returns.

C. Analysis and Proposal

- a. With respect to charging of expenses to CIS schemes, several comments were received. Some of the comments suggest not to permit initial expenses to be charged to the schemes. In this regard, it may be mentioned that the underlying assets of the CIS can be of varied types such as real estate assets, livestock etc. and schemes are mandated to obtain rating and appraisal of the scheme before the launch. Therefore, it is appropriate to allow CIMC to charge initial expenses upto 2% of the funds raised to the schemes.
- b. Another set of comments state that Management fees, Advisory fees and Fees and expenses of trustees be capped at 2% and expenses in the nature of compliance costs and not completely in control of the trustees / management (like as RTA fee, audit fees, listing fees, rating fees etc.) can be approved by the trustees to charge to the schemes as permitted in current regulations. In this regard, it may be mentioned that the proposal in consultation paper already permits other direct costs (which are incidental to the operation of the CIS), to be charged to scheme as approved by trustee. However, in line with norms specified for Mutual Funds, fees such as RTA fee, audit fees, listing fees, rating

fees etc. may be charged to scheme within the maximum cap proposed i.e. 2%.

- c. In respect of charging other direct costs to scheme, as approved by trustee, it is felt that there should be granular level (i.e. item wise) disclosures in the offer document about the possible direct costs that may be charged to the scheme. Further, there should be a continuous quarterly disclosure covering these direct expenses. These disclosures will enable investors to take well informed decision about their initial and continuing investment.
- d. In respect of the incentive fee, it may be mentioned that no such comparable provision is available for Mutual Funds. Further, incentive fee may allure CIMCs to inflate the valuation of the CIS assets. In case performance fee is paid at the end of the scheme, it may adversely affect those investors who remain invested till the end of the scheme as compared to those investors who exit at any time before the end of the scheme. It is, therefore, proposed that no incentive fee based on performance of the scheme may be charged to the scheme.
- e. In addition to the above, in order to bring transparency in expenses, reduce mis-selling in CIS, it is proposed that all scheme related expenses including commission paid to distributors, by whatever name it may be called and in whatever manner it may be paid, shall necessarily be paid from the scheme only within the regulatory limits and not from the books of the CIMC, its associate, promoter(s), trustee or any other entity through any route. Further, CIMCs shall adopt full trail model of commission in all schemes, without payment of any upfront commission or upfronting of any trail commission, directly or indirectly, in cash or kind, through sponsorships, or any other route.
- f. In view of the above, it is proposed that;
 - I. Initial Issue expense, not exceeding 2% of fund raised, may be borne by scheme

- II. Annual recurring expenses and fee to be charged to scheme as below may be capped at 2%
 - i. Management and Advisory Fees
 - ii. Registrar services for transfer of units sold or redeemed;
 - iii. Fees and expenses of trustees;
 - iv. Audit fees;
 - v. Subsequent Rating and Appraisal fees;
 - vi. Listing fees;

- III. Other direct costs, if any, which are incidental to the operation of the CIS, may be charged to scheme as approved by trustee, subject to the following conditions;
 - i. Granular (item wise) list of direct costs covering at least 80% expenses under this head shall be disclosed in offer document, and a suitable quarterly disclosure shall be made in this regard.

- IV. No incentive fee based on performance of the scheme shall be charged to the scheme in any form or manner.

- V. CIS related expenses including commission paid to distributors, by whatever name it may be called and in whatever manner it may be paid, shall necessarily be paid from the scheme only within the regulatory limits and not from the books of the CIMC, its associate, promoter(s), trustee or any other entity through any route.

- VI. Further, CIMCs shall adopt full trail model of commission in all schemes, without payment of any upfront commission or upfront of any trail commission, directly or indirectly, in cash or kind, through sponsorships, or any other route.

4.1.5 Minimum number of investors and minimum subscription amount for a CIS

A. Suggestions in the consultation paper

Criteria / Particulars	Minimum Subscription amount	Minimum Number of investors
Mutual Fund	INR 10 crores – equity schemes	Min. 20 investors and Max. 25% per investor

Criteria / Particulars	Minimum Subscription amount	Minimum Number of investors
(Existing requirements)	INR 20 core – debt schemes	
CIS (Existing requirements)	No limits defined, however subscription amount to be disclosed in the offer document	No provision in CIS
CIS (Proposal in consultation paper)	Each CIS should have a minimum subscription amount of INR 20 Crore	Each CIS should have a minimum of 20 investors and no single investor should account for / hold more than 25% of the AUM of such scheme.

Currently, CIS Regulations do not mandate minimum number of investors, maximum holding of a single investor and minimum subscription amount in any CIS. In order to avoid the potential risk of control of the scheme by few individuals or investors, there is a need to maintain minimum number of investors in any CIS.

B. Public comments

No comment was received against the proposal.

C. Analysis and Proposal

In this regard, it is proposed that;

- a. Each CIS should have a minimum subscription amount of INR 20 Crore
- b. Each CIS should have a minimum of 20 investors and no single investor should account for / hold more than 25% of the AUM of such scheme at initial subscription.
- c. The above conditions are required to be complied immediately after the closure of the subscription list, failing which CIMC shall refund the application money to the applicants.

4.1.6 Maximum offer period for CIS, allotment of units and refunds of moneys.

A. Suggestions in the consultation paper

Criteria / Particulars	Maximum offer period for scheme	Refund the application money	Unit certificates against allotment of units
Mutual Fund (Existing requirements)	15 days	Within 5 working days from the date of closure of subscription list	Within 5 working days from the date of closure of the initial subscription list or from the date of receipt of the application
CIS (Existing requirements)	90 Days	Within six weeks from the date of closure of subscription list	Within six weeks from the date of closure of the subscription list
CIS (Proposal in consultation paper)	CIS shall not be open for subscription for more than 15 days	Application money shall be refunded by CIMC within 5 working days from the date of closure of subscription list in case total of subscription of less than 90 % of the proposed subscription amount of the scheme.	Unit certificates against acceptance of application shall be allotted within as soon as possible but not later than five working days from the date of closure of the initial subscription list.

Currently, CIS Regulations allows a longer time limit for offer period, refund of application money and allotment of unit certificates to the investors.

B. Public comments

Out of the 12 commentators, 10 persons are in support of the proposal and 2 persons have responded against/ to modify the proposal. The summary of the comment received against / to modify the proposal is as under

- New fund offer period of 15 days will work for well-placed mutual fund industries having digital reach and distribution networks. CIS as a product needs time to market and source application as it is not known to the investors.
- There is no awareness about CIS to the investors as intermediaries. Request to review once there is enough traction and awareness.
- CIS investors would primarily be of non-metro, which would make the due diligence and KYC a time taking process. The application money should be kept in a separate Escrow account and be refunded in 15 working days. Further, similarly, 15 days should be provided to issue the unit certificates to successful applicant.
- The application money should be refunded within 5 working days if application for 90% of the proposed subscription amount of the scheme or minimum subscription of INR 20 crores is not received.
- Units to be issued mandatorily in demat mode in the interest of the investors.

C. Analysis and Proposal

- a. It is observed from the public comments that the suggestions are more in nature of providing more flexibility by permitting additional time for new fund offer, refunding of monies and allotment of units. Considering the comments, an additional 15 days' time may be provided only for new fund offer subject to issuance of a public notice by CIMC. However, with respect to refunding of monies and allotment of units, the timelines

may be retained as proposed in the consultation paper on account of adoption of digital transactions and advancement of mobile technology.

- b. Further, there was a suggestion stating that application money should be refunded within 5 working days if application for 90% of the proposed subscription amount of the scheme or minimum subscription of INR 20 crores is not received. It is observed that regulation 31 of CIS regulations mandate CIMC to specify the minimum and maximum subscription it seeks to raise under CIS and if CIMC fails to receive minimum subscription amount, CIMC shall refund the application money within six weeks from the date of closure of subscription list. Considering this, we may not prescribe / dilute the regulation except reducing the timeline for refunding monies to investors within 5 working days from closure of subscription list.
- c. Regulation 36 of CIS regulation mandate that the units of every CIS shall be listed immediately after the date of allotment of units and not later than six weeks from the date of closure of the CIS on each of the stock exchanges as mentioned in the offer document. Another suggestion has been received to mandate the units to be issued in demat mode. It is considered that dematerialisation is the most secure and safest way to carry out transactions by electronic means and it brings greater transparency into the system. Considering the listing of CIS units is mandatory and advantages of demat mode, it is proposed that CIS shall issue units in demat mode only.
- d. In view of the above, it is proposed that;
 - a. CIS shall not be open for subscription for more than 15 days. Further, CIS may be kept open for subscription for a maximum of another 15 days subject to issuance of public notice by CIMC.
 - b. Application money shall be refunded by CIMC within 5 working days from the date of closure of subscription list.

- c. Units against acceptance of application shall be allotted within five working days from the date of closure of the initial subscription list
- d. Units of CIS shall be issued in demat mode.

4.2 Alignment with the existing applicable Acts and other SEBI Regulations.

Removal of references to various Acts and other Regulations in CIS Regulations, which have been repealed, abolished or phased out over the years such as Companies Act, 1956, Monopolies and Restrictive Trade Practices Act, 1969, SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, etc. and alignment with new Acts, Codes and Regulations notified / enacted such as Companies Act, 2013, Competition Act, 2002, SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, etc.

5.0 In this regard, the draft amendment to CIS Regulations is placed at **Annexure A**.

6.0 Proposals for consideration and approval of the Board:

6.1 The Board may consider and approve the proposals and draft amendments to CIS Regulations at paragraph 4 above.

6.2 The said amendments shall come into force from the date of notification in the gazette.

6.3 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.

**Mumbai
March 14, 2022**

**B. N. Sahoo
Chief General Manager**

Annexure A

Amendment shall be notified after following the due process.