

**Amendments to the SEBI (Mutual Funds) Regulations, 1996 to facilitate enhanced investor protection and financial inclusion**

**1. Objective**

This Board memorandum proposes to amend the provisions of SEBI (Mutual Funds) Regulations, 1996 (“**MF Regulations**”) to enhance investor protection and promote financial inclusion while ensuring a more transparent and sustainable incentive structure for distributors of Mutual Funds.

**2. Background**

2.1. In 2012, the total Assets under Management (“AUM”) of the Mutual Fund industry was approx. INR 6 lakh crores. In order to facilitate growth of the Mutual Fund industry, the MF Regulations were amended in 2012 to create a mechanism for incentivising distributors for enhancing the reach and penetration of Mutual Funds and for creation of a fund for the purpose of investor education and awareness initiatives.

2.2. The aforesaid regulatory changes to the MF Regulations inter alia enabled the following -

- i. AMCs were mandated to set aside 2 basis points on the daily net assets of the scheme for investor education and awareness initiatives.
- ii. Asset Management Companies (AMCs) were permitted to charge the MF schemes, additional expenses for fresh inflows from beyond top 15 cities, which was used for incentivizing the distributors bringing in such fresh inflows. This scheme was recalibrated in 2018-19 and subsequently fresh inflows from retail investors (i.e. inflows of amount upto INR 2 lakhs per transaction by individual investors) beyond top 30 cities were eligible for incentive.

2.3. The abovementioned amendments were carried out in the FY 2012-13, and since then the AUM of the MF industry has increased to more than twelve times to approx. INR 75 lakh crores, as on July 31, 2025.

2.4. As a part of review of the various practices followed in the industry relating to the expenses being charged by MFs and also considering the observations of onsite and offsite SEBI inspections of Mutual Funds, a need was felt to further streamline the following regulatory provisions -

- i. Reduce the maximum permissible exit load from 5% to 2%
- ii. Review of distributors' incentive structure including incentivization of distributors for new inflows to mutual fund industry to promote financial inclusion
- iii. Introduce an incentive structure for distributors for on boarding new women investors to promote financial inclusion of women in mutual fund space.

2.5. These proposals were initially placed before the Mutual Fund Advisory Committee ("MFAC") (comprising of 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 January 2023 for deliberation.

2.6. Pursuant to the above, a consultation paper was issued for public comments (a copy placed at **Annexure A1**), inter alia, on the above referred proposals. The feedback received (**Annexure A2**) on the above proposals were further deliberated in MFAC in July 2023. The proposals were also discussed with AMFI in July 2025 and based on the feedback from AMFI, the final proposals are outlined in the forthcoming paragraphs.

### **3. Regulatory changes pursuant to consultation paper**

Taking into consideration the comments received on the consultation paper from various stakeholders, media comments, further discussions with the industry

participants and internal deliberations, the framework is proposed to be revised keeping in view the following guiding principles:

- i.* Easing financial burden on investors
- ii.* Facilitate financial inclusion
- iii.* Addressing the issue of splitting of applications, churning of investors' portfolio etc., for higher distribution commission.

### **3.1.Reduction in maximum Exit Load**

#### **3.1.1.Suggestion in the Consultation Paper**

- i.* The extant provisions presently state that the repurchase price of units of an open ended scheme shall not be lower than 95 per cent of the Net Asset Value ("NAV"). This enables Mutual Fund schemes to charge exit load of upto 5% to investors, which gets credited back to the scheme. Thus, the AMC's can charge exit loads up to the maximum permissible limit, even when a scheme does not perform well and the value of investment goes down.
- ii.* As the Mutual Funds generally charge one to two percent as exit load and considering that exit load is credited back to the scheme, it was proposed that the exit load of an open ended scheme may be lowered to a maximum permissible limit of 2%.

#### **3.1.2.Public Comments**

While the comments were mostly in favour of the proposal, some have commented that as the impact on non-exiting clients can vary from scheme to scheme and shall depend on amount of redemption, fixing a high number limit and allowing fund manager and competitive forces to decide the eventual load is desirable.

#### **3.1.3.Examination of issues and proposed changes**

- i.* An early redemption by investors from the scheme has impact on the non-exiting investors and hence, levy of an exit load discourages early exit from the schemes.

- ii. The exit load presently charged is in the range of one to two percent. Schemes having exposure to less liquid securities may need the discretion to charge higher exit load. The exit load charged to the investor is credited back to the scheme and the schemes holding instruments having relatively low liquidity needs to charge relatively higher exit load to discourage frequent churning of investment by investors. Accordingly, exit load of an open ended scheme may be lowered to a maximum permissible limit of 3% from 5%, instead of 2%, as proposed in the consultation paper.
- iii. Reducing the maximum exit load would align the regulatory requirement with the prevailing industry practice, where exit loads typically range between 1% to 2%.
- iv. The proposal at para 3.1.3(ii) may be accepted and the proposed amendment to the MF Regulations is provided below:

Amendment to Regulation 49(3) of the MF Regulations

*(This has been excised. Amendment to SEBI (Mutual Funds) Regulations, 1996 shall be notified).*

**3.2. Distributor incentive structure for new inflows from B-30 cities**

**3.2.1. Suggestion in the Consultation Paper**

It was observed that the expenses towards incentive for new inflows from B-30 (additional commission to distributors for new investments from beyond top 30 cities) are not charged by AMCs to all schemes uniformly as B-30 charges are often not included in schemes where the AMCs intend to keep low expense ratio. Further, these expenses are often used as a mechanism to promote one scheme over another by showing lower expenses, instead of consistently encouraging financial inclusion. In view of the same and as investments from B-30 are prone to splitting and churning, it was proposed that B-30 incentive shall be part of the prescribed TER limits, with inter alia the following changes:

- i. The distributors shall be paid only for investment/inflows from new individual investors from B-30 cities (new PAN) at the industry level.
- ii. Such additional commission shall be fixed at 1% of the size of the 1st application or amount committed through SIP of the individual investor at an industry level, subject to a maximum of INR 2000/-.
- iii. The cost of distribution commission for inflows from B-30 cities, which results in financial inclusion, shall be paid from investor education and awareness expense charged to the scheme. Alternatively, such commission can be permitted under Regulation 52(4) of the MF Regulations which includes distribution commission that can be charged to the scheme.
- iv. Any such additional commission paid to distributor shall be credited back to the scheme or investor education and awareness fund (as the case may be), if inflows are redeemed within a period of one year from the date of investment.
- v. Actual cost towards B-30 distribution commission and not the cost based on the projected new inflows from B-30 cities, shall be charged to the scheme.
- vi. The benefit of such additional commission, if opted for by AMCs, shall be made applicable for all schemes or none.
- vii. However, exemption shall be granted for schemes with duration requirement of less than 1 year (i.e. Overnight Fund, Liquid Fund, Ultra Short Duration Fund and Low Duration Fund) as the schemes are meant for investment for shorter duration and the above proposed policy requires claw back of commission if inflows are redeemed within a period of one year from the date of investment.
- viii. Additionally, AMCs shall design their distribution commission structure/policy with an intent to encourage/promote financial inclusion and reward inflows from B-30 cities. In this regard, AMCs can consider to pay a

higher percentage of commission for inflows from B-30 cities as compared to commission for inflows from T-30 cities.

### **3.2.2. Public Comments**

- i. While the comments were largely in agreement with the rationale for proposed changes regarding B-30 incentive, some stated that limiting the incentive to only new investors at industry level may be detrimental to increasing penetration in Mutual Fund space and also make it unviable for distributors in B-30 locations.
- ii. The comments received were largely in favour of the proposed additional commission towards B-30 inflows being part of the TER limits, it was suggested that industry may be provided suitable time to set up necessary infrastructure, software enhancements, operational modalities.
- iii. A few suggested that the payment of such commission should be from 1 bps credited by AMCs to AMFI towards investor education and awareness.
- iv. Some commented that along with schemes with lower duration, Index Fund, ETFs and Fund of Funds schemes should also be exempted from the purview of B-30 incentive.
- v. Regarding the proposal of AMCs having their internal policy to support financial inclusion and thus pay higher distribution commission for inflows from B-30 cities as compared to commission for inflows from top 30 cities, some comments suggested that the proposal should not be implemented as the TER for B-30 and T-30 are same. There is limited room for additional incentive and such investments are already compensated at the time of initial investment by way of additional B-30 commission.
- vi. Separate commission structure to incentivise B-30 inflows may result in differential treatment and poor and unfair distribution practices.

### **3.2.3. Examination of issues and proposed changes**

- i. To encourage distributors to expand their reach and create awareness among new investors, the distributors may be additionally incentivised only for investment/inflows from new individual investors from B-30 cities (new PAN) at the industry level. The said incentive / commission proposed shall be in addition to the existing commission paid from the scheme to the distributor.
- ii. The existing structure, where incentives are based on a percentage of daily assets is prone to misuse and churning of investment by distributors. Thus, moving to a fixed percentage, based on the amount of new application can discourage such practices. Hence, in case of investor applications are for lumpsum investment, such additional commission may be fixed at 1% of the size of the 1st application, if the investor remains invested for one year, subject to a maximum additional commission of INR 2000/-. Further, if the first application of investor is of SIP, the additional commission may be fixed at 1% of the total investment made during the period of first year, subject to a maximum additional commission of INR 2000/-.
- iii. A capping of such additional incentive at 1% of the new application amount (subject to a maximum of INR 2000) shall ensure that the pay-outs are predictable, thereby making the incentive structure more transparent.
- iv. Presently, the 2 bps (1 bps in case of passive schemes) of daily AUM is deducted by the AMCs from the schemes and 50% is used for creating a fund at the AMC level and the other 50% is used for creating a fund at the AMFI level, for the purpose of investor education and awareness.
- v. The additional distribution commission for inflows from B-30 cities, in the manner proposed above, as a measure to promote financial inclusion, may be paid from the investor education and awareness fund aggregated at the level of AMC. In case the investor education and awareness fund at the

level of the AMC is exhausted, the investor education and awareness pooled at level of AMFI may be utilised for this purpose.

- vi. Such incentivising of distributors from the investor education and awareness funds of AMCs would align with the regulatory intent of creating such a fund and shall also ensure that the incentive does not increase the overall costs for the investors. Further, any such additional commission paid to distributor may be mandated to be credited back to the concerned investor education and awareness fund, if inflows are redeemed within a period of one year from the date of investment.
- vii. As regards suggestion of exempting Fund of Funds from the purview of B-30 provisions, as Fund of Fund schemes which invest more than 80% of its NAV in underlying domestic funds are not required to set aside 1 bps of the daily net assets towards investor education and awareness initiatives, such schemes may be kept out of B-30 incentive requirement.
- viii. Further, as investment in ETFs does not qualify as a new inflow to the scheme, investment in ETFs may be exempted for additional B-30 distribution commission. However, regarding the suggestion for excluding Index Funds from B-30 incentives, as the objective is to bring new inflows in schemes of Mutual Funds including Index Funds, the same may not be accepted.
- ix. Hence, in line with regulatory objective of enhancing the penetration of Mutual Funds beyond top 30 cities, it may be considered to mandate such additional commission for all Mutual Fund schemes of an AMC except (a) ETFs, (b) fund of funds on domestic funds (more than 80% of AUM invested in domestic funds) and (c) for schemes with duration requirement of less than 1 year (i.e. Overnight Fund, Liquid Fund, Ultra Short Duration Fund and Low Duration Fund). The same may be feasible as the abovementioned exceptions are schemes meant for investment for shorter duration and the proposed policy requires claw back of commission if



inflows are redeemed within a period of one year from the date of investment.

- x. As the distribution commission for new inflows from B-30 cities is proposed to be paid out of the fund set aside for investor education and awareness, payment of such additional distribution commission may be mandated for all MF schemes, except the schemes specified at para ix above.
- xi. Further, as distributors are getting incentivised for B 30 cities through the scheme referred above, the decision to pay a higher percentage of commission for inflows from B-30 cities may be left to the discretion of AMCs.
- xii. In view of the above, it is proposed as under:
  - a) The proposal at para 3.2.1 above may be subject to changes proposed at paras 3.2.3 (ii), (v), (ix), (x) and (xi) above and the revised framework for financial inclusion from B-30 cities may be implemented through a circular.
  - b) As the proposal at para 3.2.3 (v) above allows for providing incentive to the distributor from the investor awareness fund created at the level of AMC and AMFI, Regulation 52(6A)(b) of the MF Regulations, which provides for charging of additional expenses relating to inflows from B-30 cities to the MF Schemes, may be deleted.

### **3.3. Financial inclusion of women in Mutual Fund space**

#### **3.3.1. Suggestion in the Consultation Paper**

- i. Additional incentive for distributor to be introduced for new investments/inflows from women investors (new PAN) at the industry level. In case of joint holding, the additional incentive shall be for inflows wherein 1<sup>st</sup> holder is a woman investor and the said woman investor is new at industry level.

- ii. Distribution commission of distributor shall be fixed at 1% of the size of the 1st application of an individual investor or amount committed through systematic investment plan ("SIP") of the individual investor (new PAN at industry level), subject to a maximum of INR 2000/-.
- iii. The additional commission shall be paid from 1 bps of daily net assets set aside by the AMCs for investor education and awareness initiatives or be part of the distribution commission charged by AMCs to the scheme. Alternatively, such distribution commission can be permitted to be charged under Regulation 52(4) of SEBI (Mutual Funds) Regulations, 1996 which includes distribution commission that can be charged to the scheme.
- iv. Any such additional commission paid to distributor shall be credited back to the scheme or investor education and awareness fund (as the case may be), if inflows are redeemed within a period of one year from the date of investment.
- v. Actual cost towards distribution commission shall be charged to the scheme.
- vi. Such additional commission shall be made applicable for all schemes of an AMC except for schemes with duration requirement of less than 1 year (i.e. Overnight Fund, Liquid Fund, Ultra Short Duration Fund and Low Duration Fund) as the schemes are meant for investment for shorter duration and the above proposed policy requires claw back of commission if inflows are redeemed within a period of one year from the date of investment.
- vii. As similar incentive is also proposed for B-30 investors, it shall have to be ensured by AMCs that the proposed incentive for women investors is extended only in those cases where B-30 incentive is not given.

### **3.3.2. Public Comments**

- i. The comments received are largely in favour of the proposal and it is suggested that the additional incentive can be paid out of investor education fund.
- ii. Some have suggested that there is no way to validate if the investor is a woman investor and it has to be relied on self-declaration.
- iii. One of the suggestions is that the additional incentive to distributors should be paid for new women investor (new PAN) at AMC level instead of industry level as permitting at AMC level will encourage women investors to diversify across AMCs and support distributor initiatives.
- iv. It is also suggested that along with schemes with lower duration certain other schemes such as Index Fund, ETFs and Fund of funds may also be exempted.
- v. A suitable time frame may be provided for implementation.

### **3.3.3. Examination of Issues and proposed changes**

- i. There is a considerable scope for gender inclusion in the Mutual Fund space, which requires the industry to create awareness and promote financial inclusion amongst women. As investment products need effective selling, in order to encourage Mutual Funds to reach out to more women investors, it may be considered to introduce an additional incentive for distributors for new investments/ inflows from women investors (new PAN) at the industry level.
- ii. Such commission may be paid to the distributors only for investment/inflows from new women individual investors (new PAN) from Top-30 cities as well as B-30 cities, at the industry level and may be in addition to the existing commission paid from the scheme to the distributor.
- iii. For the investor applications for lumpsum amounts, such additional commission may be fixed at 1% of the size of the 1st application, subject to a maximum additional commission of INR 2000/-. As regards investor

application for SIP payments, the additional commission may be fixed at 1% of the total investment made during the period of first year, subject to a maximum additional commission of INR 2000/-.

- iv.* The additional distribution commission for inflows from new women investors may be paid from the investor education and awareness fund aggregated at the AMC level. In case the investor education and awareness fund at the level of the AMC is exhausted, the investor education and awareness fund pooled at level of AMFI may be utilised for this purpose.
- v.* Such incentivising of distributors from the investor education and awareness funds of AMCs would align with the regulatory intent of creating such a fund and shall also ensure that the incentive does not increase the overall costs for the investors. Further, any such additional commission paid to distributor may be mandated to be credited back to the concerned investor education and awareness fund, if inflows are redeemed within a period of one year from the date of investment.
- vi.* The distributors may be entitled to receive the proposed incentive for bringing in new women investors only in those cases where B-30 incentive is not given i.e. a distributor should not be entitled to a double incentive while bringing in women investors from B-30 cities. The projected amount of distributor commission for bringing inflows from new investors in B 30 cities and women investors (new PAN) from other than B 30 cities based on the first investment amount held for more than a year over the past three financial years, falls in the range of INR 46 crores to INR 60 crores annually, suggesting a tentative average annual outflow of approximately INR 52 crores.
- vii.* As regards suggestion of exempting Fund of Funds from this incentive, as Fund of Fund schemes which invest more than 80% of its NAV in underlying domestic funds are not required to set aside 1 bps of the daily

net assets towards investor education and awareness initiatives, such schemes may be kept out of this incentive requirement.

- viii.* Further, as investment by small investors in ETFs is through Stock Exchange platform and it is not a new inflow to the scheme, investment in ETFs may be exempted for this additional commission. However, regarding the suggestion for excluding Index Funds from incentives for new woman investor, as the objective is to bring new inflows in schemes of Mutual Funds including Index Funds, the same may not be accepted.
- ix.* Hence, such additional commission may be made applicable for all schemes of an AMC except ETFs, fund of funds on domestic funds (more than 80% of AUM invested in domestic funds) and for schemes with duration requirement of less than 1 year (i.e. Overnight Fund, Liquid Fund, Ultra Short Duration Fund and Low Duration Fund) as the schemes are meant for investment for shorter duration and the proposed policy requires claw back of commission if inflows are redeemed within a period of one year from the date of investment.
- x.* As the additional commission for investments of women investor is proposed to be paid from the funds collected for investor education and awareness, such additional commission may be made mandatory for all schemes except the schemes specified at para ix above.
- xi.* The proposal at para 3.3.1 above may be subject to changes proposed at paras 3.3.3 (iii), (iv), (ix) and (x) above. The detailed framework for women inclusion in Mutual Fund space may be implemented by way of a circular.

#### **4. Proposal for consideration and approval of the Board**

- 4.1.** The Board may consider and approve the proposals at paragraphs 3.1.3(iv), 3.2.3(xii) and 3.3.3 (xi) above. The draft amendments to the SEBI (Mutual

Funds) Regulations, 1996, and the draft notification for the proposed amendment are placed at **Annexure A3 and A4** respectively.

4.2. It is proposed to provide reasonable time for implementation to facilitate stakeholders to have required systems in place.

4.3. The Board may authorize the Chairman to take steps to implement the proposal by amending the SEBI (Mutual Funds) Regulations, 1996, with consequential and appropriate changes, as may be required, and to notify the necessary regulations and/or issue circular(s) in this regard.

**Enclosure:** 1. Annexure A1 of Board Memorandum No. 67/2025 (40 pages)  
2. Annexure A2 of Board Memorandum No. 67/2025 (3 pages)  
3. Annexure A3 of Board Memorandum No. 67/2025 (2 pages)  
4. Annexure A4 of Board Memorandum No. 67/2025 (6 pages)

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## **Annexure A1**

**Available on SEBI website**

**(SEBI | Consultation Paper on Review of Total Expense Ratio charged by Asset Management Companies (AMCs) to unitholders of schemes of Mutual Funds to facilitate greater transparency and accrual of benefits of economies of scale to investors)**

## **Annexure A2**

**(This has been excised for reasons of confidentiality)**



**Annexure A3**

**(Amendments shall be notified after following the due process)**

#### **Annexure A4**

**(Amendments shall be notified after following the due process)**